

**Minutes of the meeting of Audit and governance committee held at Council Chamber, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Tuesday 28 January 2020 at 10.30 am**

**Present:** Councillor Nigel Shaw (chairperson)  
Councillor Christy Bolderson (vice-chairperson)

**Councillors:** Dave Boulter, Peter Jinman and Diana Toynbee, William Wilding

**Officers:** Solicitor to the council, Chief finance officer and Head of Corporate Performance

**410. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Bob Matthews and Councillor Yolande Watson.

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

Councillor William Wilding attended as a named substitute for Councillor Yolande Watson.

**412. DECLARATIONS OF INTEREST**

There were no declarations of interest.

**413. MINUTES**

**RESOLVED:**

**That the minutes of the meeting held on 19 November 2019 be confirmed as a correct record and signed by the chairman.**

**414. QUESTIONS FROM MEMBERS OF THE PUBLIC**

There were no questions from members of the public.

**415. QUESTIONS FROM COUNCILLORS**

There were no questions from councillors.

**416. EXTERNAL AUDIT PROGRESS REPORT**

The chief finance officer presented the progress report from Grant Thornton in connection with the council's accounts for 2019/20.

Grant Thornton highlighted the following points:

- An unqualified annual housing benefit subsidy certificate had been issued. This was a technical piece of work which required a lot of auditing and in order to get no errors and an unqualified certificate indicated a high standard of work by the

council's team. The committee commended the revenues and benefits team for their work.

- It was a quiet period time for the external auditors and progress was where they would expect to be.
- The Redman review was continuing and as part of that review there was a consensus that council accounts were highly complex and difficult to understand. It had also been recognised that the statutory deadline of 31 July was unrealistic but it was acknowledged that the Herefordshire Council's audit did work well within this timeframe.
- As part of the National Audit Office report which had been published the previous week, the value for money statement would be a holistic narrative report rather than a pass or fail as from next year.

As part of the discussion on the item, the following points were raised:

- The change in International Financial Reporting Standards (IFRS) treatment of S16 leases [page 30 of the agenda pack] did not appear to have been recognised in the corporate or directorate risk registers. It was also noted that this point did not appear to be reflected in the medium term financial strategy risk register which had been published as part of the agenda for cabinet on 30 January 2020 so there was uncertainty as to how any cross referencing took place in the risk registers.
- As part of the work on the value for money statement, Grant Thornton confirmed they would be looking at the decision from the Marches Local Enterprise Partnership (LEP) to terminate the funding agreement between the LEP and the council in connection with the South Wye Transport Package and to commence the clawback of £3.8m. [Decision taken by the LEP on 27 January 2020].

#### **RESOLVED:**

**That the external audit progress report and sector update was reviewed.**

#### **417. 2019/20 EXTERNAL AUDIT PLAN**

Grant Thornton presented the report.

As part of the discussion on this item, the following points were raised:

- The value for money statement criteria would not change for this year's audit.
- Where Grant Thornton identify key significant risk, there is tailored audit work undertaken.
- The main areas where there is a likelihood of a material financial statement error were the same presumed risks for all Grant Thornton clients and are:
  - Valuation of land and buildings
  - The valuation of the net pension funding liability
  - The management override of controls.
- Grant Thornton operate on a materiality basis and would expect accounts to be correct to a factor of millions.
- The materiality definition two years ago was based on gross expenditure. Last year as a pilot the materiality definition was based on council assets. This change in materiality definition made little difference to the testing and as such for this year's audit would revert back to gross expenditure.
- The materiality definition was set at a value of £6.7m and any materiality issues over this figure would be reported to the committee.

- The key themes which form the value for money opinion were:
  - The wider economy and political uncertainty
  - Financial report and audit
  - Governance arrangements and the new political structure of the council
- As part of the work on the value for money opinion, Grant Thornton would be looking at the forecast overspend due to an increase in looked after children, the management of the capital programme and the arrangements for policy change due to change of administration in May 2019.
- The land and buildings were valued on a rolling 5 year basis and Grant Thornton would risk assess the process to ensure that the valuations were within the materiality level.
- Higher valued assets were valued more regularly than every five years. It was noted that the council owned a complex range of assets and values them on a one-fifth basis every year.
- As part of the arrangements for policy change, one of the key things they would be looking at would be rationality of decision making which included whether officer advice was being reasonably taken into account when developing and implementing new or amending policy. This was not on the corporate risk register but it was noted that the risk would look at the risks arising rather than this contained point.

