

MINUTES of the meeting of Audit and Corporate Governance Committee held at Council Chamber, Brockington, 35 Hafod Road, Hereford HR1 1SH on Friday 20 March 2009 at 10.00 am

Present: Councillor ACR Chappell (Chairman)
Councillor RH Smith (Vice Chairman)

Councillors: MJ Fishley, JHR Goodwin, PJ McCaull, R Mills and AM Toon

In attendance: Councillor PJ Edwards

138. APOLOGIES FOR ABSENCE

There were no apologies for absence.

139. NAMED SUBSTITUTES(IF ANY)

There were no substitutes made.

140. DECLARATIONS OF INTEREST

The Chairman, Councillor ACR Chappell, declared a personal interest in paragraph 12 regarding Level 3 Complaints, page 21 of the agenda refers.

141. MINUTES

RESOLVED: That the Minutes of the meeting held on the 23 January 2009 be approved as a correct record and signed by the Chairman.

142. USE OF RESOURCES

The Director of Resources presented a report which gave details of the Action Plan which was requested at the previous meeting of the Committee in respect of the improvement opportunities identified in the Use of Resources report 2008, Appendix 1 refers. He drew attention to the Audit Commission report having less actions this year mainly because significant improvements had been made. He had split the Action Plan into five themes. The first being Financial Reporting where the highest score Level 4 had been achieved. In Theme 2, Financial Management, he emphasised that the Medium Term Financial Strategy would be developed to become a joint document for the Council and Primary Care Trust. With regard to debt monitoring in Financial Standing, Theme 3, the Director outlined the current appraisal and performance. In Theme 5, Internal Control, value for money had given the greatest opportunities for improvement. Training programmes for officers in this respect were being put in place. The report reflected the improvement of Use of Resources overall at a score of Level 3.

Councillor RH Smith suggested that the second paragraph of point 2.3 of the Financial Management commentary on page 12 should be amended to include the

words 'including a fully costed financial appraisal of each option' after the word 'appraisal'. He further referred to paragraph 5.1 on page 14 and stated that the integrated performance report did not make provision for value for money assessments. The Director of Resources informed Members that the whole issue of how performance management issues would be presented was currently being reviewed by the Deputy Chief Executive.

In answer to a Member's question, the Director of Resources assured the Committee that although options appraisals are required to be carried out on all projects likely to cost more than £140,000, appraisals are also carried out on projects costing less than £140,000.

With regard to the updating of Business Continuity Plans, paragraph 4.4 refers, the Director of Resources informed the Committee that this included 2008/09 plans.

Councillor AM Toon referred to the 3 per cent budget cuts and asked for identification on how value for money was helping to achieve such cuts. The Director of Resources stated that the Authority did not have a value for money strategy. He was, however, communicating with Shropshire County Council who did have a good value for money strategy which could be utilised for this Authority.

Councillor R Mills requested that a reporting system be put in place to show the current position on projects.

RESOLVED: That subject to the following, the report be noted:

- (i) **the second paragraph of point 2.3 of the Financial Management commentary on page 12 should be amended to include the words 'including a fully costed financial appraisal of each option' after the word 'appraisal'; and**
- (ii) **a report indicating the position statement on major projects to be included as a standard item on the agenda.**

143. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Acting Head of Financial Services presented a report on the progress on implementing International Financial Reporting Standards (IFRS) as requested at the previous meeting. She referred to the Hereford and Worcester Financial Managers Group, paragraph 5 of the report refers, which had been set up to work jointly on IFRS issues and informed the Committee that the Group had adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Project plan on the issues. The Group had also set up five sub groups to consider Assets and Capital, Financial Statements and Policies, Employee Benefits, Joint Benefits, and Leases. The sub groups would then report to the main group.

Councillor AM Toon declared a personal interest as a governor of Whitecross High School. paragraph 8(a) (i) of the report refers.

The Chairman, Councillor ACR Chappell, referred to the fact that the Primary Care Trust (PCT) was having IFRS introduced ahead of the Council and that hopefully the Council can learn from the Herefordshire PCT. He also referred to the probable need to employ more financial staff as a consequence of the implementation of the IFRS system. The Director of Resources stated that any financial personnel with the necessary experience in working with IFRS currently command higher rates of pay.

