

Minutes



To: All Members of the Audit Committee, Chief Executive, Chief Officers, All officers named for 'actions'

From: Legal, Democratic & Statutory Services
Ask for: Theresa Baker
Ext: 26545

AUDIT COMMITTEE

18 JULY 2018

ATTENDANCE

MEMBERS OF THE COMMITTEE

T R Hutchings (*substituting for S N Bloxham*), F Button (*Chairman*), B A Gibson, S Gordon, R M Roberts (*substituting for J M Graham*), N A Hollinghurst, A J S Mitchell, T J Williams, W J Wyatt-Lowe (*Vice-Chairman*),

OTHER MEMBERS IN ATTENDANCE

R Sangster

Upon consideration of the agenda for the Audit Committee meeting 18 July 2018, as circulated, copy annexed, conclusions were reached and are recorded below:

Chairman's Announcements:

- (i) *The chairman welcomed the new members of the committee.*
- (ii) *Members were reminded that an additional meeting of the Committee had been scheduled for 8 May 2019: 2.00pm*

Declarations of Interest:

A declaration of interest was made by N A Hollinghurst in relation to the matters on which conclusions were reached at this meeting and is recorded at item 5

PART I ('OPEN') BUSINESS

1. MINUTES

- 1.1 The minutes of the Committee meeting held on 15 May 2018 were confirmed as a correct record and signed by the Chairman.

2. SIAS AUDIT CHARTER 2018/19

[Contact: Chris Wood, SIAS Audit Manager (Tel: 01438 845513)]

- 2.1 As per Audit Committee minutes of 15 May 2018 Members received an amended version of the 2018/19 SIAS Audit Charter which now clarified the role of Audit Committee; they noted the primary amendments (see pages 2-3 of the report).

Conclusions:

ACTION

- 2.2 The Committee RESOLVED to accept the SIAS Audit Charter 2018/19 following the review and amendment undertaken.

3. CODE OF CORPORATE GOVERNANCE 2018/19

[Contact: Terry Barnett, Head of Assurance Services
(Tel: 01438 845508)]

- 3.1 As per Audit Committee minutes of 15 May 2018 Members received an amended version of the Code of Corporate Governance 2018/19 which now also clarified the role of members in Internal Audit matters within the Code; they noted the primary amendments (see page 2 of the report).

Conclusions:

- 3.2 The Committee RESOLVED to approve the revised Code of Corporate Governance for 2018/19.

**4. 2017/18 ERNST & YOUNG AUDIT UPDATE REPORT;
HERTFORDSHIRE COUNTY COUNCIL RESPONSES**

[Contact: Ben Jay, Head of Corporate Finance (Tel: 01992 556257)]

- 4.1 Members received a report which comprised the Ernst and Young LLP (EY) Audit Update Report for the 2017/18 audit of the Hertfordshire County Council accounts completed to date; the Council's Statement of Accounts 2017/18, and the Council's Letter of Representations to the audit of the financial statements of the Council for the year ended 31 March 2018 (electronically circulated prior to the meeting due to the delivery date of the EY Audit Update).

- 4.2 As the audit was incomplete EY's report was an update and the formal results report would be received by the Director of Resources after the conclusion of the audit at the end of July and come to the September meeting.

B Jay

- 4.3 Neil Harris (EY) thanked HCC officers for their cooperation in working with the EY team to meet the earlier deadline this year. The audit work would continue after the Committee meeting so the remaining areas of the audit could be concluded by the 31 July deadline. To date, 80% of the work on the accounts had been concluded. Further work had been completed during the time since the report had been published (10 July) and work on Pensions, PFI schemes and Reserves had now been concluded. There were no unadjusted audit differences arising. EY had no concerns to make Members aware of in concluding the audit and Value for Money opinion by 31 July.

- 4.4 In terms of significant risk N Harris clarified that, due to its size, EY

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had considered the County Council's c£2.3bn share of the Hertfordshire Local Government Pension Scheme (LGPS).

