

**Minutes of the meeting of the Audit and Governance Committee held in The Conference Room, Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE on Monday 27 June 2022 at 2.00 pm**

**Committee members present in person and voting: Councillors: Jenny Bartlett (Vice-Chairperson), Christy Bolderson, Dave Boulter, Clare Davies, Peter Jinman and Nigel Shaw (Chairperson)**

Others in attendance: P Barber (Key Audit Partner, Grant Thornton), B Baugh (Democratic Services Officer), S Cann (Democratic Services Officer), A Lovegrove (Director of Resources and Assurance), A McAlpine (Senior Lawyer), J Moore (Interim Head of Corporate Finance) and J Nelson (Counter Fraud Manager)

**1. APOLOGIES FOR ABSENCE**

Apologies for absence had been received from Councillor Polly Andrews. Apologies were also noted from Gail Radcliffe-Turner (Audit Manager, Grant Thornton).

**2. NAMED SUBSTITUTES**

There were no named substitutes.

**3. DECLARATIONS OF INTEREST**

No declarations of interest were made.

**4. MINUTES**

The minutes of the previous meeting were received. Due to not being present for the whole of the previous meeting, the Chairperson abstained from voting on the minutes.

The action log for the committee was attached to the minutes and an updated version was tabled at the meeting. The matters arising included:

- i. Corporate Performance: In response to a question, the Director of Resources and Assurance advised that an interim Head of Corporate Performance was in place and an offer of employment had been made to a permanent appointee. With reference made to November 2022 due dates, it was requested that consideration be given to the earlier completion of the relevant actions; September 2022 was suggested.
- ii. There was a discussion about the implications of significant slippage in the completion of actions. The Key Audit Partner for Grant Thornton commented on the need to be realistic given the resources available but also to revisit actions to ensure that sufficient progress was being made. A committee member suggested that actions which slipped more than six months should be reviewed to ensure that they were still important.
- iii. Action 94: It was requested that an example of a service business plan, including internal audit recommendations, be provided in order to evidence completion.

- iv. Action 97: As the work of the Re-thinking Governance Working Group had concluded, this action (on performance and budget reporting) would need to be referred to the Scrutiny Management Board.
- v. Actions 101: The need for an external provider to deliver training in relation to Section 106 was questioned given the need to understand the processes within Herefordshire Council.
- vi. Action 102: The reason for the delay in the review of the Section 106 spreadsheet was questioned.
- vii. The Director of Resources and Assurance, noting that Cabinet had considered an item on 'Section 106 portfolio of works – delivery proposals' at the meeting on 25 November 2021 ([minute 74 of 2021/22 refers](#)), commented on the challenges in relation to Section 106, the measures to clear the backlog, the need to improve the information available on the council's website, and the engagement of consultants to examine the council's approach to developer contributions.
- viii. The Chairperson considered that an information session for councillors on Section 106 was overdue and undertook to write to the Chief Executive to expedite this. The Chairperson commented on the important roles of local ward members and of town and parish councils. There was a brief discussion about developer contributions for smaller developments and the authority's position in respect of Community Infrastructure Levy.
- ix. Action 122: It was noted that the Director of Transformation position had been removed from the organisation chart and the Chairperson undertook to write to the Chief Executive to seek clarification.
- x. Action 125: The Director of Resources and Assurance said that an update would be provided on who within the Council undertakes the Carbon Audit.
- xi. Action 126: The Senior Lawyer confirmed that two skills matrixes were being developed, a specific one for the Audit and Governance Committee (as considered by the committee at the meeting on 27 October 2022 ([minute 43 of 2021/22 refers](#))), and a broader one for all councillors. It was requested that the matrix for the committee be circulated to committee members.
- xii. Action 129: It was requested that consideration be given to the earlier completion of the action (to establish a process for relevant internal audit recommendations to be circulated regularly to scrutiny committee members), given that there were interim officers in place for the Head of Corporate Performance and the Statutory Scrutiny Officer positions. The Vice-Chairperson noted the use of the word 'relevant' was in the context of the remit of the relevant committee. A committee member said that a variety of information sources, including risk registers, were informing the work programming for the scrutiny committees currently.
- xiii. Action 140: An update was requested on the schedule for the development of the Health and Wellbeing Strategy.

[Note: there was an adjournment for fifteen minutes to address a technical issue with the live streaming of the meeting]

A committee member reminded the Director of Resources and Assurance of an undertaking given at the last meeting to contact them outside the meeting about the scope of the internal audit in relation to the South Wye Transport Package.

## **RESOLVED:**

**That the minutes of the meeting held on 10 May 2022 be confirmed as a correct record and be signed by the chairperson.**

Action(s):

- Action 163: That the Chairperson write to the Chief Executive to request an information session for all councillors on Section 106.
- Action 164: That the Chairperson write to the Chief Executive to request clarification on the Director of Transformation position.
- Action 165: That the Director of Resources and Assurance contact Councillor Jinman about the scope of the internal audit in relation to the South Wye Transport Package.

