

**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 25 July 2022 at 11.00 am**

**Committee members present in person and voting:** Councillors: Jenny Bartlett (Vice-Chairperson, in the chair), Chris Bartrum, Clare Davies and Peter Jinman

**Committee members participating via remote attendance:** Councillors: Christy Bolderson and Dave Boulter

*Note: Committee members participating via remote attendance, e.g. through video conferencing facilities, may not vote on any decisions taken.*

**Others in attendance:** B Baugh (Democratic Services Officer), S Cann (Democratic Services Officer), I Halstead (Assistant Director, South West Audit Partnership), R Hart (Head of Strategic Finance), K Lloyd (Performance Team Lead), A Lovegrove (Director of Resources and Assurance) and A McAlpine (Senior Solicitor, Governance and Major Projects)

**12. APOLOGIES FOR ABSENCE**

Apologies for absence had been received from Councillor Polly Andrews and Councillor Nigel Shaw. Councillor Christy Bolderson and Councillor Dave Boulter were unable to attend the meeting in person but participated via remote attendance.

**13. NAMED SUBSTITUTES**

Councillor Chris Bartrum attended the meeting as a substitute member for Councillor Polly Andrews.

**14. DECLARATIONS OF INTEREST**

No declarations of interest were made.

**15. MINUTES**

The minutes of the previous meeting were received. The action log for the committee was noted.

In response to a question about Action 154 of the action log, the Director of Resources and Assurance confirmed that a number of grants received from the government included 'new burdens' payments to cover some of the costs of administering those grants but there was no underspend in terms of internal audit work undertaken in 2021/22.

[Note: Other matters identified in the action log were discussed later in the meeting, see 'Work Programme', minute 23 below]

**RESOLVED:**

**The minutes of the meeting held on 27 June 2022 be confirmed as a correct record and be signed by the Chairperson.**

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

No questions had been received from members of the public.

**17. QUESTIONS FROM COUNCILLORS**

No questions had been received from councillors.

**18. 2021/22 DRAFT STATEMENT OF ACCOUNTS**

The Director of Resources and Assurance introduced the report, the key points included: the draft Statement of Accounts had been published on the council's website; the statement and supporting information had been passed to Grant Thornton for auditing purposes; there would be a period for the exercise of public rights in relation to the inspection of, and asking questions about, the accounts; and the final accounts would be presented to the committee for approval in due course. The Director added that: Councillor Nigel Shaw had indicated an intention to submit questions on the accounts; and the finance team had identified typographical errors which would be corrected.

The following points were made in response to questions from committee members:

- i. With attention drawn to the significant movement in unusable reserves (£177.6m at 31 March 2022, compared to £122.4m at 31 March 2021), the Director advised that the unusable reserves were linked to a range of funds, such as the pension reserve and revaluation reserve, and undertook to provide a paper for committee members. In response to a further question, the Director outlined arrangements in relation to the Local Government Pension Scheme, including the position for interim employees, and agreed to provide further details in the paper.
- ii. The differences between useable and unusable reserves were explained.
- iii. It was noted that precepting authorities could borrow without providing an asset as security through the Public Works Loan Board lending facility.
- iv. Further details were provided about the arrangements for the public inspection of the accounts and the subsequent reporting to the committee by the external auditor on the position with any queries.

It was suggested that any questions to be submitted by Councillor Nigel Shaw and the responses of the Director of Resources and Assurance be attached as an appendix to the minutes.

**RESOLVED:**

**That the draft, unaudited, Statement of Accounts for 2021/22 be noted.**

Action(s):

Action 169: That the Director of Resources and Assurance provide a paper on the increase in unusable reserves and on the Local Government Pension Scheme.

Action 170: That the questions to be submitted by Councillor Nigel Shaw and the subsequent responses of the Director of Resources and Assurance be attached as an appendix to the minutes.

[Note: See Appendix A]

## 19. UPDATE ON INTERNAL AUDIT RECOMMENDATIONS

The Performance Team Lead introduced the report, the key points included: the proportion of recommendations reported as completed had reduced since the previous report, partly due to issues with obtaining updates from officers; audit recommendations were now being included in service business plans and directorate leadership teams would receive quarterly updates, this information would also be provided to cabinet portfolio holders; in terms of recommendations due in the future, 82% were on track to be completed within planned timescales; and, following a request made by the committee in November 2021 ([minute 55 of 2021/22 refers](#)), the recommendations were now grouped together in one document.