- 4.5 Particular focus was directed to the timing of the estimated value of the Hertfordshire LGPS fund assets. As a consequence EY had recommended, and the actuary had provided revised estimated values of the Council's share of the assets. This had identified a 1.7% change in the estimated value of the pension fund assets attributable to the Council and the Accounts had been adjusted to accommodate this revised estimate. For future pension fund valuations, the approach between HCC, EY and the actuary would be reviewed on the nature of the estimate and its timing to enable a more coordinated approach.
- 4.6 Officers emphasised that EY's request for a more recent valuation of the fund assets had arrived at a late stage in the audit process. Officers had consequently undertaken considerable additional work to ensure the smooth flow of information in order to meet early closure deadlines, however this was not to be seen as precedent for future years. Members heard that there remained a significant margin for error in the reported estimated value of investments and noted that these were not actual values.
- 4.7 Members thanked County Council officers and EY for all their work in ensuring that the shorter deadlines this year were met.
- 4.8 No significant risk had been identified in respect of the value for money opinion and EY had now concluded its review of the Council's decision making arrangements up to 31 March 2018 to establish a commercial joint venture and creation of a subsidiary company, Herts for Living Ltd. and was satisfied with them.
- 4.9 In response to questions, officers clarified that Pensions Committee received quarterly updates on the value of the LGPS Pension Fund, most recently on 10 July 2018. The current funding level was 91% of liabilities, although this is a volatile measure. A full, detailed valuation occurred every 3 years, the next one being in 2019.
- 4.10 Responding to questions N Harris clarified that:
1. The audit had been subject to both internal and external review and that this had helped to shape the audit approach;
 2. Due to the size of the Council's account, when setting the level of materiality significant changes in the Council were considered, e.g. financial health, risk, and input from other partners in the Council was sought;
 3. Generally, when significant audit risk was identified lower threshold levels were applied and a greater level of work undertaken;
 4. A variation to the fee was not anticipated and the Committee would be updated if there was any change to this.

4.11	To assist Members to follow EY reports the Chairman requested that font size for the page numbering be increased.	N Harris B Jay
4.12	The Committee unanimously agreed to accept each of the specific audit recommendations identified during the review (see page 4, Table at 6.1 of the cover report) whilst noting that it would not set a precedent.	
4.13	Officers clarified that any further changes to the accounts would be circulated when ready and that the Committee members would receive an explanatory email.	B Jay
4.14	Members unanimously agreed, that as EY was still to conclude the audit, to ensure that the documentation could be signed the text of the recommendations be amended as follows (changes in bold): 2.1 The Committee is asked to approve the recommendations of this report, subject to the remaining audit testing being concluded without further material changes to the accounts being recommended. In the event that further adjusting items are identified, the Committee is asked to agree to delegate authority for the change to the accounts to be made to the Section 151 Officer (Director of Resources), in consultation with the Chair (or in her absence Vice-Chair) of this Committee. Any such changes will be reported to Audit Committee at the next meeting. 2.2 The Committee RESOLVED to approve the same delegation for the signing of the letter of representation (circulated ahead of the meeting), should any changes be required. 2.3 The Committee is also asked to consider the treatment of the various adjustments to the accounts recommended by Hertfordshire County Council officers, and to clearly accept the recommendation in each case. 2.4 The Audited Accounts included as appendix 2 to the report include the changes that have already been made to the accounts further to the work of the audit team, and as set out in section 5. Conclusions:	
4.15	1. The Committee RESOLVED to approve the recommendations of this report, subject to the remaining audit testing being concluded without further material changes to the accounts being recommended. In the event that further adjusting items were identified, the Committee agreed to delegate authority for the change to the accounts to be made to the Section 151 Officer (Director of Resources), in consultation with the Chair (or in her absence Vice-Chair) of this Committee. Any such changes would be reported to Audit Committee at the next meeting.	

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2. The Committee RESOLVED to approve the same delegation for the signing of the letter of representation (circulated ahead of the meeting), should any changes be required.
3. The Committee considered the treatment of the various adjustments to the accounts recommended by Hertfordshire County Council officers, and RESOLVED to accept the recommendation in each case.
4. The Committee RESOLVED to note that the Audited Accounts included as appendix 2 to the report included the changes that had already been made to the accounts further to the work of the audit team, and as set out in section 5.

5 HERTFORDSHIRE COUNTY COUNCIL PENSION FUND AUDIT RESULTS REPORT

[Contact: Neil Harris, Associate Partner Ernst & Young LLP]

N A Hollinghurst declared an interest as he was a pensioner in the Fund. He remained in the room and participated in the debate and vote. The Chairman observed that other Members of the Committee were likely in the same position.

