

**AUDIT COMMITTEE**

**10 March 2016**

Attendance:

Councillors:

Cutler (P)

Burns  
Huxstep (P) (for items 7-16)  
Hiscock (P)  
Osborne (P) (for items 7-16)

T Ruffell  
Power (P)  
Stallard (P) (for items  
7-16)  
Weir (P)

Deputy Members:

Councillor Tait (Standing Deputy for Councillor Burns) – Note: Following Councillor Burns' temporary appointment to Cabinet (29 February to 20 March 2016), under Council Procedure Rule 17(3) she was unable to serve as a member of the Audit Committee during that period.

Others in attendance who addressed the meeting:

Councillor Burns

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1. **DISCLOSURES OF INTERESTS**

Councillors Huxstep and Stallard both declared a disclosable pecuniary interest in respect of items under consideration which may have a Hampshire County Council involvement due to their roles as County Councillors.

However, as there was no material conflict of interest, they remained in the room, spoke and voted under the dispensation granted on behalf of the Standards Committee to participate and vote on all matters which might have a County Council involvement.

**MEMBERSHIP OF SUB-COMMITTEES**

RESOLVED:

1. That an Audit (Governance) Sub Committee be appointed to consider governance issues that fall within the remit of the Audit Committee arising from the recommendations of the Silver Hill: Independent Review paragraph 6.1.12 and to report its findings to the Audit Committee.

2. That the following Members be appointed to the Audit (Governance) Sub Committee and that its meetings be held in the evening:

Councillors Cutler (Chair), Hiscock, Huxstep, Osborne and Power.

2. **MINUTES**

RESOLVED:

That the minutes of the previous meetings held on 3 December 2015 and 10 February 2016 be approved and adopted.

3. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed to the meeting Stephen Fitzgerald (Interim Head of Finance) and David Christie (Interim Senior Accountant).

4. **SILVER HILL: INDEPENDENT REVIEW RECOMMENDATIONS**

(Report CAB2779 and Cabinet minute extract 18 February 2016 (AUD151) refers.

The Chairman introduced the item and stated that the meeting held jointly with The Overview and Scrutiny Committee on 18 February 2016 had resulted in a willingness to accept the basis of the recommendations, but had not given the opportunity to look at the report detail. It was for Audit Committee to provide a lead on governance, looking closely at process and to put forward an implementation plan. Since this meeting, the Leader had set up an Informal Policy Group (IPG), which would be confirmed at Cabinet on 22 March 2016, (of which the Chairman was a member) to consider the implementation of the recommendations of the Independent Review and it was important that this Committee's views were taken forward and input into the work of the IPG.

As an aid to discussion, Councillors Power and Burns had jointly produced an Action Plan in response to the Independent Review and review of the scrutiny process. Copies of the Action Plan were circulated at the meeting and have been allocated report reference (AUD152) and are published on the Council's website.

The Chairman invited the Committee to discuss the recommendations of the Independent Review, in the context of the Committee's Terms of Reference and the Action Plan produced by members of the Committee and to decide how the recommendations would be implemented and the timescale and process and that would need to be followed.

During public participation Councillor Burns spoke on this item. In summary Councillor Burns stated that the Action Plan was the joint idea of Councillor Power and herself and had not been produced under the influence of other external sources. It was a working document for deliberation, which was cross political party. The headings within the tabular layout of the Action Plan

were explained. Appendix B of the Action Plan explored risk management which she commented was poor - the Risk Register referred to only four Corporate Risks and was different to the content of the Corporate Risk Update Report (AUD146 refers). It was important that findings on risks were coordinated. Reference was also made to code CR3 in report AUD146 – Programme Management and Major Projects and the risk description of Over Ambitious Council, where the likelihood (likely) and the impact (major) did not take account of the management actions. Similar reference was made to the risk scores relating to Governance and Control Weaknesses on page nine of the report, Commissioning on page 15 and Transformation on page 16. She concluded that this is why the Action Plan had been produced.

The Committee then considered its responses to the Review Recommendations as set out in Appendix 1 to report CAB2779. Comments made are set out below:

- **Reference 6.1.1** – the Committee would expect this to happen and that the process to improve other major projects would be taken forward by the IPG.
- **Reference 6.1.2** - the Committee would keep a watching brief. There was a requirement to define what community engagement meant to the Council and to have an order of actions that had ownership. The Cabinet (Major Projects) Committee should learn from other councils on the operation of good governance. It was the view of the Committee that the project would be better taken forward by either a cross party or majority group Committee of the Council rather than by a Sub Committee.

With regards the Local Plan, the Corporate Director explained that if the Council wished to re-consult on proposals for Silver Hill then the current adopted Plan policy reflected the views of the Council, but the Planning Inspector would take into consideration any contrary public views that arose in reaching a decision. The Corporate Director added that the policy was deliverable but at the present time there was no party to deliver it. The Chief Executive added that within a broad policy on Silver Hill details such as height and massing could be looked at separately.

