

**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 31 October 2022 at 10.15 am**

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

Others in attendance:      P Barber (Key Audit Partner, Grant Thornton), B Baugh (Democratic Services Officer), J Davies (Principal Auditor, South West Audit Partnership), H Hall (Corporate Director Community Wellbeing), I Halstead (Assistant Director, South West Audit Partnership), R Hart (Head of Strategic Finance), A Lovegrove (Director of Resources and Assurance), A McAlpine (Senior Lawyer, Major Projects and Governance), A Rees-Glinos (Democratic Services Support Officer), J Sumner (Interim Director of Strategy) and G Turner-Radcliffe (Audit Manager, Grant Thornton)

**36. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Dave Boulter.

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

There were no named substitutes.

**38. DECLARATIONS OF INTEREST**

No declarations of interest were made.

**39. MINUTES**

The minutes of the previous meeting were received.

The action log for the committee was attached to the minutes. It was noted that the meeting referenced in Action 165 had been held and the action could be marked as complete.

**RESOLVED:**

**That the minutes of the meeting held on 12 October 2022 be confirmed as a correct record and be signed by the Chairperson.**

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

No questions had been received from members of the public.

**41. QUESTIONS FROM COUNCILLORS**

No questions had been received from councillors.

## 42. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

The Assistant Director for South West Audit Partnership (SWAP) presented the report on internal audit activity for quarter 2 2022, the principal points included:

- i. 15 audits were complete and 12 were ongoing, with 3 in draft report stage and 9 in progress. It was reported that the coverage and delivery of internal audit work was on track to deliver an annual opinion.
- ii. Attention was drawn to the '2022/23 Activity Report by Job' section (agenda page 37) which identified the following assurance opinions: 10 reasonable; 1 limited; and 4 special / advisory. Based on the work undertaken in quarter 2, it was reported that there was a satisfactory control environment and no corporate risks were identified.
- iii. Attention was drawn to the 'Pipeline Audits' section (agenda page 43) which had been informed by discussions with senior officers. The Assistant Director had also met with the Chairperson and Vice-Chairperson of the committee to look at possible areas of future work.
- iv. Quarters 3 and 4 would include more control environment work and there were plans to introduce a risk based approach to grant certification.
- v. The limited assurance opinion related to Homelessness Prevention Grant which had highlighted concerns about failing to meet deadlines for multiple submissions, and some transactions were unsupported and misallocated. It was noted that mitigating factors included the limited notification of the grant funding and short time available to spend the grant. There would be an audit of the 'Housing Solutions Team Financial Processes' to support the department and to ensure that the underlying processes were working effectively.
- vi. In conclusion for quarter 2, there was reasonable assurance around risk management, control environment and the governance arrangements.

The committee discussed the report, the principal points included:

1. A committee member re-iterated a concern expressed at previous meetings about the amount of grant work compared to other internal audit activity. The Assistant Director commented on grant requirements but the need for more focus on other areas was recognised, hence the suggested risk based approach to grant certification; this would be presented to the committee for consideration.
2. A committee member noted that process failures had resulted in the repayment of grant and it was questioned whether this was systemic across other areas. The Assistant Director advised that the audit would be a focused piece of work on Housing Solutions.
3. A typographical error was identified in relation to risk CRR.63 'Hereford City Centre Transport Package' (agenda page 31) 'If this further ~~education~~ expense was too significant then it may not be possible to meet the objectives of the business case without further capital funding'.
4. In response to a question from the Vice-Chairperson, the Assistant Director confirmed that the pipeline was not ranked and the list was under constant review. The Vice-Chairperson suggested that adding the date of inclusion could be helpful. The Chairperson invited committee members to contact him about any existing or

new items that they considered should be given priority, for subsequent discussion with the Assistant Director and the Director of Resources and Assurance.

