

## **Audit and Governance Committee**

### **Friday, 12 September 2014, 10.00 am, County Hall, Worcester**

		<b>Minutes</b>
<b>Present:</b>		Mr W P Gretton (Chairman), Mr S J M Clee, Mr N Desmond, Mr L C R Mallett, Mr R J Sutton and Mr P A Tuthill
<b>Available papers</b>		The members had before them:  A. The Agenda papers (previously circulated); and  B. The Minutes of the meeting held on 27 June 2014 (previously circulated).
<b>309</b>	<b>Named Substitutes (Agenda item 1)</b>	None.
<b>310</b>	<b>Apologies/ Declarations of Interest (Agenda item 2)</b>	An apology was received from Mrs S Askin.
<b>311</b>	<b>Public Participation (Agenda item 3)</b>	None.
<b>312</b>	<b>Confirmation of Minutes (Agenda item 4)</b>	<b>RESOLVED</b> that the Minutes of the meeting held on 27 June be confirmed as a correct record and signed by the Chairman.
<b>313</b>	<b>The Hive - Governance Arrangements (Agenda item 5)</b>	The Committee considered a six monthly update report on the governance arrangements at The Hive.  The report indicated that concern had been raised at previous Committee meetings around the complexity and cost of the governance structure and the number of meetings that took place, whilst recognising that The Hive represented a complex partnership. Over the previous months, there had been a continued reduction in meetings and each governing committee had been reviewed in terms of The Hive's operational requirements. The Strategic Services Board and Project Liaison Group held quarterly meetings now that the

defects were almost closed. The other committees met monthly or bi-monthly dependent on business need. The overall structure had not changed since the last report.

The Hive had improved business use and its facilities with commercial bookings increasing steadily. The University of Worcester had improved their offer to students at the Hive through more student support and offering quiet study in the Hive's meeting rooms.

The defects programme had now been almost fully signed-off apart from outstanding issues remaining with the function of the Building Management System with regard to river water cooling and ventilation. Meetings had been held with the contractors and plans were now in place to repair and reinstate the water cooling system by the end of September 2014. The BMS would not be fully signed-off until there was complete satisfaction from the relevant parties. There was no time-scale for the sign off final completion. Any risk on not completing defects or having to look at replacement or re-design of equipment rested entirely with the contractor and not the County Council.

In the ensuing debate, the following principal points were raised:

- The Head of Culture and Community advised that The Hive had received Archive accreditation from the National Archives Council. On the back of this, the service had been invited to the House of Commons to celebrate the fact that the archive was one of the first in the country to be accredited under the new scheme
- Concern was expressed that, despite The Hive being open for 2 years, there remained outstanding issues associated with the Building Management System with regard to the river water cooling and ventilation system. Who had responsibility for resolving the defects with the system? The Head of Culture and Community advised that the responsibility rested with the contractors who had sub-contracted the maintenance of the BMS. One of the pumps was fully operational but the other pump was erratic. The Hive Strategic Services Board had raised the matter with the sub-contractor and the Head of Property Services had been added to the Board to provide advice on this matter. The County Council was not liable for any costs associated with the failure of the system. A temporary chiller had been

installed but it was recognised that this was not a satisfactory long-term solution

- The Head of Culture and Community confirmed that liability for the BMS would remain with the contractor until the building was handed over to the partner organisations and it would only be handed over when all the defects with the system had been resolved
- Would it be better to terminate the contract with the existing contractor and seek an alternative contractor to complete the work? The Head of Culture and Community advised that it was considered to be too complicated to switch contractors at this stage and preferable to retain the existing contractors who had designed the system with the expectation that they had the intimate knowledge of the system to be able to resolve the issues
- The Council and the Economy, Environment and Communities Overview and Scrutiny Board's attention should be drawn to the issues associated with the delay in signing off the Building Management System as a result of the defects in the river water cooling and ventilation system at The Hive.

**RESOLVED that:**

- a) The current governance of The Hive be noted;**
- b) The general progress made at The Hive in a number of areas covered in the report be noted;**
- c) The attention of Council and the Economy, Environment and Communities Overview and Scrutiny Panel be drawn to the issues associated with the delay in signing off the Building Management System as a result of the defects in the river water cooling and ventilation system at The Hive; and**
- d) Future reports be brought to Committee on an exception basis.**

**314 Sales, fees and charges  
(Agenda item 6)**

The Committee considered a report on sales, fees and charges.

The report indicated that in May 2010 a review was commissioned to produce an "Income Diagnostic" report for the County Council. Whilst the Council received income from a variety of sources, the report had a

specific focus on income generated from sales, fees and charges. A comparison was made of the level of income generated by Worcestershire County Council against other Counties. The conclusion was that although Worcestershire was performing better than average "it was not amongst the best performing authorities".

Following the external report, approval was given at Cabinet in October 2010 for a review of fees and charges. A cross Council group was established to review opportunities for further income generation. However, the conclusion was that there was minimum potential for further increases in income, mainly due to the fact that work was already taking place within directorates in this area.