The following points were made in response to questions from committee members:

- i. The Performance Team Lead acknowledged that there had been limited challenge on the updates submitted by officers in the past but it was anticipated that the inclusion of audit recommendations in service business plans would improve visibility, provide additional opportunities for challenge, and enhance forecasting.
- ii. The Senior Solicitor, Governance and Major Projects confirmed that work was ongoing in terms of Significant Partnerships (agenda page 161) and an update would be provided for the next scheduled meeting.
- iii. The Performance Team Lead advised that no further updates had been received since the publication of the report in respect of recommendations relating to Education, Health and Care (EHC) Plans; it was noted that Ofsted was carrying out a children's services inspection currently. In response to a suggestion, further consideration would be given to the grouping of EHC Plans and EHCP Preparation for Adulthood recommendations.
- iv. The Director of Resources and Assurance confirmed that the relevant internal audit reports had been provided to the consultants engaged to support the new approach to the delivery of Section 106 schemes; a further report would be provided to Cabinet in October or November 2022.
- v. The Assistant Director of South West Audit Partnership advised that follow up audits would be undertaken where the auditor could only provide limited assurance. The Performance Team Lead provided an overview of the internal processes for accepting audit recommendations and for update reporting on completion. A committee member suggested that a definition of completion could be provided with future reports to aid understanding.
- vi. A committee member reminded the committee that it had been suggested previously that sampling of priority 3 actions be undertaken and an update was expected in the next report to the committee (Action 95 refers). The Performance Team Lead said that the inclusion of audit recommendations in service business plans should release performance officers to undertake further checks.

**RESOLVED:**

**That the status of current audit recommendations be noted.**

Action(s):

Action 171: That an update on work being undertaken on significant partnerships be provided for the next scheduled meeting.

Action 172: That an update be provided in respect of recommendations relating to Education, Health and Care (EHC) Plans.

**20. INTERNAL AUDIT ANNUAL REPORT AND OPINION 2021/22**

The Assistant Director of South West Audit Partnership (SWAP) introduced the report, the key points included: an overview was provided of the recent changes to SWAP personnel and the intention to restructure the team; the purpose of the annual report was outlined; attention was drawn to Appendix A - Internal Audit Annual Opinion 2021/22, particularly to the key areas of concern which included project management, data quality / data management, business continuity, Education Health and Care (EHC) Plans, contract management, and baseline assessment for the maturity of fraud; there were no areas of significant corporate risk reported to the committee; 57 reviews had been delivered, resulting in 75 agreed actions; Covid grants from central government required audit work to be undertaken and SWAP were working with the council to streamline grant certification; 'reasonable' internal audit opinion was provided and there was 'generally a sound system of governance, risk management, and control in place'.

The following points were made in response to questions from committee members:

- i. It was commented that environmental concerns were part of the everyday process and working practices.
- ii. It was noted that main accounting, treasury management, and capital accounting were financially critical areas and had received 'substantial' assurance opinions.
- iii. A committee member drew attention to the high proportion of grant certification work, with broader assurance comprising 26% of the audit work undertaken. The Assistant Director advised that grant certification went beyond financial checking and could include actual delivery of outcomes, and reiterated the intention to streamline the process.
- iv. It was commented that there was a need for assurance mapping in future years, with clearer linkages to corporate objectives. It was explained that a significant corporate risk would be a risk or a concern where the council was likely to fail one of its corporate objectives.
- v. It was noted that there was a need for coordination between internal audit and the performance team to ensure that there was assurance that identified actions were being delivered.
- vi. It was confirmed that internal audit was working with the project management team to look at data quality / data management across the council.
- vii. In view of issues with some previous projects, it was recognised that the committee would want assurance that project management processes were in place and were embedded.

**RESOLVED:**

**That the assurance provided by the annual opinion report be noted.**

**21. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY**

The Assistant Director of South West Audit Partnership (SWAP) introduced the report, the key points included: attention was drawn to Appendix A – Report of Internal Audit Activity which identified that 5 audits had been completed to date and 13 audits were in progress; in particular, the advisory work on ‘S106 Holmer Road – Special Review’ and ‘Payment Authorisation outside of Financial Management System’ were noted; work was ongoing on the development of the fraud risk assessment, streamlining the grant assurance process, and improving internal audit coverage of corporate risks; a customer satisfaction questionnaire had returned a score of 95%; the acceptance rate of internal audit recommendations was 100%; the purpose of the 2022/23 Pipeline of Audits, as part of the agile audit planning process, was outlined; and the attention was drawn to Appendix B – Counter Fraud Update which identified national risks and actions/ongoing work.

The following points were made in response to questions from committee members:

- i. There was a discussion about the audit ‘Property Flood Resilience Support Scheme (Bellwin / Resilience Management) Quarter 1’ which had reasonable assurance. The Director of Resources and Assurance explained that the premise of the Bellwin scheme was to provide financial assistance from the government to a council where there had been an extraordinary event or disaster, such as flooding. The scheme could reimburse the cost of actions taken in the immediate phase of an emergency but it was not intended to fund longer term repairs or costs. Therefore, as a claim would be retrospective, there was minimal inflation risk associated with Bellwin but other capital programme schemes for permanent repairs were exposed to inflation. In response to a question, the Director confirmed that Cabinet and Council had agreed to fund priority flood works as the Bellwin scheme had not funded all the repairs needed following flooding in 2020; a link to the relevant papers would be provided.
- ii. The Assistant Director of SWAP commented that: there would be reasonable internal audit coverage of corporate risks and the need for further work on joining corporate risks and corporate objectives to the planning process was acknowledged; the Pipeline of Audits was not ranked in priority order currently and this could be developed, albeit it would need to remain a live and agile document; the need to reflect movement into and within the pipeline was recognised; there would be opportunities for committee members and officers to input into the planning process to ensure that local priorities were considered; and there was the potential to re-assess the need for some audits which were rolled over repeatedly to accommodate other audit activity.
- iii. The Director of Resources and Assurance briefly outlined the arrangements in relation to audit capacity and obtaining additional services if considered necessary. The Assistant Director of SWAP advised the committee that that enough audit work had been undertaken to enable the internal audit annual opinion but this did not prohibit further investment.