## **RESOLVED**

**That the report be noted.**

### **418. PROGRESS REPORT ON 2019/20 INTERNAL AUDIT PLAN**

The senior auditor from South West Audit Partnership presented the report and highlighted the following:

- 21 audits had been completed since the last update to the committee.
- 4 reports were at report stage and 16 audits were in progress.
- One audit had been deferred to quarter 4 at the request of the client
- 2 audits completed were assessed as substantial assurance
- 6 audits were assessed as reasonable assurance
- 2 were advisory audits
- One was a special investigation
- No high corporate risks were identified.
- All the recommendations had been accepted in connection with the special investigation into loss of monies.
- Page 78 of the agenda pack identified additional areas of added value.

The chief finance officer confirmed that as a result of the recommendations contained within the special investigation, petty cash was being removed which was held within services. There was a need for some services to be able to buy low value items and the roll out of procurement cards to relevant officers was continuing. It would not be possible for some parts of the council to go cashless, e.g. the library and the Black and White House Museum.

It was agreed that SWAP would share any cross comparison information they hold on Traffic Road Orders (TROs) with the committee.

## **RESOLVED**

**That the report be noted.**

**419. ANNUAL GOVERNANCE STATEMENT: ACTION PLAN**

The chairperson introduced the item and as part of the discussion on the item, the following points were raised:

- Appendix 1, number 4 – review of existing governance arrangements had been marked complete but the re-thinking governance working group would be considering partnership arrangements. It was reported that adults and communities had reviewed the health governance arrangements and confirmed that this would be included in the re-thinking governance work.
- There was no assurance on the direction of travel for those actions which were either orange or time delayed. It was agreed that an arrow indicating this would be included within the next report.
- As part of the report on the annual governance statement for next year, there would be a review of the last three years would be included to check whether there was improvement.
- Appendix 1, number 6 - review of the performance, risk and opportunity management framework was marked as draft in December 2019. The solicitor to the council confirmed that it was likely to be March 2020 and that the document would be updated.
- It was confirmed that in connection with partnership arrangements, the council did have the ability to audit and inspect the partners. It was also reported that the other organisations who had arrangements with Hoople would also have a similar arrangement.
- The committee requested that for contracts there was the ability to audit them, specifically contracts on a framework which had specific costs plus margins, e.g. the contract with Balfour Beatty.
- It was confirmed that the intention was to ask Hoople to complete a partnership assurance document and then for the solicitor to the council and chief finance officer to speak to Grant Thornton.

**RESOLVED**

**That the report be noted**

**420. CORPORATE RISK REGISTER**

The chairperson thanked officers for the training which had been received by the committee on the corporate risk register. It was noted that whilst the risk register was not wholly transparent, it was now more understandable.

The head of corporate performance presented the report and highlighted the following:

- The risk register was as at 31 December 2019
- There were 32 strategic or most significant risks
- 3 risks on the corporate risk register were still extreme risks following mitigation which were:
  - CRR01 children's operational staffing / workforce
  - CRR32 South Wye transport package, scheme costs increasing as a result of changes to the programme
  - CRR33 South Wye transport package, the Marches LEP withdrawing the existing growth fund.

- The delayed transfer of care (DToc) and One Herefordshire risks had been removed.
- 3 risks had been added to the corporate risk register in connection with the South Wye transport pack.
- The children and families risk in connection with work to support a police investigation had been closed as the investigation had been completed. A new risk had replaced this which was in connection with the response to the investigation.
- Hillside had been added as a risk due to the possibility of a legal charge being invoked should there be a change of use of the building.
- The changes had been made as a result of challenges at directorate management or management board meetings.

