

Minutes of the meeting of the AUDIT COMMITTEE held on TUESDAY  
28 NOVEMBER 2017 at 7.00 pm

**Present:** Councillor P Geary (Chair)  
Councillors Bald, R Bradburn, Cannon, Dransfield and K Wilson

**Independent Members:** Mr W Bush and Mr N Nyamazana

**Officers:** D Sharkey (Corporate Director Place), D Wilkinson (Chief Auditor), S Bridglalsingh (Service Director [Legal and Democratic Services]), C Fisher (Head of Internal Audit), N Sainsbury (Head of Placemaking), A Rulton (Strategic Finance Business Partner), S Tinkler (Interim Audit Services Manager, Audit) and S Heap (Committee Services and Scrutiny Manager)

**Apologies:** Councillor C Wilson and Mr Farookhi

**Also Present:** Ms P Hillie (Ernst and Young) and 4 members of the public

**AC25 CHAIRS WELCOME AND INTRODUCTION**

The Chair welcomed councillors, independent members and officer colleagues to the meeting.

**AC26 DISCLOSURE OF INTERESTS**

Councillor Cannon advised the Committee that one of the facilities operated by the Hertsmere Leisure Trust, as mentioned at Item 7, was within his Ward.

**AC27 MINUTES**

RESOLVED –

That the Minutes of the meeting of the Audit Committee held on 26 September 2017 be approved and signed by the Chair as a correct record, subject to the name 'A Geary' being amended to 'P Geary' in Minutes AC18 and AC19.

**AC28 REVIEW OF PREVIOUS DECISIONS**

The Committee heard from the Chief Auditor that of the items outstanding from the those reported at the Committee's last meeting on 26 September 2017 (Minute AC16 refers), three were now completed leaving just one matter outstanding (Hertsmere Leisure Contract Review) which was scheduled to be dealt with at this meeting.

The Committee noted that in future the review of previous decisions would be included as part of the internal audit and counter fraud periodic update.

RESOLVED –

That the current position on the implementation of previous decisions of the Committee be noted.

**AC29**

### **HERTSMERE LEISURE CONTRACT REVIEW**

The Committee considered the Internal Audit report commissioned by the Committee at its meeting on 20 June 2017 (Minute AC09 refers) relating to the contract with Hertsmere Leisure for the management of three sites at Tattenhoe, Westcroft and Furzton.

It was reported that the report covered the following issues:

- (a) contract terms and management arrangements;
- (b) performance of Hertsmere Leisure Trust;
- (c) contract management arrangements;
- (d) complaints management and resolution processes, including the reconciliation of issues highlighted by users / stakeholders;
- (e) statutory and contract compliance;
- (f) pricing; and
- (g) user responses.

The Committee also considered, alongside the Internal Audit report, a report from a Leisure Consultant to provide an independent opinion, the full, unedited comments from Shenley Brook End Parish Council, including and on behalf of relevant ward councillors, and the full unedited comments from Hertsmere Leisure Trust.

It was reported that the adequacy of system had been found to be good and compliance, satisfactory.

The Corporate Director – Place, welcoming the report, referred to a number of specific issues which included that:

- (a) a rectification notice had been served as a result of the locked fire exit and measures put in place in order that it could not happen again;
- (b) Hertsmere Leisure Trust was delivering within the scope of the contract;
- (c) Hertsmere Leisure Trust was undertaking measures to address the Council's concerns, examples being:
  - (i) working to resolve complaints more quickly and introducing a new complaints management system;
  - (ii) working with the steering group for each of the facilities;
  - (iii) working with the Council as part of a Strategic Partnership Board;
  - (iv) reviewing pricing structures; and

- (v) working with the Council to review its Key Performance Indicators.

The Committee heard from the Chair of Shenley Brook End Parish Council who outlined the Parish Council's wish for residents to have good services provided from well-kept and well managed facilities. The Chair expressed her concerns about the standards of cleanliness at the buildings and referred to the low usage which she believed resulted from how the buildings were managed. She stressed that it was most important that urgent measures were taken to maximise usage.