**RESOLVED: That**

- (a) performance against the approved plan has been reviewed;**
- (b) the assurances provided and the recommendations have been considered; and**

**(c) the Corporate Fraud Update has been noted.**

Action(s):

Action 173: A link to the Cabinet and Council papers on funding for priority flood works be provided.

[Note: Follow this link to [Revision of Capital Programme Budget for Priority Flood Works](#)]

**22. UPDATE TO FINANCE AND CONTRACT PROCEDURE RULES**

The Director of Resources and Assurance introduced the report, commenting that the proposed updates reflected an evolution of the documents and attention was drawn to the track change versions appended to the report.

The following points were made in response to questions from committee members:

- i. Section 6 – Contract Procedure Rules, Low Value (agenda page 307): Clarification would be provided about the reason for the precise figure in the sentence ‘Where the opportunity is above £20,833 you must publish a contract award notice on Central government’s Contracts Finder’.
- ii. Section 6 – Contract Procedure Rules, section 4.6.31 (agenda page 317): The sentence would be changed to read ‘As part of the evaluation process the Council must undertake due diligence checks which seek to determine the commercial stability of the shortlisted Bidders to inform the decision to award a contract. ~~This can include~~ *A minimum of one of the following must be undertaken:*’
- iii. Finance Procedure Rules – Guidance Notes, 59 – Netting off of expenditure (agenda page 347): The Director of Resources and Assurance commented that there was reliance on members of the finance team to ensure that changes to policy were delivered in practice. The Assistant Director of South West Audit Partnership said that confirmation would be provided as to whether this new paragraph satisfied a related internal audit recommendation.
- iv. The Director of Resources and Assurance did not highlight any other changes specifically arising from audit recommendations but said that the documents had been looked at in the round. It was noted that previous issues with compensation events had been due to policies and procedures not being followed appropriately.
- v. Section 6 – Contract Procedure Rules, UK Tenders (agenda page 308): The Senior Solicitor, Governance and Major Projects confirmed that the precise figures reflected the public procurement thresholds published by the government.
- vi. Section 6 – Contract Procedure Rules, section 4.6.28 (agenda page 317): The Senior Solicitor, Governance and Major Projects said that the potential inclusion of explicit reference to sustainability considerations and environmental characteristics in this paragraph would be discussed with the relevant teams.

It was agreed that the authorisation to make appropriate changes to this paragraph be delegated to officers if this was possible from a technical perspective.

**RESOLVED:**

**That the following updated Council documents be approved:**

- (a) **The Contract Procedure Rules at Appendix 1 to the report, subject to:**
- (i) **Officers being delegated to make appropriate changes to Section 4.6.28 to reference sustainability considerations and environmental characteristics if this was possible from a technical perspective; and**
  - (ii) **Section 4.6.31 being amended to reference ‘A minimum of one of the following must be undertaken:’.**
- (b) **Financial Procedure Rules at Appendix 2 to the report.**
- (c) **Financial Procedure Rules Guidance Notes at Appendix 3 to the report.**

Action(s):

Action 174: Section 6 – Contract Procedure Rules, Low Value: A reason be provided for the precise figure in the sentence ‘Where the opportunity is above £20,833 you must publish a contract award notice on Central government’s Contracts Finder’.

Action 175: Finance Procedure Rules – Guidance Notes, 59 – Netting off of expenditure: SWAP provide confirmation that this new paragraph satisfied a related internal audit recommendation.

Action 176: As per recommendation (a)(i) above.

## **23. WORK PROGRAMME**

The work programme for the committee was considered.

The following matters from the action log for the committee were discussed:

- Action 158 - It was agreed that an agenda item on Disaster Recovery, including issues around ICT business continuity and cyber security resilience, be added to the work programme.
- Action 109 - It was noted that dates for value for money audit training during October 2022 had been circulated and committee members had been asked to identify a preferred date.
- Action 126 - It was noted that a skills matrix document had been circulated for completion by committee members.

### **RESOLVED**

**That subject to the inclusion of an agenda item on Disaster Recovery, the updated work programme be agreed.**

## **24. DATE OF NEXT MEETING**

[Monday 19 September 2022, 2.00 pm](#)

The meeting ended at 1.15 pm

**Chairperson**