5. In response to questions, the Director of Resources and Assurance commented on: organisational changes to cope with the way that money was flowing from the government to the council through grants; the challenges presented by short timescales; and the project management skills and experience being co-ordinated through the Programme Management Office.

The Assistant Director said that an indication of Herefordshire's position relative to other authorities in terms of the effective management of grants could be provided in a future report.

6. In response to a question from a committee member, the Assistant Director confirmed that the 'Public Health' audit (agenda page 39) was aligned to new risk CRR.73 'Removal of ring-fence around Public Health budget' in the Corporate Risk Register (agenda page 72) but could not comment further at this meeting, as the report was still in draft.
7. A committee member commented on concerns about deficiencies in Key Performance Indicators and questioned whether this might be included in the 'ICT Governance Framework Review'. The Assistant Director said that the review related to technical rather than data considerations, and agreed to circulate the scope of the review to committee members. It was reported that a new process was being implemented to look at data quality during audit work which would build a picture of data maturity in the council.
8. In response to a question from a committee member, the Director of Resources and Assurance confirmed that the 'Audit or review of teams using corporate service planning tool' referenced in 'Principle F: Continuous improvement' in the Annual Governance Statement (supplement page 15) was being undertaken internally by officers.

The recommendations in the report were accepted and the following actions agreed.

**RESOLVED: That**

- a) **The internal audit plan and pipeline of future work to ensure there is sufficient coverage and delivery to give an annual opinion be noted;**
- b) **The areas of activity and concern have been reviewed and the committee is satisfied that necessary improvements are outlined and delivered; and**
- c) **The assurances provided and the recommendations which the report makes have been considered and the committee has commented on its content.**

Action(s):

178 The next progress report on internal audit activity include an update on the risk based approach for the audit work on grants and provide an indication of Herefordshire's position relative to other authorities in terms of the effective management of grants.

179 The scope of the ICT Governance Framework Review be provided to committee members.

#### 43. ANNUAL GOVERNANCE STATEMENT 2021/22

Further to the consideration of a draft at the 12 October 2022 meeting ([minute 31 of 2022/23 refers](#)), the Head of Strategic Finance presented the revised Annual Governance Statement 2021/22; the document had been circulated in a supplement to the agenda.

The committee was advised that the final iteration had been reviewed in terms of the use of Plain English, included a statement against each principle to confirm the effectiveness of the arrangements, provided clarification on Hoople Ltd, and included an update on children's services. It was noted that the Annual Governance Statement would form part of the Annual Statement of Accounts.

The committee welcomed the revisions and thanked officers for their hard work.

#### **RESOLVED:**

**That the committee has determined that the Annual Governance Statement 2021/22 properly reflects the risk environment the council is operating in and that actions identified represent an appropriate response.**

#### 44. 2021/22 EXTERNAL AUDIT FINDINGS REPORT

The Key Audit Partner for Grant Thornton presented the external audit findings report for the year ended 31 March 2022; Appendix A and Appendix B had been circulated in a supplement to the agenda. The principal points included:

- i. The post-statements audit commenced in late June 2022, one of the first in the country, and the time taken reflected that audits were more involved, with significant inputs required from external audit and from the finance team. It was noted that there had been personnel changes, with a higher degree of challenge and level of adjustments.
- ii. Attention was drawn to the 'Conclusion' section (supplement page 21) and it was reported that, since publication, a number of outstanding items had been completed.
- iii. Attention was drawn to the 'Headlines' section (supplement page 19) which reported that '... work to date had identified one material error and a resulting prior period adjustment in the financial statements that have been corrected in which related to the reclassification of the council's Energy from Waste asset, previously reported as a land and building asset, as an item of plant and machinery in 2021/22' and an overview was provided of the reasoning for this adjustment. An adjustment in relation to capital financing requirement was also explained.
- iv. It was reported that there had been reclassifications of some assets from land and buildings to investment property and vice-versa but there was minimal net effect.
- v. It was noted that the receipt of the letter from the pension fund auditors was awaited.
- vi. The committee was advised about a national, technical issue that was preventing the 2021/22 accounts being signed off by any council with infrastructure assets. It was reported that the Chartered Institute of Public Finance and Accountancy (CIPFA), following consultation, was seeking a temporary statutory override to remove infrastructure from the coverage of the audit. A resolution was expected before the end of the calendar year.