Members of the Committee expressed a number of views which in summary included:

- (a) that the audit methodology was not necessarily suited to performance reviews of this nature and the Council should have alternative approaches available;
- (b) that when possible the management of such community facilities of this nature should be transferred to parish / town councils or community groups;
- (c) that there should be regular user satisfaction surveys and service reviews so that the Council was aware of user views and potential service deficiencies;
- (d) praise for the thoroughness of the review and the commitment from Hertsmere Leisure Trust to taking forward the recommendations;
- (e) concerns that the Key Performance Indicators had not been reviewed and updated and were not monitoring the issues such as cleanliness which were important to users, or the issues important to the Council as the client in achieving value for money;
- (f) that the Council's assets should be delivering maximum value to and for the community and the contractor should be making more effort to promote usage. Low usage meant that the Council continued to subsidise the operation of the facilities;
- (g) there seemed to be a divergence between the findings of the Internal Audit report and the views of users and the public;
- (h) there was no pricing strategy in place, approved by the Council. This had resulted in large fee increases for some users which were difficult to justify; and
- (i) it was important to learn from the mistakes made with this contract and apply the lessons learnt to other contracts.

In response the Corporate Director – Place informed the Committee that subsidies had only been allowed in order to encourage usage where usage had been traditionally low and it was intended that the larger facilities should subsidise the small ones. The Corporate Director recognised that in future the Council might wish to package

the contracts for the facilities differently and if the contract wasn't delivering as the Council would wish, it should be renegotiating the contract so that it was able to deliver.

**RESOLVED –**

1. That the recommendations in the Leisure Consultant's report be adopted and the Corporate Director – Place requested to develop an action plan, with implementation of actions being regularly monitored, in conjunction with the Chair and Vice-Chairs of the Committee.
2. That the Corporate Director – Place be requested to re-establish a Strategic Partnership Board comprising senior management representatives from the Council and the contractor.
3. That the Corporate Director – Place be requested to liaise with the contractor to ensure that a steering group was in place for each facility, comprising, amongst others as may be identified, representatives of the Council and the contractor; councillors, users, and community representatives, with each steering group being asked to address, amongst other things, cleanliness, access and booking issues at the facility.
4. That the Corporate Director – Place be requested to work with the Contractor to increase usage of the facilities and increase staffing levels in order to ensure that the needs of users are fully met and that staffing levels increase as usage increases.
5. That the Corporate Director – Place be requested to work with the Contractor to develop effective Performance Indicators which address cleanliness, bookings and access, together with other Indicators required by the Client,.
6. That the Scrutiny Management Committee be requested to consider how performance reviews of the Council's services can be enhanced, including considering whether a Performance Review Committee should be established.
7. That the Cabinet be asked to consider a future delivery / ownership model for community facilities which allows for the asset to be harnessed for the benefit of the community in the most effective way.
8. That, noting that the Council already uses 'mystery shoppers' to assess its services, the Cabinet be requested to consider how customers' satisfaction / views on levels of service at the Council's Leisure / Community facilities can be assessed, possibly using the methodology used by 'Quest' when conducting customers' satisfaction surveys for the Council.

**AC30**

**ANNUAL GOVERNANCE STATEMENT UPDATE**

Further to Minute AC21 from the Committee's meeting on 26 September 2017, it was reported that an action plan, addressing

the small number of significant issues which were identified from the Annual Governance Statement for 2016/17, had been developed and the actions, once implemented, would further enhance the Council's governance arrangements.

The Committee received an update on progress against the delivery of the Annual Governance Statement Action Plan 2016/17.

The Committee noted that of the four actions there had been no change to the actions relating to ERP Gold Implementation, Financial Management and the LGSS Partnership. With regard to the Ofsted Inspection Findings, presentations were to be made to the Corporate Leadership Team in December and to the Children and Young People Committee in January 2018, which would complete the outstanding action.