The Chairman commented that although the broad parameters were set out in the Local Plan, the detail required a distinct project group and discussion was required on how this would be set up.

- **Reference 6.1.3** – the Committee noted the suggested response that as part of a of the review of the Workforce Development Strategy, Local Partnerships would be invited to for advice on the broad mix of skills and capacity they considered necessary for the management of major projects. A member suggested that shared services could be a potential solution for a skills shortfall. In conclusion, the Committee

were of a view that project management remained a weakness to be addressed.

- **Reference 6.1.4** - Some members commented that they did not recognise that the Council was hostile to competition. To counteract this perception it was a view that the Council should actively engage in procurement to remove any barriers to competition and that it should be more robust in demonstrating this through public engagement.
- **Reference 6.1.5** - the Committee requested that the IPG explore the involvement of the relevant Member (Portfolio Holder) as they could bring a different perspective to ensuring that projects were delivered and that this role could include how the Council used external advisors and how project information was presented. The Portfolio Holder should develop the necessary skills in order to challenge and validate advice.
- **Reference 6.1.6** – it was a view of the Committee that it was the responsibility of the Portfolio Holder to be satisfied on the procedures in place for the retention of advice and to ensure that it was in the public domain. The Head of Legal and Democratic Services commented that a record was kept of Portfolio Holder Decision Notices. The Committee also asked the IPG to give consideration to defining the level of advice that was given to Members in order that decisions were effectively made and the procedures in place to access all background advice.
- **Reference 6.1.7** – the Committee supported this proposal as it was an outcome of risk management to attempt to reduce the risk.
- **Reference 6.1.8** - the Committee supported this proposal.
- **Reference 6.1.9** - the Committee would continue to monitor the proposals.
- **Reference 6.1.10** - the Committee noted that the 4P's (Local Partnership) were considering strategies relating to risk.
- **Reference 6.1.11** - It was commented that risk relating to community engagement and communication was mitigated by working with partners and assessing if the associated strategies were fit for purpose. To have strategies in place would assist in reputational management. The emerging policies would be scrutinised by The Overview and Scrutiny Committee and the Audit Committee would keep a watching brief.
- **Reference 6.1.12** – Governance would be led by the Audit (Governance) Sub Committee with another meeting of the full committee would be arranged to give consideration to this subject.

In conclusion, a Member commented that there was a perceived lack of scrutiny in the Council's operation and the development of the role of the opposition was an area to consider following the district elections, so that the opposition could be seen to have influence.

RESOLVED:

That the deliberations of the Committee, as set out above, be noted and that a meeting of the Audit (Governance) Sub Committee be arranged to progress these matters with the Informal Policy Group.

5. **CORPORATE RISK UPDATE**  
(Report AUD146 refers)

At the request of the Committee the Chief Executive provided an update on the Silver Hill development. Since the Report's information was prepared in February, the two high level actions that had occurred had been the termination of the contract and the further consideration of the future of the site. An exempt appendix considered at Cabinet on 10 March 2016 had considered the risk of successful litigation by SW1 and a judgement had been made against this reflecting the Council's legal advice. The Head of Legal and Democratic Services added that following this advice the risk of successful litigation against the Council remained 'highly unlikely'.

In answer to a Member's question, the Head of Policy and Projects stated that the cumulative financial impact of the nine non material risks was being actively considered by the officers.

The Head of Policy and Projects added that the presentation of information in the Report could in future be improved by the inclusion of descriptions of the risk before and after treatment. This suggestion was supported by the Committee.

RESOLVED:

That the Report be noted and that future Reports included descriptions of the risk before and after treatment.

6. **INTERNAL AUDIT PROGRESS REPORT 2015/16**  
(Report AUD147 refers)

Mr Harvey from the Southern Internal Audit Partnership presented this item.

The Committee gave detailed consideration to the Overdue High Priority Management Actions as set out in Section four of the Report.

The Head of Legal and Democratic Services provided an update of the reasons for non completion of the audit reviews relating to Procurement and also Information Management. The Head of Environmental Health and

Licensing provided an update for Income Collection - Licensing. The Chairman thanked both officers for their attendance at the meeting.

Arising out of consideration of this item, the Chief Executive stated that he would give further encouragement through the work of the Performance Management Team for managers having High Priority Actions to close those actions.

The Chairman commented that where there was a difference of opinion between the Audit Sponsor and Internal Audit over the nature of the management action, it was essential that dialogue took place between the two parties to reach a common position rather than to take no action and it become overdue. The Chief Executive added that he would encourage this open discussion to resolve an outstanding Management Action rather than requiring a formalised mechanism, for example through reporting to the Performance Management Team.

In response to a Member's request that future reports include a short narrative on the Management Actions to provide an audit trail, it was agreed that this could be discussed between the Council's Officers and Internal Audit as to how this might be addressed.