- vii. It was reported that work had commenced on the value for money opinion.
- viii. Attention was also drawn to the 'Fees' section (supplement page 51) and it was noted that the final fees were to be confirmed, due to the work that was ongoing. It was reported that considerable extra time had gone into discharging auditing responsibilities.

In response to questions from the Chairperson, the Head of Strategic Finance advised that the reclassification of the Energy from Waste asset had no impact on the net book value, and that depreciation was linked with the asset and not the category.

The Key Audit Partner responded to other questions from committee members, the key points included:

1. Further background was provided on the technical issue with infrastructure assets. It was noted that the rate of degradation of local infrastructure was a service quality issue rather than an accounts issue.
2. The appendices had been published in a supplement to the agenda to ensure that the papers were as complete as possible, and an overview was provided of the audit process timeline and associated challenges.
3. Further background was provided on the reclassification of assets, and on the process for confirming the final fees.

It was noted that a summary of the value for money findings would be provided in the 'Auditor's Annual Report' item identified in the committee's work programme, with the aspiration that this could be considered at the 30 January 2023 meeting; however, the External Audit Plan may need to be considered at a subsequent meeting.

**RESOLVED:**

**That the report of the external auditor has been considered.**

**45. 2021/22 STATEMENT OF ACCOUNTS**

Further to the consideration of a draft at the 25 July 2022 meeting ([minute 18 of 2022/23 refers](#)), the committee received the updated 2021/22 Statement of Accounts; the document had been circulated in a supplement to the agenda.

The Chairperson read out amended recommendations, reflecting the pending resolution of a technical issue in respect of the treatment of infrastructure assets.

**RESOLVED: That:**

- a) **The committee recognises the technical reasons for not being able to sign off the accounts at this meeting. Following an update provided in writing by the Chief Finance (S151) Officer to the committee that there are no material changes or issues arising, the Chairperson in consultation with the Vice-Chairperson of the committee be authorised to approve the final Statement of Accounts for the financial year ended 31 March 2022, on the basis that there are no material issues or disputed amendments remaining as advised by the external auditors (Grant Thornton);**
- b) **If there are any material adjustments or disputed changes to the Audit Findings Report discussed at today's meeting then the above**

**recommendation will not be followed through and the Statement of Accounts for the year ended 31 March 2022 will be subject to approval at a future meeting of this committee; and**

- c) Following approval by the Chairperson, in consultation with the Vice-Chairperson, and with prior notification of the committee as far as practicable, the Chief Finance (S151) Officer be authorised to sign the Letter of Representation on behalf of the council.**

#### **46. CORPORATE RISK REGISTER**

It was noted that the Head of Corporate Performance was unable to attend the meeting on this occasion and the Interim Director of Strategy introduced the report with the following comments:

- i. The Interim Director of Strategy was working with the Corporate Leadership Team to strengthen approaches to corporate services and on risk and performance management.
- ii. Work was continuing on a systematic framework for strategy, policy and planning, including the use of evidence from risk and performance management in decision-making.
- iii. The corporate risk register and the directorate risk registers as at September 2022 were appended to the report.
- iv. A corporate protocol was being developed on the approach to strategic risk and this was expected to be delivered towards the end of the calendar year.

The committee discussed the report, the principal points included:

1. With attention drawn to action 91 in the committee's action log, 'Consider how corporate centre will look at the aggregation of similar risks in or across directorates', a committee member commented on the need to consider risks from a horizontal perspective and said that it would be helpful for the committee to be sighted on the direction of travel with strategic risks; as an example, reference was made to risk CS.08 'Recruitment Strategy' in the Corporate Centre Risk Register (agenda page 87) and it was commented that there were also recruitment and retention issues in other service areas.