He would be flagging up the need for additional support with the Joint Management Team. He would also be working closely with the PCT.

Regarding Councillor Toon's query on the accuracy of school asset records with regard to IFRS, the Acting Head of Financial Services informed Members that school asset accounting would be closely monitored to ensure compliance with the new accounting procedures.

The Director of Resources stated that an item would be appearing on the Herefordshire Schools Forum agenda regarding IFRS and that his staff would also be working with the Schools Bursars Group on IFRS matters. With regard to a Member's question on whether the new accountancy standards would provide efficiencies, he stated that bodies like CIPFA had concerns on that issue.

On a contracts issue the Assistant Chief Executive Legal and Democratic reminded Members that it was a legal requirement that European companies should be asked to tender for certain contracts if contracts were above European procurement figures.

The Acting Head of Financial Services referred to Private Finance Initiatives (PFI) Accounting being very complex and emphasised the probable need to employ expert advice in this area.

The Director of Resources informed Members that he would be putting in place a corporate training event for Members on IFRS issues by using one of the allocated Resources Directorate training days. Councillor Chappell recognised the need for Members to appreciate the IFRS system and how property issues of the Authority are affected.

Councillor RH Smith made reference to the recently revised Medium Term Financial Management Strategy and asked if the £766,000 'capacity' in 2009/10 would be affected by IFRS. The Director of Resources informed members that the 'bottom line' impact of IFRS was not yet known on that issue but that he would report back to the Committee as soon as the issue became clear.

RESOLVED: That

- (i) a standing report be made on the current position with regard to the implementation of the IFRS; and**
- (ii) the report be noted.**

144. MONITORING OFFICER REPORT 2007/08

The Assistant Chief Executive, Legal and Democratic presented a report which informed the Committee of the Authority's performance for 2007/08 with regard to complaints to the Ombudsman, Whistleblowing and those matters within the responsibility of the Monitoring Officer's control as the Head of Legal and Democratic Services. He referred to paragraph 12 and emphasised that the majority of complaints were in the planning environment. With regard to complaints dealt with by the Standards Committee, between January 2009 and the current date, thirty complaints had been referred through the local filtering system most of which related to parish councils.

Councillor AM Toon expressed disappointment that the Annual letter from the

Ombudsman had not been circulated to members. She pointed out that the headings on Appendix 2 on page 29 and the headings on Appendix 3 on page 31 did not match which made the information difficult to compare. She also took the view that there was an issue regarding the definition of a complaint and that there was a need for training in the Authority to ensure consistency on the issue.

Councillor RH Smith referred to paragraph 5 bullet point 3 on page 20 and asked what were the local settlements. Also, in paragraph 12 on page 21, information regarding the action by the officers subsequent to decisions to partially uphold complaints would be useful to enable the committee to consider such action.

The Assistant Chief Executive, Legal and Democratic stated that he would be able to let Members have the information on those complaints which were upheld and those resolved by local settlement in a confidential letter. He would also endeavour to achieve consistency with regard to figures in the Appendices.

RESOLVED: That the report be noted.

145. UPDATED DRAFT REVISED TERMS OF REFERENCE

The Chief Internal Auditor presented updated draft revised terms of reference for the Audit and Corporate Governance Committee's consideration.

Councillor R Mills referred to page 34 paragraph 7(iii) and asked for a report on the provision of Amey services and how well it is managed. The Chief Internal Auditor informed the Committee that the next item on the agenda, the Audit Plan Minute No.146 refers, would be the fundamental system where the Amey contract would be reported.

The Director of Resources referred to the fine balance between matters which should be considered by Audit and Corporate Governance Committee and those matters which are more properly dealt with by the scrutiny process and were in effect outside of its terms of reference. He informed Members that the Audit Commission was in the process of preparing a report to be submitted to the Council on Procurement and within that report there was a strong section covering the new Amey contract.

Terry Tobin, representing the Audit Commission, endorsed the Director's comments and informed Members that the relationship between Amey and the Authority had been looked at post Crookhall. The Audit Commission had also raised issues which the Chief Executive had indicated would be addressed.