RESOLVED:

That the Internal Audit Progress Report 2015-16 attached as Appendix 1 to the Report be approved and that Council's Officers and Internal Audit discuss how a narrative audit trail of Management Actions might be included in future reports.

7. **INTERNAL AUDIT CHARTER 2016 - 2017**

(Report AUD148 Refers)

RESOLVED:

That the Internal Audit Charter 2016 - 2017 attached as (Appendix 1) to the Report be approved.

8. **INTERNAL AUDIT PLAN 2016 - 2017**

(Report AUD149 refers)

RESOLVED:

That the Internal Audit Plan for 2016 – 2017 be approved.

9. **ANNUAL GOVERNANCE STATEMENT AND CORPORATE RISK MONITORING UPDATE**

(Report AUD145 Refers)

In reply to Members' questions, the Chief Executive commented that with regard to corporate capacity this subject would be monitored through the

programme management process where staff would be redeployed as appropriate to avoid buying in additional staff time. Cabinet would be considering the issues relating to capacity and the Silver Hill development at its meeting to be held on 29 March 2016.

In respect of public consultation and the River Park Leisure Centre, the Committee noted that the views of local residents would be sought as potential near neighbours to the development, and also those residents throughout the District who were users of the facility.

The Chairman stated that the information on page seven of the report, referring to Changes to Governance Arrangements, would provide useful background information to the newly appointed Audit (Governance) Sub Committee.

**RESOLVED:**

That no matters be raised with the relevant Portfolio Holder and no items of significance be drawn to the attention of Cabinet.

9. **EXTERNAL AUDIT PLAN**  
(Report AUD150 refers)

The Chairman welcomed to the meeting Kate Handy and Sara Rowntree from Ernst and Young (EY), the Council's External Auditors.

Kate Handy explained that the significant Value for Money Risk relating to Silver Hill and other major capital projects would have an assessment made by September to identify areas of concern.

Following questions by Members, the Chief Executive stated that the officers would discuss with EY that if areas of concern were identified, whether a draft report could be brought to the Committee's June meeting so action could be taken as soon as possible, and that this would tie in with the governance work to be undertaken by the Committee after the District Elections.

**RESOLVED:**

That the Audit Plan be noted and that the officers discuss with Ernst and Young whether a draft report on the significant value for money risks arising out of the Silver Hill and other major capital projects assessment could be brought to the Committee's June meeting if areas of concern were identified.

10. **STATEMENT OF ACCOUNTS**

(Report AUD143 Refers)

RESOLVED:

That the report in respect of the Statement of Accounts for 2015 - 2016 be noted.

11. **CERTIFICATION OF CLAIMS AND RETURNS 2014 - 2015 - ANNUAL REPORT**

(Report AUD142 refers)

Kate Handy and Sara Rowntree from Ernst and Young (EY) presented the Report and answered Member's questions.

RESOLVED:

That the Certification of Claims and Returns 2014 – 2015 Annual Report be received.

12. **MAJOR PROJECTS PROGRAMME RISK REGISTER**

(Report AUD144 refers)

In response to Members' questions, the Head of Policy and Projects stated that a process was in place to resolve areas of contention that might arise in progressing a project. This process involved referral to a wider group consisting of senior officers who would discuss the concerns that had been raised. A purpose of this group was to identify project bottlenecks and it also had a budget to buy in resources to resolve issues. Cabinet also had a role in allocating resources as required.

Members commented on the requirement for good communications during a project. The Head of Policy and Projects explained that the Council's role in communications was evolving with improved use of the website, the use of key milestones and also thorough timetabled meetings of the Cabinet (Major Projects) Committee.

The Chief Executive added that in terms of community engagement (risk reference PR005) the Council had won national awards for its Blueprint initiative on the Local Plan process, but it should not be complacent and a targeted approach to different projects should be taken. For example, the Council was discussing with Winchester University to have different consultation techniques that it could use in various situations. This was an area where considering the risk before and after treatment would add value in that the changes could be identified and the process was dynamic rather than static.

Members also commented that it would be of benefit to the Audit Committee if relevant Portfolio Holders could be in attendance to answer questions on their area of responsibility. The Chief Executive stated that he would discuss with



the Leader the attendance of Portfolio Holders at the Committee when this was relevant.

**RESOLVED:**

That Audit Committee note the Programme Risk Register and refer the Leader be made aware that reports could be improved in presentation by the inclusion of the risk before and after treatment in order that changes could be identified and also that it would be of benefit to the Committee if the relevant Portfolio Holder could be in attendance.

13. **VOTE OF THANKS**

This being the last meeting of the Municipal Year, the Committee passed a vote of thanks to its Chairman, Councillor Cutler.

The meeting commenced at 4.30pm, adjourned between 6:20pm and 6:30pm and concluded at 8.35pm.

Chairman