The Interim Director of Strategy acknowledged that there had been focus on individual directorates historically and said that an update on the approach to strategic risk should be available in the new calendar year.

2. In response to a question from the Chairperson about the new risk CRR.73 'Removal of ring-fence around Public Health budget' in the Corporate Risk Register (agenda page 72), the Director of Resources and Assurance commented on: current levels of public health grant; Public Health England had been replaced by two agencies (UK Health Security Agency and the Office for Health Improvement and Disparities); additional expenditure by the council on public health interventions currently; and the potential risks if the government removed the ring-fence, particularly given inflationary pressures.
3. The Vice-Chairperson commented on the need to keep track of new risks CF.11, CF.12 and CF.13 in the Children and Young People Directorate Risk Register (agenda page 80), and the corresponding risks CRR.75, CRR.76 and CRR.77 in the Corporate Risk Register (agenda page 72).

The Chairperson noted that, for each of these risks in the Corporate Risk Register, the 'risk score before controls' remained the same as the 'risk score after controls', whereas the committee might anticipate adjustment in the risk scores following mitigations. The Interim Director of Strategy was invited to reflect upon this in the ongoing review of risk management.

4. The Vice-Chairperson drew attention to risk EE.28 'Phosphate Pollution in Lugg Catchment' in the Economy and Environment Directorate Risk Register (agenda page 84) and said that there were concerns which went beyond the 5 Year Housing Land Supply.

The Chairperson suggested that the Head of Corporate Performance might wish to ask the risk owners to give further consideration to the wider economic and environmental implications in relation to risk, and to the potential of the Cabinet Commission – Restoring the Wye in relation to mitigation.

5. In response to a question from the Chairperson about new risk CR.78 'Impact of Statutory Direction' in the Corporate Risk Register (agenda page 72), the Director of Resources and Assurance acknowledged the need to understand whether there would be additional financial impacts in the event of the removal of children services from the council's control into a children's trust.

The Chairperson noted that the work programme anticipated a further item on the Corporate Risk Register for the 21 November 2022 meeting but, in view of the development work on the approach to strategic risk, it was suggested that this be deferred to the 30 January 2023 meeting.

#### **RESOLVED:**

**That the committee has considered the report and has made comments to ensure effective risk management.**

Action(s):

- 180 That it be suggested to the risk owners of EE.28 (Phosphate Pollution in Lugg Catchment) that further consideration be given to wider environmental and economic implications, and also to potential mitigations (e.g. the work of the Cabinet Commission – Restoring the Wye).

#### **47. WORK PROGRAMME UPDATE**

The work programme for the committee was considered.

Further to minute 46 above, the Corporate Risk Register update was moved from the 21 November 2022 meeting to the 30 January 2023 meeting.

A committee member questioned the potential risks arising from the challenging and uncertain financial situation faced by local authorities. The Chairperson noted that each administration had to make decisions about budgets and how allocated grants were targeted. The Director of Resources and Assurance made reference to: recent reports to Cabinet and to the Scrutiny Management Board on '2023/24 Budget Setting Progress' ([7 October 2022](#)), including the identification of a budget gap of over £20m based on current workings; work ongoing to address the budget gap; the lack of clarity from government on the local government settlement, with a number of recent ministerial changes and the delay in a fiscal plan event; articles in the media identifying that many

councils were experiencing difficulties in balancing budgets; and the limited consideration of inflationary pressures in the model for local government funding.

**RESOLVED:**

**That, subject to the identified adjustment, the updated work programme be agreed.**

**48. DATE OF THE NEXT MEETING**

The date of the next meeting was noted. Committee members agreed to move the start time from 2.00 pm to 11.00 am.

[Monday 21 November 2022, 11.00 am](#)

The meeting ended at 12.05 pm

**Chairperson**