

Minutes of the meeting of audit and governance committee held at Council Chamber, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Wednesday 24 January 2018 at 2.00 pm

Present: Councillor PD Newman OBE (Chairman)
Councillor ACR Chappell (Vice-Chairman)

Councillors: CR Butler, EPJ Harvey, RJ Phillips, AJW Powers and J Stone

In attendance: Councillors PA Andrews, WLS Bowen and J Hardwick

Officers: Annie Brookes, Andrew Lovegrove, Alistair Neill and Claire Ward

257. APOLOGIES FOR ABSENCE

There were no apologies for absence.

258. NAMED SUBSTITUTES (IF ANY)

There were no named substitutes.

259. DECLARATIONS OF INTEREST

Councillor RJ Phillips declared a non-pecuniary interest in agenda item number 7 as a member of West Midlands Employers.

260. MINUTES

Following a request for clarification from a member of the committee, it was agreed at minute number 254 the constitution review working group be asked to consider whether the withholding of upheld complaints following the informal resolution by the monitoring officer was still appropriate.

RESOLVED:

That the minutes of the meeting held on 29 November 2017 be confirmed as a correct record and signed by the chairman.

261. QUESTIONS FROM MEMBERS OF THE PUBLIC

There were no questions from members of the public.

262. QUESTIONS FROM COUNCILLORS (Pages 7 - 8)

A copy of the Member questions and written answers is attached to the minutes at Appendix 1.

263. CAPITAL PROJECT MANAGEMENT AND CONTROL INTERNAL AUDIT PROGRESS UPDATE

The chief finance officer presented the report. The following points were highlighted:

- This was an update on the 13 recommendations made by SWAP following their audit of the issues around the Blue School House project.
- A range of other actions were being considered by the internal control improvement board.
- From 1 April, the systems will be in place for project management which would ensure that the approval points for capital projects were understood and documented.
- A system of validation / confirmation was being put in place when a senior manager had announced they were leaving the council. Another member of the senior team would be identified and would need to approve projects as well. This system would also cover any interim arrangements at a senior level.

Following queries from members of the committee, it was confirmed:

- In respect of anecdotal evidence that professional advice may be deleted from draft reports assurance was provided that the process is now more robust than previously. The on-line report management system and sign off process ensures there are double checks in place and reviewers had sight of the final version of the report. It was recognised that it would take time to embed the process but the underlying controls are in place.
- The principles of decision making were included within the member induction processes. The issue has been that it has not been covered consistently at member and officer level.
- Feasibility work is carried out but again the issue is consistency. The system being put in place will ensure that there will be a need for clarity about the gross costs and it will have to stay within the feasibility study budget. As part of the new process, all work on a project will stop after the feasibility study until a decision is taken about whether the project will proceed and this will be dependent on funding being identified.
- Capital programme monitoring does take place but not consistently. Projects managers do monitor spend but there are varying ways to do this. This will be built into Business World so all reports will be consistent and the same. Councillors Powers and Harvey were thanked for their comments on the new system.
- The new project management system could flag when contracts were due for renewal and would work back from the renewal date to ensure that the appropriate stages and decisions were built into the project.
- That projects identified within the capital programme will need their own governance arrangements.
- There had already been plans in place to implement a new report management system as the previous system was not sufficiently robust. SWAP had identified that relevant information was not being made available to officers or members at the appropriate time.
- The new project management system would be in place by 31 March 2018 but there would be a need to change the culture of the organisation in order to ensure that the system was understood and embedded and this would take longer to embed.
- That an audit of the delivery of the management response to the original Blue School House recommendations was included in the 2018/19 SWAP audit plan.

A member of the committee noted that it would be helpful if the documentation was in one place for easy reference by officers.

A member of the committee commented that it would be difficult for a layman to be satisfied that projects were being monitored satisfactory and it may be useful to understand the practical application. It was noted that councillors are vital to the decision making process.

The chief finance officer confirmed that he became aware of the Blue School House issue in April 2017 and had an initial meeting with SWAP on 20 April. The monitoring officer, chief executive and cabinet member were made aware of the problem in the last week of April 2017.

It was noted that a further report would be presented to the committee on 21 March 2018 which would include an update on the progress to date, together with an update on the corporate peer challenge which was taking place at the beginning of February 2018.

Following queries from members of the committee, the chief executive confirmed appropriate action against officers who remained in the employment of the council was being taken or considered. For those officers who had subsequently left the employment of the council, further action was being considered which included referrals to appropriate professional bodies/organisations. It was agreed that a clear statement on this issue would form part of the progress report for the March meeting.

The solicitor to the council confirmed that the external independent HR investigation had been conducted by West Midlands Employers. Councillor RJ Phillips declared an interest as he was a member of the organisation.