Councillor AM Toon referred to the Council's procedures and protocols and how far did these extend to its partners. The Assistant Chief Executive, Legal and Democratic informed the Committee that the Council must ensure that it achieves value for money in engaging with its partners. With regard to partners and legal compliance on issues, this was an area where partners were responsible for their own actions.

The Director of Resources informed Members that he would present the Audit Commission's report on procurement that also covered the Amey contract to the next meeting. He stressed the need for the Committee to distance itself from scrutiny areas of working.

Councillor RH Smith stated that the draft revised terms of reference fully reflect the Chairman's and Vice-Chairman's comments. He questioned, however, the appointment of an independent person to the Committee who would then become Chairman and asked what was its rationale. He had concerns that if such an appointment was made, then there was the possibility that on an occasion where the committee reached a quorum of three that the majority vote would be cast by a non elected Member. The Assistant Chief Executive, Legal and Democratic informed the Committee that this had been in the constitution for some time. He emphasised, however, that there was scope for legislation to enforce the issue of the appointment of an independent Member with Chairmanship of the Committee.

RESOLVED: That

- (i) the revised terms of reference together with the proposed change of name of the Committee as set out in Appendix 1 to the report be approved subject to the following amendments:**
 - (a) the word 'policy' being inserted after the word 'blowing' in paragraph 5.1.1 iii;**
 - (b) the words 'financial and associated' be inserted after the word 'Council's' in line two of paragraph 5.1.11 ix;**
- (ii) Council be recommended to approve the quorum of the committee being amended to four Members, three of which must be Members of the Council should the committee appoint an independent Member;**
- (iii) the Audit Commission's Action Plan response with regard procurement be submitted to the next meeting; and**
- (iv) the Environment Directorate be invited to report to the Committee on how the Amey contract with the Council will work and that the Chairman of the appropriate Scrutiny Committee be invited to attend the meeting;**

146. AUDIT PLAN 2009/10

The Chief Internal Auditor presented the 2009/10 Audit Plan to the Committee. He informed members that the Plan had been discussed with the Chief Executive, Deputy Chief Executive and Directors and their comments were included in Appendix 1 to the report. He referred to paragraph 5 of the report which highlighted sections in the Audit Plan which feed into the Audit Strategy. Paragraph 9 highlighted Consultancy work and would not be given an audit opinion, but any issues in those areas would be contained in the Audit Assurance report. Paragraph 12 referred to reductions in audit days to align the plan to resources available. With regard to paragraph 13, Members were informed that an Audit Manager was being seconded to support the Council's Improvement Programme as it was important that audit ensures that internal control procedures were followed. The Herefordshire Connects Programme Manager supported this action. The Chief Internal Auditor emphasised that as part of the Committee's new terms of reference, the Council's procurement and contract procedures reviews were contained in the Governance and Anti-Fraud section, part (c) of Appendix 1. High importance was being given to Criminal Records Bureau (CRB) checks and audit of these was contained in part (d) of Appendix 1. He drew members' attention to the Contact Point database part (e), and

ICT Protocols and Controls (Council Wide), which contained contact details of all school children.

Councillor AM Toon commended the report but raised concerns that electoral services and the processes in respect of elections were not contained in the Plan.

The Assistant Chief Executive Legal and Democratic informed Members that electoral registration was the function of the Deputy Returning Officer (DRO) and that the Electoral Commission had issued standards for the Returning Officer (RO) to adhere to. The committee was reminded that the functions of the RO and DRO were not Council functions but that these were a duty for which there was a personal responsibility to the Electoral Commission and Courts. Members had a vested interest in elections and that was why this role was separated from the Council functions. He reminded members that three reports on electoral issues had previously been considered by the Strategic Monitoring Committee (SMC). He emphasised that the job of the RO and DRO were outside the functions of the Council.

Councillor PJ Edwards informed the committee that SMC had recently received a presentation from the Electoral Commission which had made particular reference to electoral registration services, local elections and Returning Officers.

Councillor MJ Fishley referred to the number of audit days needed for CRB Checks. The Chief Internal Auditor advised that there was a need to give the Committee assurance that CRB checking was carried out correctly. The Assistant Chief Executive Legal and Democratic emphasised that it was important under the Comprehensive Area Assessment process that there was evidence that this particular area of audit work was being done as the safeguarding agenda important to the community.

