

**MINUTES of the meeting of Audit and Corporate Governance Committee held at : The Council Chamber, Brockington, 35 Hafod Road, Hereford, HR1 1SH. on Friday, 21st September, 2007 at 10.00 a.m.**

**Present:** Councillor ACR Chappell (Chairman)  
Councillor GFM Dawe (Vice Chairman)

Councillors: MJ Fishley, JHR Goodwin, R Mills, RH Smith and AM Toon

**In attendance:** Mr T Tobin (Audit Commission) and Mrs L Cave ( Audit Commission).

**12. APOLOGIES FOR ABSENCE**

There were no apologies for absence.

**13. NAMED SUBSTITUTES(IF ANY)**

There were no named substitutes made.

**14. DECLARATIONS OF INTEREST**

There were no declarations of interest made.

**15. MINUTES**

**RESOLVED:** That the Minutes of the meeting held on the 29th June, 2007 be approved as a correct record and signed by the Chairman.

**16. USE OF RESOURCES ACTION PLAN**

The Committee considered a report which updated Members on the Use of Resources Action Plan. The Audit Services Manager reminded Members that a detailed Action Plan had been submitted at a meeting of the Committee on 13th April 2007 which highlighted the specific actions to be taken and timescales and that it was an ongoing Plan.

The Audit Services Manager referred to paragraph 4.2 of the Action Plan attached to the report, and reported that there had been meetings with Human Resources Directorate, and meetings had been arranged with the Adult and Community Services Directorate, Environment Services Directorate and the Corporate and Customer Services Directorate and he would be reporting on the outcome of those meetings at the next meeting.

A Member referred to Paragraph 2.1 of Appendix 1 and in particular to the Asset Management Strategy project appraisals and that some appraisals were not being carried out.

The Audit Services Manager assured the Member that these projects would be added to the Action Plan.

A Member expressed concern regarding the need for the Council's Resources Directorate to be aware of Directorates utilising Central Government finance grants. The Head of Financial Services informed the Committee that government departments usually copy the Chief Finance Officer with notifications of grant awards. There were some gaps in information and the accountants continue to work on ensuring that service managers manage their gross expenditure and gross income budgets separately and not as a net position. The Capital Programme incorporates the use of resources and grant funds.

A Member asked that financial reports showed internal and external funding sources separately.

With regard to a point raised by a Member in relation to a corporate procurement approach, the Head of Financial Resources stated that a Procurement Strategy was in place across the Council to ensure consistency and compliance with Council policies.

The Audit Services Manager informed the Committee although cost coding scrutiny was in place, he would ensure that this check was incorporated into appropriate audit programmes.

**RESOLVED: That the report be noted.**

**17.      UPDATE ON IMPLEMENTATION OF RECOMMENDATIONS FROM SPECIAL INVESTIGATIONS**

The Committee considered a report which provided an update on the progress with implementing the recommendations approved by the Corporate Management Board to improve the internal control environment as a result of the lessons learned from special investigations carried out by Audit Services in 2005/06.

With regard to the matter raised by the Chairman of the Committee regarding the return of office equipment such as computers, the Audit Services Manager informed Members that he would ensure that in future Members would be given a receipt in future.

A Member referred to part (e) of Appendix 1 to the report and concerns were expressed that there were other irregularities that had not been referred to in the principal report.

With regard to paragraph 5 in the report, the Audit Services Manager stated that a report would be submitted to the next ordinary meeting of the Committee setting out the dates when the work would be completed.

**RESOLVED: That**

- (i)      the Head of Legal and Democratic Services to liaise with the Audit Services Manager with a view to broadening the brief to encompass the further irregularities referred to in part (e) to Appendix 1 of the report; and**

(ii)      **the report be noted.**

**18.      UPDATE ON STATEMENT OF ACCOUNTS 2006/07 AND STATEMENT ON INTERNAL CONTROL 2006/07**

The Committee received a report which advised on changes to the Statement of Accounts for 2006/07 resulting from the Audit Commission's review work since the Committee's last meeting. Circulated to Members was a revised final page to Appendix 1 attached to the report.