## **5. QUESTIONS FROM MEMBERS OF THE PUBLIC**

No questions had been received from members of the public.

## **6. QUESTIONS FROM COUNCILLORS**

No questions had been received from councillors.

## **7. EXTERNAL AUDITOR'S DRAFT ANNUAL PLAN 2021/22**

The Key Audit Partner for Grant Thornton presented the external auditor's draft plan; the 'Audit Plan for the year ending 31 March 2022' was provided in Appendix A and the 'Informing the audit risk assessment for Herefordshire Council 2021/22' was provided in Appendix B to the report.

The key points of the 'Audit Plan for the year ending 31 March 2022' included:

- i) External audit had determined planning materiality to be £7.864m for the group and £7.7m for the Council, with any figure over this to be subject to detailed testing.
- ii) The risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error were identified as: management of override of controls; valuation of land and buildings and investment properties; and valuation of pension fund net liability.
- iii) The risk assessment regarding arrangements to secure value for money (VFM) had identified the following risks of significant weakness for the council: the failure to meet the statutory needs of children in its care; the lack of effective contract management arrangements for its public realm and facilities management contracts; the contract appointment and management arrangements; and a repeated history of not learning from past events. External audit would work with the officers to understand how each of these areas had been progressed and continue to be progressed.
- iv) Attention was drawn to audit logistics (agenda page 54), noting that the draft financial statements for 2021/22 were due to be provided to the external auditor on 1 July 2022, and to audit fees (agenda page 55), noting that this reflected the need

to undertake additional and more robust testing and the quantity of work required on VFM.

The Key Audit Partner responded to questions and comments from committee members, including:

1. In terms of the audit fees, the role of the external auditor was becoming more involved, there was a shortage of skilled auditors, and the baseline fee may increase in future years.
2. The purpose of VFM in the context of the public sector was outlined; this focussed on financial sustainability, governance, and improving economy, efficiency, and effectiveness.

Referring to Action 109, the Chairperson noted that the committee had requested training on the changes to the regulations, particularly in relation to VFM.

3. It was recognised that the 'Auditor's Annual Report 2020/21', presented to the committee at the meeting on 10 May 2022 ([minute 95 of 2021/22 refers](#)), had taken longer to prepare than expected due to it being the first year of the new VFM arrangements. The aspiration to present the 2021/22 report before the end of the 2022 was noted.
4. The statement 'No specific work is planned as the presumed risk has been rebutted' was explained in relation to 'Presumed risk of fraud in revenue recognition ISA (UK) 240' and 'Presumed risk of fraud in expenditure recognition ISA (UK) 240', and the committee was assured that external audit would look at all areas of key expenditure.
5. It was confirmed that work on IT systems involved a substantive audit approach and experts were brought in to support this activity.
6. An overview was provided of the approach to the valuation of land and buildings and investment properties.

The Director of Resources and Assurance advised that the council did not have an impairment reserve, but the valuers were instructed to consider impairments.

7. It was noted that references to Torridge District Council were erroneous.
8. In relation to the identified risk about the management override of controls, the Director of Resources and Assurance confirmed that the council had not made any fundamental changes; it was noted that the external auditor had made a valid observation, but it was choice how the council operated given the resources allocated.
9. It was reported that the group audit scope and risk assessment considered the financial impact of the subsidiary upon the single entity.

Referring to Action 153, a committee member noted that the committee had requested further details on the governance and oversight arrangements for Hoople Limited.

The Chairperson said that the committee would be interested in any comment from external audit in relation to Hoople Limited.

10. With reference made to the appendices, the committee was advised that it was usual practice for Grant Thornton to label its reports as 'Commercial in confidence'.

It was confirmed that senior officers within the council reviewed reports and appendices prior to publication.

The key points of the 'Informing the audit risk assessment for Herefordshire Council 2021/22' included:

- v) As part of the risk assessment procedures, Grant Thornton was required to obtain an understanding of management processes and the authority's oversight of the following areas: general enquiries of management; fraud; laws and regulations; related parties; going concern; and accounting estimates.
- vi) Appendix B was a version complete with management responses and the committee was invited to identify any other matters it wished to bring to the attention of the external auditor.

Responses were provided to questions and comments from committee members, including:

11. The Director of Resources and Assurance clarified that the 'advisors consulted during the year' (general enquiries of management, question 10, agenda page 68) related to advisors paid for specific advice on financial elements.
12. The Key Audit Partner provided further details about the approach to VFM work which included the review of documents, supplemented by interviews with key personnel.
13. The Key Audit Partner said that it was difficult to compare local authorities, but Grant Thornton was keen to identify and share best practice.
14. The Director of Resources and Assurance commented that the quicker production of the accounts meant that there was increasing emphasis on accounting estimates.

