

AUDIT COMMITTEE

29 September 2016

Attendance:

Councillors:

Cutler (P)

Ashton
Burns (P)
Huxstep (P)

Prince (P)
Stallard (P)
Weir (P)

Deputy Members:

Councillor Jeffs (Standing Deputy for Councillor Ashton)

Others in attendance:

Councillor Godfrey – Leader and Portfolio Holder for Finance and Corporate Policy.

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 regarding these items, they had a dispensation granted on behalf of the Standards Committee to participate and vote in all matters which might have a County Council involvement.

2. **MINUTES**

RESOLVED:

That the minutes of the previous meeting held on 28 June 2016 be approved and adopted.

3. **PUBLIC PARTICIPATION**

Martin Wilson addressed the Committee and his comments are summarised below.

Mr Wilson stated that he had spoken at the Committee on 24 September 2015 and had brought the Committee's attention to the Internal Audit Report that had raised serious issues over the management, including the financial management, of the River Park Leisure Centre.

Mr Wilson reiterated the seven questions which he contested had not been adequately answered:

1. Why had the centre cost the tax payer £13m in the last 10 years when it should not have done?
2. Why had the Council not received an income share and why had the Council never audited Income statements of the Contractor?
3. Why did the Council finance the Contractor's conversion to a not-for-profit operator?
4. Why were prices not reduced to reflect the operator's VAT savings?
5. Why had no rectification notices been issued by the Council requiring the Contractor to resolve serious defects, for which they were contractually responsible, including those that endangered the public?
6. Why had significant amounts been paid to the Contractor, over the financial limit imposed in the contract, without appropriate authorisation?
7. Why had items of plant been replaced when the Authorised Officer had not met his obligations under the contract?

Mr Wilson added that his questions had not been properly answered to his satisfaction. The Council was now considering spending substantial sums on a new leisure centre without looking into what he considered to be the material failings of Officers to oversee a major contract at the River Park Leisure Centre, which was a potential waste of taxpayers' money. He asked that the Committee retain this topic as an agenda item until his questions had been satisfactorily answered.

The Chairman thanked Mr Wilson for his comments and stated that members of the Committee had received a copy of the reply to Mr Wilson's question prepared by the Interim Managing Director and that, as Chairman, he had also seen the Internal Audit Report relating to the River Park Leisure Centre contract. He was of the opinion that there was no evidence of maladministration or substantial failings and there was no further action for the Committee to take.

Mr Wilson replied that he still wished to have a response to the questions that he had raised as the response by the Interim Managing Director had been, in his opinion, inadequate and the leisure centre remained a financial burden on the Council. He stated his disappointment at the guidance given by the Chairman.

In conclusion, the Committee noted that a report on the maintenance of the River Park Leisure Centre would be submitted shortly to Cabinet for consideration, which would help explain a number of the issues raised regarding maintenance, and it was also agreed that the Internal Audit Report

referred to above be circulated to all members of the Committee for information.

4. **THE REVIEW OF SCRUTINY WORK THAT IS BEING CARRIED OUT BY THE OVERVIEW AND SCRUTINY COMMITTEE**

Councillor Learney updated the Committee on The Overview and Scrutiny Committee's review of scrutiny. In summary she stated that there was an Informal Scrutiny Group (ISG) considering this subject with agreed terms of reference. The former Committee Chairman, Councillor Cook, had spent a considerable amount of time considering how other authorities carried out scrutiny and what might constitute best practice, and this formed the basis of the ISG's work.

The Claer Lloyd Jones report into Silver Hill had highlighted deficiencies not only in the Council's scrutiny process but also in some of the culture surrounded scrutiny and this needed to be addressed.

The ISG was clear that it should complement rather than repeat the work being done by the Audit Committee in reviewing governance, which was a wider matter. There was however areas where the ISG may consider governance, for example in the impact of scrutiny in moving back to a committee system of decision-making, which was a recommendation by Councillor Cook. There were also areas such as independent officer support for scrutiny and possibly for more general backbench members' support, which would have cross cutting implications. It was also the case that any recommendations of the Audit (Governance) Sub Committee could also impact on scrutiny.

The ISG had asked the Centre for Public Scrutiny for support and had already had a meeting observed by Ann Reeder from the Centre for Public Scrutiny that had already reported back. Her findings had been generally complementary with the meeting showing some good practice but also some legitimate criticisms which would be progressed. The next meeting of the ISG would be in October and it was aimed to complete the review by the end of the year.

The Chairman thanked Cllr Learney for her attendance and stated that both Committees would be kept aware of each other's work.

5. **CORPORATE RISK UPDATE**
(Report AUD167 Refers)

In reply to Members' questions, the Head of Policy and Projects provided further details on the steps taken by the Council to mitigate risks for Programme Management and Major Projects (page 7 of the Report refers). These steps included having a Programme Risk Register which gave assurance, the sequencing of projects, the securing of additional funding for Project Managers and financial provision to employ experts as and when required.

The Interim Managing Director additionally explained that for Asset Management (page 6 of the Report refers) the Council was in the process of developing a new Asset Management Plan and the timescales for implementation would be shared with Members.

At the conclusion of debate, the Committee agreed that it would be beneficial if more detailed reports on the two highest risks to the Council (Asset Management and Housing Revenue Account Finance) were brought to the Committee's next meeting for further consideration.

RESOLVED:

That the Report be noted and a report on Asset Management be brought to the Committee's next meeting for consideration.