The initial report was a lengthy document, based on data from the 2008/09 Revenue Outturn (RO) returns. The most recent available information was based on the 2012/13 RO information. The high level analysis confirmed that overall, the Council's percentage income as a proportion of total service expenditure had marginally increased since 2008/09. The analysis purely from the RO returns should be viewed with some caution. There was the potential for inconsistent completion of returns and it was difficult to view income in isolation. It should be noted that the initial analysis included 34 authorities. However, this 2012/13 analysis was for 27 shire counties, which took into account the local government reorganisation which took place in April 2009.

In the ensuing debate, the following principal points were raised:

- In response to a query about the effect of demographic changes on the level of sales, fees and charges as a percentage of total service expenditure in Adult Social Care, the Head of Finance and Business Support advised that there were a number of variables that had an impact on this percentage figure, for example: expenditure, collection rates, charging policy, the number of people paying higher charges, and the number of people who go elsewhere for the service
- Would a reduction in expenditure on adult social care have an impact on the percentage figure? The Head of Finance and Business Support commented that it could do but it would depend on the level of the Council's base-line expenditure
- It was agreed that further investigation be carried

out on those areas where this Council's income was significantly low in the table of comparators counties, in particular Adult Social Care where income was £7m below what would be achieved if it reached the median level of income as a percentage of total service expenditure

**RESOLVED that:**

- a) **The report be noted; and**
- b) **Further investigation be carried out on those areas where this Council's income is significantly low in the table of comparators counties, in particular Adult Social Care where income is £7m below what would be achieved if it reached the median level of income as a percentage of total service expenditure.**

**315 Internal Audit Commissioning update (Agenda item 7)**

The Committee received an update on the Internal Audit Commissioning process.

Internal Audit was following Worcestershire County Council's Commissioning Cycle which involves four stages: evaluate, design, source and review. This process had included a study carried out by PricewaterhouseCoopers LLP.

The Internal Audit commissioning process was on track. The following table showed the latest Future Fit Commissioning Dashboard timetable. The pre-procurement market engagement had now been completed.

Pre-procurement market engagement	February-August 2014
Tender specification development	September-December 2014
Tenders invited	January 2015
Tenders returned	February 2015
Assessment and clarification	March-April 2015
Contract award	May-July 2015
Transition and new state	August-September 2015

The Internal Audit Commissioning process was being undertaken in line with the organisation's Commissioning

**316 Internal Audit  
Progress  
Report 2014/15  
(Agenda item 8)**

Roadmap and the Chairman and Vice-Chairman of the Committee would be kept informed of its progress and their views would be sought. A further update report would be brought to the Audit and Governance Committee on 12 December 2014.

In the ensuing debate, the following principal points were raised:

- the Chief Financial Officer stated that the commissioning process did not exclude the option of continuing internal provision of the service. All options would be considered as part of the process. The key issue was to focus on evaluating the plans set out in the bids
- It was agreed that a workshop be held for members of the Committee on the Commissioning process for internal audit.

**RESOLVED that:**

- a) The Internal Audit Commissioning update report be noted;**
- b) A further update report be brought to the Committee on 12 December 2014;**
- c) The Chairman and Vice-Chairman be kept informed of the progress of the Commissioning process and their views sought on the Internal Audit Invitation to Tender specification; and**
- d) A workshop be held for members of the Committee.**

The Committee considered the draft Internal Audit Progress Report 2014/15.

In the ensuing debate, the following principal points were raised:

- In response to a query, the Senior Manager – Internal Audit and Assurance stated that the assurance for the provision of support services for schools only related to those schools under the Council's control and not academies
- What was the reason for certain audit areas receiving a RAG rating rather than an assurance level opinion? The Senior Manager – Internal Audit and Assurance explained that the approach

taken in relation to a particular audit depended on its nature. There were occasions where an assurance opinion was not considered to be appropriate, for example the development of a new system. In these circumstances, a RAG rating would be provided in order to provide guidance to the client to help with their development work. However key financial systems would always be given an assurance level

- The Senior Manager – Internal Audit and Assurance explained that the designation status of fieldwork for the Design Services Contract reflected the stage in the auditing process that that particular audit had reached
- It was reassuring to note that all 7 of the high recommendations in the report relating to the use of consultants had been implemented
- The Internal Audit benchmarking figure for 2014/15 appeared to indicate that the Council's Internal Audit team was providing the most cost-effective service. It was therefore difficult to understand how commissioning the service could improve its performance. The Senior Manager – Internal Audit and Assurance advised a note of caution in analysing the benchmarking figures as they could be distorted by other issues, for example the level of expenditure on external consultants.

**RESOLVED that the content of the Draft Internal Audit Progress report 2014/15 be approved and in particular it was noted that the seven High Recommendations on the use of external consultants had been implemented.**

**317 Disaster Recovery Procedures (Agenda item 9)**

The Committee considered the draft Disaster Recovery Internal Audit Report.