The Head of Financial Services referred to paragraph 2 of the report, and informed Members that the external auditor's view had been accepted regarding the classification of ICT related expenditure from capital to revenue expenditure. Also accepted was the reclassification of the Goodrich Voluntary Controlled School as an asset owned by the Council, referred to in paragraph 3. The apportionment of property services costs referred to in paragraph 4 of the report had also been corrected.

A Member asked for reassurance that there was a framework of for each Directorate of maintaining an adequate system of internal control.

The Director of Resources assured the Member that this was the case and that Audit Services also follow up on audit recommendations.

The Audit Services Manager reminded the Committee that an Assurance Framework had been approved eighteen months previously.

**RESOLVED: That the report be noted.**

**19.      ANNUAL GOVERNANCE LETTER**

The Committee considered the Annual Governance letter received from the Audit Commission which provided a summary of the work the Commission had carried out during their 2006/07 audit of accounts for the Authority, the conclusions the Commission had reached and the recommendations made to discharge its statutory audit responsibilities to those charged with governance.

Mrs L Cave, District Auditor, presented the letter. She reported that since the letter had been issued, there had been a significant change regarding their value for money opinion due to the financial governance issues highlighted in ICT and Customer Services. As a consequence, a revised conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources had been drafted and was circulated to Members at the meeting, a copy of which is attached to the official Minute book copy of the Minutes. She referred to the adverse conclusion in the final paragraph of the additional circulated paper, and recognised that the Council had identified these concerns.

Mr Tobin, Audit Commission, expressed his thanks to the Council's finance staff for their help and assistance during their audit, noting in particular the improvement in the quality of working papers.

The Director of Resources stated that a report would be submitted to the next meeting detailing the action that will be undertaken as a consequence of the Audit Commission's recommendations. She also referred to the appointment of Head of Asset Management, a new post, who would be taking forward the Asset

Management Plan and Key Objectives which had been approved by Cabinet.

A Member expressed concern about schools and their position with regard to the Asset Management Plan.

The Director of Resources stated that a corporate approach was needed in respect of Asset Management including schools and highways infrastructure, and that the Director of Children and Young Peoples Services was currently assessing the School Assets situation.

**RESOLVED; That**

- (i) the Audit Commission's recommendations be approved; and**
- (ii) the Letter of Representation be signed on behalf of the Council by the Director of Resources.**

**20. INTERIM ASSURANCE REPORT 2007/08**

The Committee considered a report which provided Members with a first interim Assurance report for 2007/08 that provides an update on progress with significant internal control issues identified in the Assurance report for 2006/07, and identifies the significant internal control issues identified to date in 2007/08.

The Audit Services Manager informed Members that with regard to the first bullet point in paragraph 2 of the report, the Committee would be updated on progress. In regard to the second bullet point, the Council has a commitment to report on progress on the issues referred to.

In reply to a Member's reference to paragraph 7 in the report and in particular to the Drugs Forum and the quantum of monies involved, the Audit Services Manager undertook to provide further information to the Member.

**RESOLVED: That the report be noted.**

**21. SPECIAL REPORT FROM THE DIRECTOR OF RESOURCES**

The Committee considered the Section 151 Officer's special report regarding the financial governance arrangements within the ICT and Customer Services division. The report referred to a recent audit investigation into travel and subsistence expenses within the division together with a review on the use of contractors which has been recently drawn to a close.

The report summarised the key issues of concern in relation to the financial governance arrangements within ICT and Customer Services, it outlined the actions taken and planned by senior management to address the issues identified, described the potential implications for the Council's corporate financial standing and reputation, and recommended an action plan to demonstrate a strong corporate response to the issues identified in the report.

The Committee was further informed that Cabinet had received the report at its meeting on 20th September 2007 and had agreed the recommendations and action plan set out in the report.

A copy of the Director of Resources presentation is attached to these Minutes.