RESOLVED –

That the Annual Governance Statement Update be noted.

**AC31**

**INTERNAL AUDIT AND COUNTER FRAUD – PERIODIC UPDATE TO 31 OCTOBER 2017**

The Committee considered progress against the delivery of the 2017/18 Annual Audit Plan, which had been approved by the Committee at its meeting on 28 March 2017 (Minute AC49 refers).

The Committee also considered the current Fraud caseload, together with details of significant new corporate fraud related issues which had arisen since the last report.

It was reported that as a result of additional reviews, not originally included in the 2017/18 Annual Audit Plan, being requested it had been necessary to remove a number of programmed reviews from the 2017/18 Plan. Of the remaining 80 planned audits 24 (30.9%) were at a draft or final stage and 18 (22.2%) of planned audits had commenced or were work in progress. While this was slightly behind the target of 60% commenced or completed by 31 October 2017, it was recognised that this had largely resulted from Internal Audit being commissioned to do additional work in excess of the Audit Plan. Officer colleagues were, however, confident that the Internal Audit Plan would be delivered subject to all expected resources being available. Those reviews removed from the Plan were either low risk; not in a position to proceed; were being addressed in other ways; or had been removed at the request of management with Internal Audit's agreement.

The Committee noted the following changes to the 2017/18 Annual Audit Plan:

- (a) Removed from 2017/18 Annual Audit Plan:
  - (i) Public Health Public Health Contracts and Contracting;
  - (ii) People (contingency) risk review - Added Value Review;

- (iii) People (contingency) Risk Review - Probity Audit;
  - (iv) Place (contingency) Risk Reviews - Added Value Review - Contract Management;
  - (v) Place (contingency) Risk Reviews Probity Audit;
  - (vi) Public Realm Integrated Passenger Transport (Home to School); and
  - (vii) Public Realm Residual Waste Transfer Facility.
- (b) Audits deferred to 2018/19 Annual Audit Plan:
- (i) Adult Social Care - Domiciliary Care (External);
  - (ii) Adult Social Care - Commissioning and Contracts; and
  - (iii) Adult Social Care - In-House Home Care [Internal Homecare].
- (c) Low Risk Audits removed from 2017/18 Annual Audit Plan to be reinstated in the 2018/19 Annual Audit Plan if resources allowed:
- (i) Archiving;
  - (ii) Mailroom Processes;
  - (iii) Functions (Catering and Room Bookings); and
  - (iv) Records Management.

In response to concerns expressed by the Committee it was reported that as the Programme Office would be undertaking a detailed Lessons Learnt exercise of the Residual Waste Transfer Project once the final user acceptance testing had been completed and the Facility accepted, it was not considered appropriate to conduct an audit at this time.

It was further reported that of the agreed actions arising from audits 91% had been implemented and no audits which had been followed up retained a Limited or Weak audit opinion as none of the few outstanding actions were considered essential.

In response to questions the Committee noted that the internal Audit Service received a considerable number of reports of fraud all of which were assessed, but in a large percentage of the cases the allegations were found to be incorrect and no further actions were necessary.

#### RESOLVED –

1. That the Internal Audit and Counter Fraud – Periodic Update report be noted.
2. That the Head of Audit be asked to consider including in the draft Internal Audit Plan 2018/19 an audit of the Council management of major capital projects.

**RISK MANAGEMENT UPDATE**

The Committee received details of the current Corporate Strategic and Directorate level risks and how these interacted with the priorities set out in the Council Plan.

It was reported that the current Corporate Strategic Risks, managed by the Corporate Leadership Team had been identified as:

- (a) Medium term financial challenge;
- (b) Organisational capacity at a time of increasing demand and declining resources;
- (c) Planning for cohesive growth;
- (d) Protecting and caring for vulnerable people; and
- (e) Reliant on partnerships to deliver key outcomes.