- 5.1 N Harris of Ernst and Young (EY) provided the Committee with EY's Audit Results Report for the 2017/18 audit of the Hertfordshire County Council Pension Fund which summarised EY's preliminary audit conclusions for the Fund.
- 5.2 N Harris highlighted that the audit of the LGPS Pension Fund, undertaken earlier in the cycle, had been concluded and the report was now the final version. N. Harris welcomed the control environment. Members had already considered the issues in relation to the Pension Fund under item 4 of the agenda.

Conclusions:

- 5.3 The Committee RESOLVED to note the EY Audit Results Report 2017/18 for the Pension Fund.

6. RESPONSE TO THE AUDIT RESULTS REPORT 2017/18 – PENSION FUND

[Contact: James Kidd, Senior Accountant (Tel: 01992 555706)]

- 6.1 The Committee received a report providing a response to the Audit Results Report 2017/18 – Pensions Fund.

- 6.2 Officers directed Members to the Letter of Representation and highlighted that on page 5, under D. Liabilities and Contingencies, point 3 had been corrected to remove the unnecessary repetition of the words 'that we have given'. Officers echoed the sentiments expressed in earlier items in regard of the excellent working relationship between officers and EY.

Conclusions:

- 6.3 The Committee RESOLVED that the response to the Audit Results Report 2017/18 for the Pension Fund be approved, and that the Letter of Representation be signed by the Director of Resources and Chairman of the Audit Committee.

7. HERTFORDSHIRE COUNTY COUNCIL – SIAS INTERNAL AUDIT PROGRESS REPORT

[Officer Contact:

Chris Wood, SIAS Audit Manager (Tel: 01438 845513),
Darren Williams, Client Audit Manager (Tel: 01438 845513)]

- 7.1 The Committee received a report (as at 29 June 2018) on Shared Internal Audit Service (SIAS) delivery of the County Council Internal Audit Plan for 2018/19; proposed amendments to the approved 2018/19 Audit Plan; 'Limited Assurance' audits issued since the last meeting of the Committee; the implementation status of previously agreed high priority audit recommendations and agreement to remove completed actions, also medium priority recommendations and an update on performance management information.
- 7.2 In relation to the Audit Plan Update, Members noted the following changes since the publication of the report: 23 % of the 2018/19 Internal Audit Plan days and 17% of Planned Projects had been delivered; a status update on 2017/18 Audit Plan work carried forward, including the issue of Business Continuity and ACS Data Security and Information Sharing as final audit reports; the issue of the Carbon Reduction Commitment Grant Certificate as a completed 2018/19 audit project; and an update on the status of medium priority recommendations with 11 (15%) recommendations with no update provided by the action owner and 27 (39%) now considered implemented.
- 7.3 The Committee noted the 11 medium priority recommendations for which no update had been provided by the action owner, and the 32 partially implemented medium priority recommendations.
- 7.4 In view of the Committee's comments the chairman proposed and the Members agreed the following additional recommendation:
a. The Committee expresses concern that there are 11 medium priority recommendations for which no update has been provided by the action owner and 32 partially implemented medium priority

recommendations, and request a full update at its next meeting including the date the recommendations were made.

- 7.5 The Committee noted the revised assurance opinions, recommendation classifications and associated definitions used on all draft reports issued after 1 April 2018 and heard that these changes gave clarity by enabling understanding even in the absence of the formal definition. Varying views were expressed on the change in assurance levels and Members were assured that the criteria for selection of schools for audit did not link to the Ofsted rating.

Conclusions:

- 7.6 The Committee RESOLVED to:
- a) Note the Internal Audit Progress Report.
 - b) Approve the proposed in year changes to the Council's 2018/19 Internal Audit Plan.
 - c) Note the progress update on the implementation status of outstanding high priority recommendations.
 - d) Expressed concern that there were 11 medium priority recommendations for which no update has been provided by the action owner and 32 partially implemented medium priority recommendations, and requested a full update at its next meeting including the date the recommendations were made.