Following a query from a member of the committee, the chief executive confirmed that the Local Government Association corporate peer challenge would be looking at five different areas which included governance. A position statement had been provided to the peer challenge team which included Blue School House and meetings had been arranged for councillors and the team. The head of corporate governance confirmed that the peer challenge team had been sent a copy of Blue School House internal audit report for their information, but they had not been asked specifically to look at this issue as a corporate peer challenge was not an investigation of specific incidents rather a tool for improvement with a focus on leadership, governance, corporate capacity and financial sustainability.

RESOLVED

That the report be noted.

264. ANNUAL GOVERNANCE STATEMENT 2016/17

The head of corporate governance presented the annual governance statement progress report and highlighted the following:

- There is reference to Blue School House within the report to assure the committee that the issue was not being ignored. However, the issue had come to light after the approval of last year's annual governance statement.
- The time scale for next year's statement had been brought forward.
- That the independent person would be consulted on issues and risks in relation to the member code of conduct as part of the information gathering exercise for the next statement.

Following a query from a committee member, it was confirmed that the members' code of conduct would be considered by the constitution review working group.

It was noted that concern remained over the deferment of the decision at the last audit and governance committee meeting over the naming of town and parish councils involved in code of conduct complaints. It was felt by some members of the committee that this did not evidence the behaviour of leadership, transparency, and openness, especially as this information had been released under a Freedom of Information request.

RESOLVED

That the report be noted.

265. UPDATE ON CLOSURE PROCESS FOR 2017/18 FINAL ACCOUNTS

The chief finance officer presented the report. It was confirmed that the finance business support officer would act as the single point of contact for the audit.

Following a query from a member of the committee, it was confirmed that a firm of valuers had been appointed in relation to the disposal of property holdings in Rotherwas. The firm's expertise was in council valuations. It was confirmed that the council do use a variety of professional valuers for disposing of council property.

Following a concern raised by a committee member, it was confirmed direct contact had been made with all tenants in Rotherwas with regard to the disposal of the freehold interest. The advice which had been received by the council was that auctioning the properties was the best way to achieve best value for money. If there had been any breakdown of communication between the council and the tenants, then this would need to be addressed.

RESOLVED

That the report be noted.

266. EXTERNAL AUDIT PLAN FOR 2017/18

Grant Thornton presented the presented and highlighted the following:

- The scope was public sector audits was broader than private sector audits and also covered value for money.
- The risks to the audit were set out in pages 45 to 47 of the pack
- The early close of the audit (from September to July) would be a significant challenge for both the council and Grant Thornton.

Following a query from a member of the committee, it was confirmed that whilst the checking of the pension liability should be straightforward, the methodology used by actuary would still need to be checked. It was noted that the ability to drill down on the payroll accuracy may be more difficult.

Following a question from a member of the committee, Grant Thornton confirmed that with regard to the accumulation of non material items, they use the concept of tolerable error. This is used towards the end of the audit. If there was any issue which was over the materiality threshold, then it would be referred to the committee for consideration and then Grant Thornton would make a decision as to whether or not to give an unqualified audit opinion. It

was agreed that Grant Thornton would provide a training session to the committee on materiality.

The chief finance officer and Grant Thornton confirmed that there were ongoing conversations about how to treat the Hoople pension liability in relation to the Local Government Pension Scheme. It was noted that this had the potential to be a material issue and if it does not appear on the council's balance sheet, then it will not appear as a risk. This issue will be kept under review by Grant Thornton.

It was confirmed that Grant Thornton are the external auditor for Hoople. The chief finance officer agreed to provide a briefing note on the work SWAP conduct in auditing the processes which Hoople carry out on behalf of the council, together with the system Hoople have in place for internal audit control.

Following a query from a member of the committee, Grant Thornton confirmed that they do ask for assurance that the organisation is acting legally.

267. HOUSING BENEFIT GRANT CERTIFICATION 2016/17

The housing benefit grant certification report was presented.

Grant Thornton were thanked for their work.

RESOLVED:

That the report be noted

268. WORK PROGRAMME UPDATE

The work programme was discussed and agreed.

It was agreed that the chief finance officer would prepare a briefing paper and a training session would be arranged in connection with income received by the council; details of the handling of that income in relation to statutory limitations and what happens when there is a surplus of income versus costs.

RESOLVED:

That the report be noted

The meeting ended at 4.42 pm

Chairman

Appendix 1

**Questions from members of the public
to Audit and Governance Committee**

24 January 2018

Councillor Bob Matthews

Please confirm that when the outcome of the Blueschool House investigation is reported to you if you are not FULLY satisfied with the outcome that you will not hesitate to recommend the matter be referred to an appropriate body of your choice for a wider and more in-depth investigation to take place. The public and media have shown interest in this most serious issue and are monitoring the situation closely

Response

The Council received the SWAP investigation report on the matter and the related actions of officers in working within the established system of controls on 14 August 2017. This report was published and discussed at the Audit and Governance Committee of 20 September 2017 and led to the decision by the Chief Executive to initiate an external investigation which was carried out in the period Sept – Dec 2017, which sought to directly investigate the actions of officers.

Considering whether to refer the findings of this report to appropriate bodies is currently being undertaken.