As part of the committee's discussion on the item, the following points were raised:

- The escalation and de-escalation of risks between the registers was still not clear.
- With regard to CRR35 (phosphate pollution in the Lugg catchment), clarification was sought on where it started as it could not be seen on the directorate risk register and how it was escalated to the corporate risk register. The head of corporate performance agreed to provide a written response.
- It was noted that the phosphate pollution risk was not necessarily restricted to the Lugg catchment area but could affect the whole county.
- EP18 (5 year housing land supply / housing delivery test and element of CRR35) – this was unlikely to be resolved by April 2020 when the housing land supply was recalculated. Herefordshire may drop to below 3 years so was there a reason why it had not be escalated to the corporate risk register. The head of corporate performance agreed to provide a written response.
- With regard to CF05 (Ofsted readiness) – in light of the recent Ofsted letter the committee would like to understand why this has not been escalated to the corporate risk register. The risk of a poor Ofsted had a significant financial and reputational risk for the council. The head of corporate performance explained that there were a number of specific risks on the corporate and directorate risk registers within the children and families area which taken together could cause a poor Ofsted. The head of corporate performance agreed to consider with the director of children and families and the chief executive about how this risk is reflected.
- There were risks on the directorate risk registers which were red but were not included on the corporate risk register. There were also amber risks on the corporate risk register. The committee felt there needed to be better articulation as to why those risk were sat on those risk registers.
- There were two risks on the adults and community risk register (AC22, access to health funding [CHC and joint funding] and AC23, Herefordshire and Worcestershire CCG) which were significant and certain but were not on the corporate risk register. The head of corporate performance agreed to check with the director of adults and communities about the scoring of these two risks and whether they should be escalated to the corporate risk register.
- It was unclear on decision reports how those risks were fed into the corporate or directorate risk registers and that it would be helpful to know how those fed into appropriate risk registers.
- The risk in connection with the EU exit was viewed through a financial lens and there would be discussions about the impact of decisions taken at a national level at the end of January.

- The corporate risk register would be an agenda item for the May 2020 meeting, especially as the PROM was due to be completed in March.
- The committee requested that consideration be given to including risks which would jeopardise the achievement of corporate objectives and that where there were strategic linkages these were identified.
- In connection with CRR31 (South Wye transport package) where the inherent risk was lower than the mitigated risk, the head of corporate performance explained that the inherent risk score was at the point it was identified as a risk. This did not indicate that the mitigation was not working but that as the risk was considered in detail and as circumstances changed, the risk was scored higher.
- The committee would encourage all councillors to read the corporate risk register and speak to the relevant directors if they had queries about a specific risk.
- The head of corporate performance would provide a written response in connection with how the council's maintained schools risk in connection with data breaches was reviewed.

## **RESOLVED**

### **That**

- a) The chief executive ensures that the corporate risk register is at the top or near the top of senior manager agendas, especially during this period of change;**
- b) The corporate risk register is brought back to the committee's meeting in May 2020.**
- c) The directors be invited to the committee meeting in May so that committee can discuss the most significant risks and consider whether there should be recommendations to the relevant scrutiny committee following those discussions.**
- d) Clarification be provided on the escalation and de-escalation process**

## **421. CONTRACT AND FINANCE PROCEDURE RULES**

The chief finance officer presented the report and highlighted the following:

- There were a number of changes and there were documents attached to the report which showed the tracked changes [appendices 2 and 6]
- The changes do pick up the arrangements for partnerships.
- There was a move from budget holders to project managers / capital programme director for items in the capital programme. For smaller projects, project managers would be approving expenditure and for larger projects the capital programme manager would approve.
- For the revenue side of the council, there were budget holders in place as they run the day to day operations.

Following queries from members of the committee, the following points were confirmed:

- The corporate and directorate risk registers would be amended to reflect the mitigating factors in connection with these changes.
- Grant Thornton would be looking at these arrangements as part of their audit
- An interim capital programme director had been appointed.
- There is a multi-layered approach and, if necessary, there will be further changes.
- The summary page for the financial procedure rules did not include everything.

- Portfolio holder and cabinet member were the same.
- New capital schemes are signed off by council but there will be a cabinet / cabinet member report before the spend is incurred. The reason for this was that a cabinet member could sign off a report if it sat within their portfolio area and cabinet would sign off it was across 2 or more portfolio areas.
- The petty cash and imprest elements of the financial procedure rules would be reviewed.
- Other organisations could join a framework agreement and this included sole traders or a set of providers. A framework enabled a mini tendering process to be run which made it a simpler procurement process.
- That a major project could be audited against the 13 recommendations of the Blue School House audits in order to provide assurance to the committee that these recommendations had been embedded and implemented. The chief finance officer did not believe this was unreasonable given the visibility of the audit.
- That exemptions and waivers were signed off by the solicitor to the council. This was an acknowledgement that the risk had been taken on board and was reflected in the report.
- With regard to exceeding a cost centre estimate, the director can notify the chief finance officer if they consider it to be significant. It was acknowledged that there were no parameters for what was significant as it was a judgement but the chief finance officer agreed to provide clarity on what would be considered significant.
- The council could improve visibility of contracts which local providers could tender for. A large proportion of the council spend was local but more could be done. The cabinet member for commissioning, procurement and assets was keen to further promote this.
- The council's policy was pay invoices within 30 days and the chief finance officer agreed to provide details to the committee.