RESOLVED: That the Audit Plan for 2009/10 be adopted.

147. AUDIT STRATEGY 2009/10

The Chief Internal Auditor presented a report which gave details of the 2009/10 Audit Strategy. He drew members' attention to the areas of audit opinion, paragraph four of the report refers, which fed into the Internal Control Audit Opinion Matrix, paragraph seventeen of the report refers.

RESOLVED: That the Audit Strategy for 2009/10 be approved.

148. FOURTH INTERIM AUDIT ASSURANCE REPORT 2008/09

The Chief Internal Auditor presented an update on progress in making the planned improvements to the internal control environment and progress with the Annual Audit Plan for 2008/09. He informed Members that he had not been able to update the current position and status in Appendices 1 and 2 but that this would be carried out and included in the report for the next meeting. He referred to the 'Status of Audits Started during 2008/09', Appendix 3 refers, and reminded the Committee that it was policy that all fundamentals must achieve a 'Satisfactory' opinion in line with Financial Regulations. Audit Opinions were reported to the Chairman of the Committee, Leader and Cabinet Members to ensure their awareness of the opinions. He referred the Committee to the ICT Protocols and Controls on page 83 and to three opinions which had been changed from 'Not Applicable' to 'Minor Non-

Compliance’.

Councillor RH Smith referred to the financial management training on page 68 and drew attention to Fraud Training being offered by Price Waterhouse Coopers. The Assistant Chief Executive Legal and Democratic informed members that he had been in discussion with the Director of Resources regarding this training.

Councillor AM Toon referred to Appendix 1 on page 78 and the ongoing status of items which did not show any timescale. The Director of Resources informed Members that the Status comments in the Appendix would be updated with timescales for the next meeting of the Committee.

RESOLVED: That the report be noted.

149. ANNUAL AUDIT AND INSPECTION LETTER

The Chairman informed the Committee that in his opinion this item was urgent in accordance with Standing Order No. 5.8.3, to enable recommendations to be made to Cabinet in April.

Councillors PJ Edwards and RH Smith declared a personal interest in waste management being a member of the Hereford and Worcester Joint Waste Disposal Forum.

Terry Tobin, representing the Audit Commission, presented the Annual Audit and Inspection letter and informed the Committee that the letter would be the last Annual Audit and Inspection letter but that something similar would be produced in the Comprehensive Area Assessment process. The letter before Members was a summary of the Audit Commission’s assessment of the Council and drew from the findings and conclusions from the audit of the Council for 2007/08 and from any inspections undertaken since the last Annual Audit Assessment letter. He made particular reference to the messages in the letter regarding Direction of Travel, Use of Resources, Waste Management and the Safer Roads Partnership. There were two issues regarding Direction of Travel. The first being the children’s protection issue where there was sensitivity and the performance management framework. The second issue related to the need for corporate plans to have SMART targets. Some of the plans did include such targets but others are vague. Therefore there was a need for improvements in that area. Use of Resources had improved from the previous year and had achieved a score of 3 out of 4. In this area, there had been improvements in Financial Standing, Internal Control and top marks for Financial reporting. In Waste Management he was aware of the work regarding the waste disposal issue with a solution not yet agreed. This was a No.1 audit risk so the Commission had planned a piece of work on waste disposal issues in the autumn. With regard to the Safer Roads Partnership (SRP), the Commission had carried out an assessment of the SRP and had found that the Partnership had not made the transition from the safety camera partnership to broader educational issues.

In answer to a Member’s question, the Director of Resources informed the Committee that with regard to the Edgar Street Grid, this had now been included in the Corporate Risk Register.

Councillor PJ Edwards requested that the Scutiny’s thanks and support for the report be recorded.

Councillor R Mills asked how comparisons were made between Councils on matters

such as waste disposal taking into account the disparity in money from central government to Councils. Terry Tobin informed Members that comparisons were made between similar Councils.

Councillor ACR Chappell, Chairman, on behalf of the Committee expressed thanks to all those officers involved in the improvements detailed in the letter and to Terry Tobin for his work and the report.

RESOLVED: That the Audit Commission's Annual Audit and Inspection letter for 2008/09 be noted.

The meeting ended at 12.07 pm

CHAIRMAN