The Chief Executive made reference to Cabinet and its recent response which is to ensure that the review of the situation is conducted independently. With this in mind, Cabinet had agreed to request the Local Government Association (LGA) to undertake the selection of an independent party to conduct the review for this Council.

The Leader of the Council stated that the Committee would be notified of the person nominated by the LGA to conduct the review but referred to the fact that if it became necessary the LGA offered to address Members on an appropriate approach to such a review. He indicated that whilst it would not be appropriate to circulate the Terms of Reference for the independent review he had agreed that the Terms of Reference be made available to the Chair of the Audit and Corporate Governance Committee and he would be willing to discuss with the Chair possible amendments. He emphasised that the Terms of Reference would ultimately have to be negotiated with the independent appointee to undertake the review and he was asking Mr McLaughlin as the Council's Monitoring Officer to undertake the role. The Committee was informed that the review would be thorough and full with employees being encouraged to give statements. It was emphasised however, that personal identification of employees giving such statements would be confidential and not passed on to Members.

The Chairman of the Committee assured Members that the Leader would be keeping him updated of the timetable of the review and its processes and there would also be additional meetings of the Audit and Corporate Governance Committee called on 19th October, 16th November and 21st December 2007 with appropriate update reports. The Chairman also noted Member's concerns regarding the possible implication of officers during the review process and that the officers would take due regard of such issues when reports are prepared for the Committee.

The Chief Executive assured the Committee that all employees of ICT had been reassured of their freedom of actions and views in respect of the forthcoming review.

The Head of Legal and Democratic Services informed Members that the police were currently reviewing the internal audit working papers with a view to deciding whether there was a need for police action.

A Member referred to the ICT Scrutiny Review carried out in 2006 and suggested that some elements of it would give some guidance to the independent investigation, It was noted that the Herefordshire Connects programme was outside this scrutiny review investigation. The Chairman of the Committee assured the Member that the Independent Investigator's attention would be drawn to the document referred to by the Member.

Bearing in mind the contents, Members queried whether a Member should sit on the Hereford Connects Project Board as an observer. Following discussion, this suggestion was withdrawn. It was also put forward that the Audit Services manager should be in attendance .

The Chief Executive reminded the Committee that two key officers, the Audit Services Manager and the Head of Legal and Democratic Services were in attendance at meetings in respect of the Herefordshire Connects Programme and report appropriately. The Head of Legal and Democratic Services stated that it was important to distinguish between the Managerial role that properly belonged to officers of the Council and the role of Audit.

With reference to a Member's enquiry on several issues relating to payments pending within the Action Plan, the Committee was informed that the Employees Code on the various issues was being reviewed.

The Director of Resources informed the Committee that senior officers and key Managers claims in relation to travel and subsistence were currently being investigated and that it was not viewed by management as a consistent problem throughout the Service.

The Chairman of the Committee informed Members that all employees had been reminded of their responsibilities regarding the Code of Conduct for Employees.

The Audit Services Manager reminded the Committee that a Travel and Subsistence review was in the Audit Plan, which had been approved in April 2007 by the Audit and Corporate Governance Committee, and that this Plan had been brought forward in the light of the current situation.

Members expressed their sincere appreciation to the Director of Resources and her team for the way in which the situation has been approached and currently being managed.

The Chairman stated that it was important that the officers and Members were circumspect with regard to the report before them and that the officers should be congratulated in this respect.

**RESOLVED: that**

- (i) implementation of the recovery plan as detailed and attached to the special report is prioritised in line with the timetable indicated within it;**
- (ii) the dates for additional meetings of this Committee to take place on 19th October, 16th November and 21st December 2007 to receive updates with regard to the special investigation.**
- (iii) the Director of Corporate and Customer Services to urgently complete the re-assessment of the Community Network Up grade contract she has initiated; and**
- (iv) finance governance compliance testing is prioritised in line with the timetable indicated within it;**

The meeting ended at 12.35 p.m.  
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**CHAIRMAN**