

**Minutes of the meeting of Audit and governance committee held at Committee Room 1, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Tuesday 19 March 2019 at 2.00 pm**

**Present:** Councillor PD Newman OBE (chairperson)  
Councillor ACR Chappell (vice-chairperson)

Councillors: CR Butler, E Chowns, EPJ Harvey, RJ Phillips and J Stone

**Officers:** Annie Brookes, Andy Churcher, Donna Etherton, Andrew Lovegrove, Jacqui Gooding and Gail Turner-Radcliffe

**355. APOLOGIES FOR ABSENCE**

There were no apologies for absence.

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

There were no named substitutes.

**357. DECLARATIONS OF INTEREST**

There were no declarations of interests.

**358. MINUTES**

**RESOLVED:**

**That the minutes of the meeting held on 23 January 2019 be confirmed as a correct record and signed by the chairperson.**

**359. QUESTIONS FROM MEMBERS OF THE PUBLIC (Pages 9 - 12)**

Questions received and responses given are attached as appendix 1 to the minutes.

**360. QUESTIONS FROM COUNCILLORS (Pages 13 - 14)**

Questions received and responses given are attached as appendix 2 to the minutes.

**361. PROGRESS REPORT ON 2018/19 INTERNAL AUDIT PLAN**

The chairman used his discretion to move the progress report on the 2018/19 internal audit plan to the first item.

The head of internal audit presented the report and highlighted the following:

- 7 audits had been completed since the last update
- 2 audits were in draft

- 10 audits were in progress
- 6 audits were assessed as reasonable
- There were 3 priority 2 findings across 6 audits

### Hoople

The priority 2 finding had been in connection with the calculation of a key performance indicators (KPIs) as not all KPIs had written methodologies in support of the KPI calculation. The recommendation had been accepted and there was a target completion date of 31 March 2019.

It was confirmed that without reviewing all the KPIs, it was not possible to confirm whether the issue with the Hoople KPIs would found in other KPI either within Hoople or elsewhere in the council.

With regard to the development regeneration partnership (DRP) KPIs, there was no reason to believe that there was an issue with the KPIs but a 100% guarantee could not be given.

### Internal Control Improvement Board (Blueschool House)

The head of internal audit reported that pages 62 to 63 of the agenda pack provided an update on the internal control improvement board follow up review. The report was currently in draft and would be provided to committee members when it was finalised.

It was reported that the infrastructure was now in place to address the recommendations from the Blue School House audit report and provide a solid control framework. Training has been provided on the processes and they now needed to be embedded across the council.

During the discussion of the issue, the following points were raised:

- That the South Wye Transport Package (SWTP) was not currently on the new project management system (Verto). This was disappointing and frustrating for the committee as they were seeking assurance that a major project was following the project management processes now in place.
- The committee had requested assurance at its November meeting and again at its January meeting and it was only at this meeting that it was being reported that the assurance would not be possible because the project was not yet on Verto.
- The agreement to move to the Verto system had only been agreed in October 2018 and there was a phased approach to projects being loaded on the system.
- The SWTP would be subject to an internal audit in Q1 which would include governance compliance.
- Some committee members expressed concern that there may be an unauthorised overspend on a major project. The chief finance officer confirmed that he did not recognise that there was an overspend on the SWTP. A large amount of money had been spent and appropriately

reported in the public domain on this project. There had been a lot of examination of this project in a number of different forums.

- The chief finance officer and head of internal audit were unable to comment further on this project until the review had taken place.
- The SWTP was now moving into the next phase as the public inquiry had reached a conclusion.
- Other projects had been loaded onto the Verto system as they were incurring more spend than SWTP.
- As a result of the outcome of the public inquiry, the SWTP project would now be loaded onto Verto as there would be more spend on the project.
- There had been significant progress made in relation to the recommendations following the Blueschool House review. There were now checks and balances in place which would make it less likely that an incident like Blueschool House would occur again.
- It was confirmed that there had been spend on the SWTP from October to date but it was relatively small in terms of a project with a £35m spend. The SWTP was a long term project and during the next phase there would be a greater amount of spend.
- The committee were concerned that there was an unauthorised overspend on the project given the recent officer decision to move £1m from the existing road network budget to the SWTP. If there was no overspend, then why was £1m transferred from a different budget to the SWTP. It was explained that SWTP had a capital budget of £35m, £27m was from the Department of Transport (DoT) and £8m from the council. The chief finance officer again confirmed that he was not aware of any overspend on this project.

A member of the committee requested that there be no further spend on the SWTP project until there had been assurances given to the committee that this project was compliant with the current project management and governance process. The chief finance officer explained that as the approved project was now moving into the next phase, there would be expenditure incurred and he was unaware of any reason to delay that spend.

The chief finance officer confirmed that the DoT will pass the funding to the LEP which would then be passed to the council.

#### Compliance with contract and finance procedure rules - revenue

A member of the committee indicated that the findings of this audit appeared to parallel the issues with regard to the capital budget. In particular there was a lack of governance which appeared to replicate the issue of contract management for capital projects.

Following a query from a member of the committee, it was confirmed that the audit into the declarations of personal and business interests had been not removed but had been deferred and would need to be added to the 2019/20 internal audit plan. The reason for the deferment was that the implementation of a new process had been delayed for the declaration of those interests.

## **RESOLVED**

**That the report be noted.**

### **362. INTERNAL AUDIT PLAN 2019-20**

The head of internal audit presented the report.

Following a query from a member of the committee, it was confirmed that with the exception of one member of staff, none of the SWAP employees had previously been employed by Herefordshire Council.

With regard to the internal audit plan for 2019/20, the following points were raised during the discussion.