C Wood
D Williams

8. HERTFORDSHIRE COUNTY COUNCIL ANTI-FRAUD REPORT 2017/18

[Officer Contact: Nick Jennings, Head of Counter Fraud
(Tel: 01438 844705)]

- 8.1 The Committee considered and praised the County Council's 2017/18 Anti-Fraud Report and its appendices which detailed the implementation of the Council's Anti-Fraud Action Plan for 2017/18 and included the annual Report 2017/18 of the Hertfordshire Shared Anti-Fraud Service (SAFS).
- 8.2 Members noted SAFS' performance against the 2017/18 Anti Fraud Action Plan for the County Council.
- 8.3 In terms of benchmarking with other County Councils in the South East, a major focus for Hertfordshire was an increased need for work on Social Care fraud. In contrast to other areas Hertfordshire's fraud hub was gradually improving. Members noted the issues around quantifying how much fraud was being prevented, including the public's inclination to report fraud to the police and HMRC rather than the County Council.

8.4 As the Council funded the free bus passes provided by Bus Companies and supported certain routes SAFS had also investigated abuse of this scheme as well as Blue Badge misuse by third parties.

8.5 SAFS' partners included various Hertfordshire Borough and District Councils, Luton Borough Council and 3 housing providers, however Watford Borough Council and Three Rivers District Council had their own internal fraud service. SAFS also worked closely with the NHS and non-Hertfordshire Councils e.g. Thurrock, Barnet. Its partners bought into the contract; and the SAFS Board sought to generate a positive return on investment for the Partnership.

Conclusions:

8.6 The Committee RESOLVED to note the work of the Council and the Shared Anti Fraud Service in delivering the Anti-Fraud Action Plan.

9. RISK MANAGEMENT QUARTERLY UPDATE

[Officer Contact: Fiona Timms, Risk & Insurance Manager
(Tel: 01438 843565)]

9.1 The Committee considered the quarterly update on risk management activity since March 2018. Inclusion of Annex B, which clearly presented the definitions of the types of risk, was welcomed.

9.2 A Member of the Committee enquired whether, under Brief Risk Description (Corporate risks) for Risk No.CS01, the description should be amended to "Possible death of a child or young person **in the care of the Council** (where **bold** type indicates the addition text requested).

F Timms

9.3 The Committee agreed that Risk AC03 "Failure of care providers-Inadequate care" be the subject of the next risk focus report

I MacBeath

9.4 It was clarified that that the County Council did not have a credit rating, as this was given only to bodies that issued debt, and that on the strength of the auditor's recommendations there was currently no shortage of suppliers wanting to do business with it. Although Performance Bonds may be available to provide the Council with a financial payment in the event of supplier failure, the cost of these would be passed on to the Council in the contract price.

Conclusions:

9.5 The Committee RESOLVED that:
i. The changes in the Corporate Risks since the last report to the Committee be noted;
ii. The Risk Management summary report be noted;
iii. Risk AC03 "Failure of care providers-Inadequate care" was

reviewed at its next meeting in September 2018.

10. RISK FOCUS REPORT –CONTRACT MANAGEMENT

[Contact: Paul Drake, Head of Procurement (Tel: 01992 588747)]

- 10.1 The Committee considered a report which provided information on the risk and associated controls recorded on the Hertfordshire County Council Corporate Risk Register relating to the procurement and management of contracts (SP0005) detailed as *“A significant proportion of the Council’s expenditure is accounted for by externally commissioned services. In the event of insufficient skills in commissioning / contract management and competencies along with a lack of application of effective monitoring, governance and contract management rigour, there is a risk of poor value, inadequate service provision and data security and/or failure of externally delivered services, which could lead to disruption of service delivery”*. Members were invited to endorse the overall approach that Council was taking to mitigate this risk.
- 10.2 In view of the c£850m spent annually on externally commissioned services the focus of risk reduction was in ensuring that a consistent and robust approach was taken to both procurement and ongoing contract management. This was achieved via a formal procurement training programme covering 4 key skills areas and supplementary specialist training delivered as required, the Contracting Best Practice Group which kept key officers informed of the latest developments in contract management best practice and advice on supplier failure or new legislation, and the processes in place to monitor the financial position of key suppliers. Additional assurance could be demonstrated from the survey of the contract management community in Spring 2018 and the 2 day topic group scheduled for March 2019 dealing with contractor volatility.
- 10.3 Members welcomed the forthcoming two-day scrutiny on this topic, recognising the benefit to the County Council of further detail and insight into this significant area.
- 10.4 Where multiple contracts with the same provider existed, these tended to be in the same functional area (e.g. technology), and to prevent possible dilution of responsibility for risk avoidance, the most strategically important contract managers were alerted to any concerns raised about such a provider.