**RESOLVED that:**

- (a) The contract procedure rules and finance procedure rules be amended to ensure consistency in referring to cabinet member or portfolio holder.**
- (b) Subject to the above amendment, the finance procedure rules at appendix 1 be approved**
- (c) Subject to the above amendment, the contract procedure rules at appendix 5 be approved**
- (d) A major project be audited against the recommendations from the Blue School House audit in order for the committee to be assured that these recommendations have been implemented and embedded within the council.**

**422. NMITE PROGRESS REPORT**

The chief finance officer presented the report and highlighted the following points:

- Work has not been concluded with the Department for Education (DfE) but it was expected to conclude in the next few weeks.
- The council's role as accountable body will end with the last payment be made. This would also end the committee's involvement.

As part of the discussion in connection with the item, the following points were made:

- The risk on the corporate risk register was not in relation to the accountable body status but was in connection with the risk about accommodation.
- The DfE had confirmed that they were comfortable with the arrangements that NMiTE had in place notwithstanding the issues of accountability which had been raised by SWAP.
- The DfE have indicated that they will be signing off the arrangements again
- Copies of the SWAP audit in connection with Quarters 2 and 3 would be provided to the committee.

**RESOLVED that**

**Further reports on NMiTE be on the agenda for the committee meetings in March and May 2020.**

**423. PROCEDURE FOR DEALING WITH QUESTIONS AT SCRUTINY COMMITTEES AND CABINET**

The solicitor to the council presented the report and highlighted the following:

- Questions to scrutiny committees were not working well and following consultation with the scrutiny chair and vice persons, there was a proposal to change these arrangements.
- If there was a question at the scrutiny committee, it was being proposed that the relevant cabinet member provide an answer. It was acknowledged that this may be mixing functions but would be better than the current arrangements which can cause frustration.

The committee were in agreement to make a recommendation to Council to change the constitution with regard to the treatment of questions to scrutiny as outlined in paragraph 3, option 2 of the report, subject to amendment with regard to the cabinet member making reasonable endeavours to attend the scrutiny committee.

The solicitor to the council also outlined that there was a proposal to change the questions to cabinet procedure so that the deadline was 9.30 am on the third working day prior to the meeting (which would mean 9.30 am on a Monday as Cabinet met on a Thursday).

The committee were in agreement to make this recommendation to amend the constitution to council.

It was noted that the issue of whether or not group leaders could ask questions at Cabinet would be considered by the re-thinking governance working group.

**RESOLVED That**

- (a) **Subject to the words after cabinet member “making reasonable endeavours to attend scrutiny meetings” being inserted, the committee recommend that the process for public and member questions at scrutiny be amended with effect from the council meeting on 14 February 2020;**
- (b) **The deadline for cabinet questions be amended to 9.30 am on the third working day after publication be recommended to council for approval with effect from the council meeting on 14 February 2020**
- (c) **authority be delegated to the solicitor to the council to make technical amendments (grammatical, formatting, and consistency) necessary to finalise the revised constitution;**

**424. WORK PROGRAMME UPDATE**

### *Work programme*

The issue of when councillors receive reports in readiness for committee meetings was discussed and this issue would be considered by the re-thinking governance working group as the statutory requirement was to publish five working days prior to the meeting.

### *Action tracker*

A member of the committee requested that the action tracker was included after the minutes in the agenda pack so that the actions can be discussed first rather than at the end of the meeting.

With regard to the request for details of the valuation of land, buildings and assets these were:

- Land and buildings: £612m.
- Investment assets: £34m

This action would now be closed.

A member of the committee requested that an additional column be added which indicated the proposed completion date or when they were overdue.

### **RESOLVED that**

- (a) Subject to the addition of the Corporate Risk Register to the agenda for the May meeting and an NMiTE report being added to the March and May agenda, the work programme was approved; and**
- (b) The chair and vice chairperson work with the clerk to add two additional meetings to the committee's schedule of meetings for 2020/21 onwards.**

The meeting ended at 13.17.

**Chairperson**