- The audit into the SWTP be the first audit of the plan.
- The audit into DRP projects be included and repeated as it was the largest capital expenditure over the next few years. It was confirmed that the governance arrangements for the DRP would be looked at during 2019/20. It was further noted that there were other councils working with Keepmoat and Engie and it would be sensible to see if the learning from those councils could be brought into the audit.
- The independent reviewing officer service (IRO) audit was a priority as it had been raised as a serious issue during the extraordinary council meeting.
- That the recruitment of social workers would be an appropriate topic for review.

## **RESOLVED**

**That**

- (a) the proposed internal audit plan 2019-20 at appendix A be noted; and**
- (b) the internal audit charter at appendix B be approved**

### **363. EXTERNAL AUDIT PROGRESS REPORT**

Grant Thornton presented the report and highlighted that there were no issues to report to the committee at this stage of the audit.

It was noted that as indicated at the January meeting of the committee, there had been change to the materiality levels. The materiality figure had been increased and had been signed off by the technical team at Grant Thornton.

Grant Thornton reported that the change of materiality was a pilot and that Herefordshire was the only council within the pilot. It was explained that in

comparison to other councils, Herefordshire had a large asset base compared to expenditure. Traditionally, materiality was based on expenditure which meant that more work was required on the Herefordshire external audit in relation to property, plant and equipment. The outcome of this pilot would be reported in the summer and if it was successful would be sent to the Financial Reporting Council (FRC) for approval for use across all councils who were clients of Grant Thornton and would potentially be adopted by other regulatory bodies.

A member of the committee requested that as Herefordshire would be the only council in the pilot that Herefordshire was not used and that the current materiality level was used.

A member of the committee indicated that there was little justification provided as to why there should be a change in the materiality level, especially as there was a 50% increase in materiality. It appeared that the only reason was that Grant Thornton had needed to undertake further work as part of the 2017/18 audit which had incurred a cost to the council.

It was noted that Grant Thornton's professional opinion was that the change in materiality was the best approach for Herefordshire. The committee agreed that it would be helpful if a training session on materiality could be arranged prior to the July meeting.

Grant Thornton confirmed that they had already undertaken some tests in this year's audit based on the new materiality levels.

It was confirmed that as part of the July report to the committee on the audit of the accounts, there would be a number of appendices which would include audit adjustments over £500k and non-adjustments to the accounts. Where there had been no adjustments, it would be at the committee's discretion as to whether there were amendments to the accounts.

The committee were advised that the determination of the level of materiality was a matter that rested with the External Auditor.

Councillor EJP Harvey proposed and Councillor EE Chowns seconded the following:

That Grant Thornton be asked to consider maintaining the level of materiality for 2018/19 accounts for reporting purposes at same level as previous years

Vote:

6 for

1 Against.

## **RESOLVED**

**That:**

- (a) The report be noted; and**
- (b) Grant Thornton be asked to consider maintaining the level of materiality for 2018/19 accounts for reporting purposes at same level as previous years**

### **364. CERTIFICATE OF COMPLETION OF AUDIT**

The chief finance officer and Grant Thornton presented the report.

It was noted that there had been progress but that the certificate of completion of the audit had still not been issued. Grant Thornton had issued an unqualified opinion with regard to the audit conclusions and value for money.

Grant Thornton confirmed that there were regular progress reports from the council and acknowledged that the process would take time. However, they would not be able to issue the certificates until the process had been completed.

It was noted that the issue was complex and reliant on external bodies to undertake work.

Members of the committee expressed concern that this issue was still unresolved and it appeared that there was nothing that they could do to expedite the matter.

The head of corporate governance reiterated the offer made at the January 2019 meeting that if the committee wished, a private meeting could be arranged so that members could receive an exempt report and briefing on the issue.

At 1619 hours Councillor EJP Harvey resigned from the committee with immediate effect and left the meeting.

Members of the committee indicated that they had shown patience with regard to this issue but they remained concerned and agreed that the audit and governance committee formed following the May 2019 local elections be briefed on the issue in private session.

### **RESOLVED**

**That: (a) the report be noted; and  
(b) that this committee recommends that the committee formed after the May 2019 election be briefed in private session on this issue.**

### **365. ANNUAL GOVERNANCE STATEMENT 2018/19**

The head of corporate governance presented the report and highlighted:

- That the annual governance statement was the first draft;
- As the year end was 31 March 2019, there are a number of pieces of information which are not yet available.
- The draft statement will be updated before it is published at the end of May 2019 which is in line with statutory deadlines.
- The document was a high level statement of the council's arrangement and the assessment of the current performance against it.
- The committee will have an opportunity to comment on the document at its July 2019 before it is published.

- An action plan would form part of the statement which would be presented to the July meeting and a progress report would be presented at the January 2020 meeting.

Following a query from a member of the committee, it was confirmed that any changes to the arrangements for dealing with code of conduct complaints should form part of a future report. It was noted that a working group had recently made recommendations to the monitoring officer for changes to these arrangements. The head of corporate governance reported that since October 2018 to 19 March 2019, there had been no instances of code of conduct complaints being rejected without the views of the independent person being sought. As stated in the annual governance statement, this issue was considered to be low risk.

A member of the committee suggested that the lack of consultation on the capital programme should be looked at as part of the internal audit work programme.

Following a query from a member of the committee, it was confirmed that each time internal audit undertake a review, they do look at the strategies, policies relevant to that area and do make recommendations.

#### **RESOLVED**

**That the committee notes the draft annual governance statement at appendix 1.**

#### **366. WORK PROGRAMME UPDATE**

The work programme for 2019/20 was presented.

#### **RESOLVED**

**That the updated work programme be agreed.**

#### **367. PROVISIONAL MEETING DATES FOR 2019/20**

The provisional dates were noted.

The meeting ended at 4.46 pm

**Chairperson**