Conclusions:

- 10.5 The Committee RESOLVED to note the report and commented on the information provided within it.

11. END-OF-YEAR REPORT ON THE TREASURY MANAGEMENT SERVICE AND PRUDENTIAL INDICATORS 2017/18

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[Contact: Rob Thurlow, Senior Accountant (01992 555061)]

- 11.1 The Committee considered the CIPFA required End of Year report on performance against the prudential indicators specified in the Integrated Plan, Part D approved by County Council on 21 February 2017, also a summary of treasury management performance and activity for the financial year ended 31 March 2018.
- 11.2 Members noted the report and that the Council received a fee for its contract to deliver the Police and Crime Commissioner Treasury Management services.

Conclusions:

- 11.3 The Committee RESOLVED to note the Treasury Management End-of-Year report.

12. WHISTLEBLOWING ANNUAL REPORT 2017/18

[Contact: Kathryn Pettitt, Chief Legal Officer (Tel: 019952 555527)]

- 12.1 The Committee considered a report which provided an overview of the disclosures made through the Council's whistleblowing process and the operation of the Whistleblowing Policy in the year 2017/18.
- 12.2 Members noted that of the 7 concerns raised under the Whistleblowing Procedure in 2017/18, 4 had proceeded to an investigation and the outcome of only one was still awaited. It was clarified that comparative data previously obtained from other authorities for benchmarking purposes indicated Hertfordshire's activity was on a par and that whistle blowing issues raised had to meet specific criteria in relation to public interest and were not about operational issues such e.g. staff grievances.

Conclusions:

- 12.3 The Committee noted the contents of the report and the ongoing work to raise awareness and provide assurance on the effectiveness of the Council's whistleblowing arrangements.

13. FUTURE WORK PROGRAMME

- 13.1 The Committee noted the future work programme below:
(new items added at this meeting in **bold**)

11 September 2018:

- Audit Results Report 2017/18 (EY)
- Annual Audit Letter for Hertfordshire County Council and Pension fund (2017/18)
- Report combining response to ARR for HCC, final versions of Letters of Representation for HCC and fund (no changes, but included for completeness) & final version of the accounts.
- Risk Management Update
- Risk Focus Report: **AC03**
- Internal Audit Progress Report
- Shared Internal Audit Service Annual Report
- **Report of the HCC Audit Committee for the period 1 April 2017 to 30 September 2018**

3 December 2018 - NB: Meeting to commence at 10.45am

Meeting to be preceded at 9.30 am by high level training on Treasury Management

- Annual Audit Letter – HCC 2018/19
- Mid-Year Report on the Treasury Management Service and Prudential Indicators 2018/19
- Risk Management Update
- Risk Focus Report
- Internal Audit Progress Report
- SAFS Progress Report on Anti-Fraud Plan
- HFRS Statement of Assurance 2018/19

29 March 2019:

- External Audit Plan 2018/19 – County Council
- External Audit Plan 2018/19 – Pension Fund
- Letters of Representation on Management and Oversight of The Hertfordshire County Council (Including Firefighters' Pension Fund) And Hertfordshire Pension Fund Accounts 2016/17
- Risk Management Annual Report 2018/19
- Risk Focus Report
- SIAS Internal Audit Progress Report
- SIAS Internal Audit Plan 2019/20
- SAFS Progress Report on Anti-Fraud Plan & Future Anti Fraud Plan

8 May 2019: 2.00 pm

- Annual Governance Statement 2018/19 and Code of Corporate Governance
- Annual Assurance Statement and Internal Audit Annual Report 2018/19
- PREVENT report

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26 July 2019:

- HCC Audit Results Report 2018/19
- Response To Audit Results Report – HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Audit Results Report 2018/19 – HCC Pension Fund
- Response To The Audit Results Report 2018/19 – HCC Pension Fund
- Annual Statement Of Accounts 2018/19– HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Internal Audit Progress Report
- Shared Anti Fraud Service Annual Report 2018/19
- Risk Management Update Report
- Risk Focus Report
- End of Year Report on the Treasury Management Service and Prudential Indicators 2018/19
- Whistle Blowing Annual Report 2018/19

14 ANY OTHER BUSINESS

- 14.1 There being no further PART I business the Chairman closed the meeting.

KATHRYN PETTITT
CHIEF LEGAL OFFICER

CHAIRMAN_____

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