As part of the 2014/15 Internal Audit Plan an audit of IT Disaster Recovery (ITDR) was carried out. The objective of this review was to evaluate the effectiveness of the processes and controls surrounding ITDR Management. The overall opinion of this review was limited assurance.

In the ensuing debate, the following principal points were raised:

- Scott Hughes, representing PricewaterhouseCoopers, the authors of the audit report commented that as part of the audit work, it was necessary to look at incidents that were less

likely to occur but could have a high impact on service provision i.e. a large scale outage. A limited assurance was provided for this element

- Scott Hughes stated that the option to outsource the IT contract presented a timely opportunity to rectify some of the issues highlighted in the audit report
- Did the external auditor accept the management response as a reasonable response? Scott Hughes commented that the Council had to weigh up the cost of each of the options set out in the report against their benefit to the Council. It was worth examining outsourcing as an option before investing heavily in any potential solutions. The Chief Financial Officer added that a report would be brought to future meeting of Cabinet on the preferred bidder
- Scott Hughes explained that a formally documented and communicated ITDR command and control structure was in place to manage IT outages as set out in the main ITDR Plan
- Scott Hughes stated that a limited assurance assessment had been given for the end-to-end recovery processes because the Council did not have the capacity to respond to a major incident. The Chief Financial Officer added that the Head of Systems and Customer Access was examining the storage options for the server and it was possible that an off-site location would be sought as part of the outsourcing options. Scott Hughes added that it was considered plausible that a major fire could occur in the room where the server was kept and the lack of fire suppression facilities in that room was an issue for the Council to address
- Should a fire occur, could the lack of a fire suppression system in the room where the server was kept result in several weeks of non-activity for the Council? The Chief Financial Officer advised that there was a back-up facility for SAP however there would be a problem for the other systems. Scott Hughes added that this was a particular problem for Framework i where both the server and the back-up server were kept in the same building and therefore there were limited recovery capabilities. The Chief Financial Officer explained that the Head of Systems and Customer Access was aware of the situation and was looking at mitigating the risk
- It appeared to be a high risk strategy to maintain a server and back-up server in the same room. The

obvious solution would be to move the back-up server elsewhere. Would it be practical to move the back-up Framework i server to the Wildwood campus? The Chief Financial Officer commented that this option had been considered but it was felt that the costs of such an arrangement were prohibitive

- There appeared to be a 12 month delay before the implementation of the proposed changes, would the Council maintain responsibility during this period or would there be an immediate handover of responsibility to the contractor? The Chief Financial Officer commented that the preferred bidder was about to be appointed therefore it was too early in the process to say
- It would appear that the risk of a catastrophic fire at County Hall was accepted in the short term on the basis that a new contractor would be appointed through the commissioning process. After the appointment of a new contractor, how long would it take for the issues set out in the audit report be addressed? The Chief Financial Officer explained that he was confident that any issues associated with the SAP system would be quick to implement but it depended on how the other systems interacted with each other. This was a matter that the Head of Systems and Customer Access would be able to address at the next Committee meeting
- In response to a query, the Chief Financial Officer stated that there were a range of proposed actions in the Audit Report and although a number of them had yet to be implemented, the Head of Systems and Customer Access had provided assurance that they would be completed in time. Scott Hughes added that the Council had to weigh up the cost/risk implications of undertaking mitigating actions against the length of time required to implement the new contracts
- The Committee requested that the Head of Systems and Customer Access write to members of the Committee outlining: whether all options had been considered to address the risks associated with the Framework i system; what mitigation measures undertaken to address the risks in the short term; and the costs associated with addressing these risks
- The Committee requested that a further report on ITDR be brought to its next meeting on 12 December 2014.

**318 Work Programme (Agenda item 10)**

**RESOLVED that:**

- a) The content of the Draft Disaster Recovery Internal Audit report be noted;
- b) The Head of Systems and Customer Access be requested to write to members of the Committee outlining: whether all options had been considered to address the risks associated with the Framework i system; what mitigation measures undertaken to address the risks in the short term; and the costs associated with addressing these risks; and
- c) An update report on It Disaster Recovery be brought to the Committee meeting on 12 December 2014.

The Committee considered its future work programme.

In the ensuing debate the following principal points were raised:

- A report should be brought to the next meeting of the Committee on the Council's documentation retention policy
- The Chief Financial Officer explained that an objection to the Accounts had been received in relation to the effectiveness of the advice the Council had received in relation to the Energy from Waste plant at Hartlebury. The objection was currently being assessed to determine whether it was legitimate and whether it was worthy of further investigation. There was a risk that the deadline for the signing off of the Accounts might not be met as a result.

**RESOLVED that:**

- a) The work programme be noted; and
- b) A report be brought to the Committee meeting on 12 December 2014 in relation to the Council's document retention policy.

The meeting ended at 11.43 am.

Chairman .....