Directorate level risks were reviewed with the Risk Owners on a regular basis and action was taken where, in the opinion of the Risk Team, insufficient management actions had been taken to reduce the residual risk. However, while assessments of risk were challenged, ultimately the risk assessment and the levels of residual risk were a departmental responsibility. Progress was reported to Corporate Leadership Team quarterly.

The Committee expressed some surprise that the Residual Waste Treatment Plant was not mentioned in the top ten risks.

The Committee also recognised that the regeneration programme potentially posed a big risk as did the sustainability of the Housing Revenue Programme.

In response to questions the Committee noted:

- (a) the scoring methodology assigned to risk and that further details would be provided to the Committee at its next meeting;
- (b) that there was an action plan in place to mitigate each identified risk;
- (c) that the top ten risks reported to the Committee were based on the individual departmental risk registers, each of which was challenged by Internal Audit's Risk Team; and
- (d) national issues such as Brexit were generally addressed as part of the Corporate Strategic Risks.

**RESOLVED –**

1. That the current Corporate Strategic Risks be noted.
2. That officer colleagues be asked to review the risked attached to the commissioning of Residual Waste Treatment Plant and report the outcome to the next meeting of the Committee.

**EXTERNAL AUDIT LETTER, 2016 / 17 ANNUAL AUDIT LETTER**

The Committee considered Ernst and Young's, the Council's External Auditor, Annual Letter, noting that the External Auditor had given an unqualified opinion on the Council's financial statements for 2016/17 and was of the view that the Council had in place proper arrangements to secure value for money in its use of resources.

The representative from Ernst and Young reported that the Audit, as well as assessing the financial statements for 2016/17, had focussed on the future and the forthcoming changes to Regulations governing the publication of accounts which would mean that the timetable for the production and audit of the 2017/18 Accounts would be significantly tighter than that for 2016/17.

It was also reported that as Ernst and Young had experienced some difficulty in obtaining a number of documents from the Council to allow it to complete the audit to timetable it had been required to undertake additional work which had resulted in additional cost. It was thought that this would be a one off situation resulting from a number of staff changes and the transfer of responsibility for producing the Accounts to LGSS.

In answer to questions it was noted that:

- (a) the loan to finance the Residual Waste Treatment Plant and the resulting Interest charges had not been specifically featured for special attention in the audit as the project going forward had not been identified as material, although any financial impact on the Council would continue to be monitored;
- (b) the Budget Scrutiny Committee would be receiving a detailed report on issues surrounding the Council's contract for the Residual Waste Treatment Plant, which would include the impact of the 'Longstop Date';
- (c) the settlement related to the legal action in connection with the Council's contract for Asbestos removal had been incurred in the current financial year, not 2016/17;
- (d) Ernst and Young would review the need to modify its report in light of the comments made by the Committee about the Residual Waste Treatment Plant and the settlement for the Asbestos Removal Contract;
- (e) Ernst and Young was aware of the planned introduction of the ERP Gold Finance System from 1 April 2018, but it should not impact on finalising the Statement of Accounts for 2017/18; and
- (f) if the audit for the 2017/18 was to be completed in accordance with the revised deadlines it was essential that Ernst and Young received all of the required documentation in a timely manner.



The Committee heard from one of its members who requested that Ernst and Young, when reviewing the loan arrangements for the Residual Waste Treatment Plant, should take into account any reinvestment of the loan during the period prior to it being needed to pay the contractors.

The Committee was reminded that for issues to be featured as part of the audit report they needed to be judged as being material to the accuracy of the Statement of Accounts.

The representative from Ernst and Young also reminded the Committee that at its meeting on 26 September 2017 it had approved the Statement of Accounts for the financial year ended 31 March 2017 as correct and the Chair had signed the Letter of Representation (Minute AC20 refers).

RESOLVED –

That the Annual External Audit Letter relating to the 2016/17 Statement of Accounts be received.

THE CHAIR CLOSED THE MEETING AT 9:50 PM