6. **INTERNAL AUDIT PROGRESS REPORT 2016 - 2017**
(Report AUD165 refers)

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

In response to a Member's questions, Mr Harvey explained that the Report contained details of historic audits that had concluded with a limited or no assurance opinion until all actions relating to these reviews were complete, following the previous request of the Committee, and these helped to set the context of the outstanding actions. The Report also contained an update from Officers on the outstanding, high priority management actions; for example, it was noted that the Council was now preparing a new Asset Management Plan to address issues raised by Internal Audit and in the case of the Open Spaces Team Management, actions had been taken to address the issue raised over the Control of Lower Levels of Financial Contribution, with staff now being made aware of their responsibilities to exercise control.

The Interim Managing Director added that Overdue Management Actions could be given a timescale for their completion if this was favoured by the Committee. The Chairman further stated that if Members wished to receive an explanation from a senior officer for any Overdue Management Actions, the request should be directed to him prior to the meeting in order that this could be arranged.

RESOLVED:

That the Internal Audit Progress Report 2016 – 17, attached as Appendix 1 to the Report, be noted.

7. **AUDIT RESULTS REPORT FOR THE YEAR ENDED 31 MARCH 2016**
(Report AUD166 refers)

The Chairman welcomed to the meeting Simon Mathers (who had been appointed to replace Mike Bowers as Winchester's lead Ernst & Young (EY) contact) and Kate Handy from EY, the Council's external auditors. Mrs Handy

stated that this would be the last Winchester meeting she would be attending prior to retirement and the Committee expressed their thanks for her work for the Council and wished her well for the future.

Mrs Handy confirmed that the accounts were unqualified and there were no matters outstanding to address.

Mr Mathers drew the Committee's attention to a number of the outstanding issues from the Silver Hill Independent Review that remained to be addressed, as highlighted on page 12 of the Report. The officers responded that the updating of Project Guidance had been considered by Cabinet on 6 July 2016 and approval for the appointment of a procurement specialist had been given by Personnel Committee on 26 September 2016, subject to the approval of the finance by Cabinet. A further report had been submitted to Cabinet on Efficiency Plans (7 September 2016) and going forward, the Community Strategy would be refreshed, with resources aligned to achieving outcomes, the production of new Asset Management Plan and the option of using zero based budgeting was also being considered.

In reply to Members' questions, the Corporate Director (Professional Services) added that the future programme of internal audits would be aligned to the Council's key strategic risks, including financial risk, with a report being submitted to Cabinet on 19 October 2016 on the Medium Financial Strategy.

The Interim Managing Director added that Members needed to clearly articulate what they wanted to achieve, to challenge, and to direct resources when there were numerous options available to the Council. Internal Audit also had a role in advising on the efficient and effective use of resources through the Internal Audit Strategy.

RESOLVED:

That the Letter of Representation, attached at (Appendix B), be approved.

8. ANNUAL FINANCIAL REPORT 2015/16
(Report AUD168 refers)

The Head of Finance provided a presentation on the Report and highlighted the narrative statement, which provided an explanation of the Annual Financial Report and outlined the Council's future financial planning. Thanks were also extended to the Finance Team for the production of the Statement of Accounts.

In reply to a Member's enquiry, the Head of Finance stated that he would circulate to Committee members' further detail on section 4 of the Narrative Statement relating to costs associated with the Silver Hill development, including the Development Account, which had been identified as a significant event during the year.

RESOLVED:

1 That the Narrative Statement in the Annual Financial Report be noted.

2 That the Statement of Accounts 2015/16 as set out in Appendix 1 be approved.

3 That the Statement of Responsibilities on page nine of appendix 1 be signed by the Chairman to certify the accounts and authorise their issue.

9. **GIFTS AND HOSPITALITY**
(Report AUD170 refers)

In response to Members' questions, the Interim Managing Director explained that matters relating to the Code of Conduct fell under the auspices of the Standards Committee for consideration, such as the declaration of membership of clubs and societies.

RESOLVED:

That the proposed actions set out in Section 4 of the Report be endorsed as the action to be taken in respect of the recommendation in the Independent Review of Silver Hill in respect of gifts and hospitality.

10. **AUDIT (GOVERNANCE) SUB-COMMITTEE**
(Report AUD169 refers)

Arising out of consideration of the minutes, the Chairman informed the meeting that dialogue was taking place to invite Neil Clarke from the Local Government Association to the next meeting of the Sub Committee, which would be held immediately prior to the meeting of the Audit Committee on Thursday 24 November 2016, with Mr Clarke invited to attend both meetings to provide advice and guidance.

RESOLVED:

That the minutes of the Audit (Governance) Sub Committee, held on 19 July 2016 be received (attached as Appendix A to these minutes).

11. **AUDIT COMMITTEE – IDENTIFICATION OF TRAINING NEEDS**
(Oral Report)

The Committee noted that the next scheduled training date was Tuesday 17 January 2017 for Treasury Management.

It was additionally agreed that an additional date of the 31 January 2017 be used for Audit Committee training. At this training consideration would be given to learning from best practice in the operation of audit from different

areas. Southern Internal Audit Practice would be contacted to assist in the planning and delivery of this event.

RESOLVED:

That Audit Committee training be held on Tuesday 17 January 2017 and 31 January 2017.

The meeting commenced at 6.30pm and concluded at 8.25pm

Chairman