The Key Audit Partner added that a change to the International Standard on Auditing (ISA) 540 required auditors to dig deeper into accounting estimates, and there was a responsibility on those charged with governance to understand and challenge how officers had produced the accounts.

**Resolved: That**

- a) **The proposed external audit plan 2021/22, Appendix A to the report, be approved;**
- b) **The 'Informing the Audit Risk Assessment' document, Appendix B to the report, be noted; and**
- c) **The committee did not determine any further recommendations it wished to make to maximise the value of the combined internal and external audit process at this time.**

## **8. UPDATE ON INTERNAL AUDIT RECOMMENDATIONS**

The Chairperson noted that the Performance Team Lead was unexpectedly unavailable and recommended that the item be deferred until the next scheduled meeting. It was

requested that any issues or queries be forwarded to the Performance Team Lead or to the Democratic Services Officer in the intervening period.

**Resolved:**

**That the 'Update on Internal Audit Recommendations' item be deferred until the next scheduled meeting.**

**9. ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY**

The Counter Fraud Manager presented the updated Anti-Fraud, Bribery and Corruption Policy; the policy was provided in Appendix A to the report. The following key points were highlighted:

- i. The policy had been brought into line with the council's Counter Fraud and Corruption Strategy; the purpose of the policy was to provide a clear framework alongside the strategy.
- ii. The policy had been re-written, with attention drawn to the sections on 'Tax Evasion' (agenda page 150) which reflected the Criminal Finances Act 2017, 'Reporting, Advice, Support', and the 'Fraud Response Plan'.

The key points of the discussion included:

1. The accessibility of the document was welcomed.
2. To avoid any potential for confusion about the quantification of high value/high risk area payments, it was suggested that paragraph 11.7 of the strategy (agenda page 151) be amended to read 'In the council, reasonable due diligence is exercised when processing all transactions particularly high value/high risk area payments.'
3. In relation to the section on 'Training and Awareness', the Vice-Chairperson questioned whether councillors should be required to complete annual fraud awareness training. The Senior Lawyer noted that officers were required to undertake annual fraud awareness training in view of the delegated decisions made by officers. A committee member suggested that the Members' Development Working Group be invited to consider the most appropriate means to raise the awareness of councillors to the policy and the strategy.
4. It was noted that the policy made references to other documents, e.g. the section on 'Supporting Policies' (agenda page 155), and some of these documents may only be accessible to internally employed staff. It was requested that a link to the policy on the council's website be provided in due course.
5. Further to point 3 above and in response to a question about the completion of mandatory training by officers on 'Fraud Awareness and Prevention 2021', the Senior Lawyer advised that the deadline had been extended by two months.
6. It was recommended that the inclusion of a section on intelligence sharing and collaboration should be included in the policy, as well as in the strategy.
7. With attention drawn to the Fraud Response Plan flowchart (agenda page 157), a committee member noted that the Crown Prosecution Service would need to be involved between the 'Management Decision' and 'Prosecution', consequently it was recommended that reference should be made to 'Fraud suspected?' rather than to 'Fraud?' in Phase 3. It was also recommended that the 'Consider Lessons

Learned' step should apply to both successful and unsuccessful outcomes in Phase 4.

**Resolved: That**

- a) **The updated Anti-Fraud, Bribery and Corruption Policy, Appendix A to the report, has been reviewed and the committee makes the following recommendations to ensure its effectiveness:**
- **Paragraph 11.7 of the report be reconsidered to remove reference to high value/high risk area payments;**
  - **That a section on intelligence sharing and collaboration be included in the policy;**
  - **In the Fraud Response Plan flowchart, reference should be made to 'Fraud suspected?' rather than 'Fraud?' in Phase 3; and**
  - **In the Fraud Response Plan flowchart, the 'Consider Lessons Learned' step should apply to both successful and unsuccessful outcomes in Phase 4.**
- b) **Subject to the above, the updated Anti-Fraud, Bribery and Corruption Policy be approved and be recommended for adoption by the Cabinet Member - Finance, Corporate Services and Planning.**

Action(s):

Action 166: The Members' Development Working Group be invited to consider the most appropriate means to raise the awareness of councillors to the Anti-Fraud, Bribery and Corruption Policy and to the Counter Fraud and Corruption Strategy.

Action 167: A link to the Anti-Fraud, Bribery and Corruption Policy on the council's website be provided in due course.

Action 168: That figures on the completion of mandatory training by officers on 'Fraud Awareness and Prevention 2021' be circulated after the relevant deadline.

## **10. WORK PROGRAMME UPDATE**

The work programme for the committee was considered. It was noted that the deferred 'Update on Internal Audit Recommendations' item would be considered at the 27 July 2022 meeting and the 'Draft Annual Governance Statement' item was now expected at the 19 September 2022 meeting.

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

## **11. DATE OF NEXT MEETING**

Monday 25 July 2022, 11.00 am

The meeting ended at 4.35 pm

**Chairperson**