

## **GOVERNANCE AND AUDIT COMMITTEE**

**21 June 2022**

*Present:-* Councillor Sam McCarthy, Councillor Chris Pearson,  
Councillor Paul Smith, Councillor Rhys Smithson,  
Councillor Dennis Willetts, Councillor Barbara Wood

*Substitutions:* Councillor Sam McLean for Councillor Dave Harris

*Also Present:-*

### **315. Minutes of the previous meeting**

Councillor Wood raised a query in relation to the minutes which had been presented, considering that an error had been made in relation to the record of her being substituted at the meetings of 8 March 2022 and 25 May 2022. Officers would confirm the correct position and make any amendments to the draft minutes necessary.

*RESOLVED* that: Subject to any amendment necessary in respect of the substitution record of Councillor Wood, the minutes of the meetings of 8 March 2022 and 25 May 2022 be confirmed as an accurate record.

### **316. Head of Internal Audit Annual Report 2021/2022**

Hayley McGrath, Corporate Governance Manager, attended the meeting to present the report and assist the Committee with its enquiries. The Committee heard that Colchester Borough Council (the Council) ran a comprehensive internal audit programme which was managed by an external contractor, TIAA. Two reports would be presented to the Committee during the course of the year, a final report containing a summary of the previous year, and a mid-year update to keep the Committee appraised of the progress of audits that had been carried out, together with any recommendations which had been made.

A comprehensive internal audit programme had been provided through the year, with 19 areas being audited, and 12 of these achieving a 'substantial assurance' rating, the highest rating it was possible to achieve, compared to 11 audits which had achieved this rating the previous financial year. The 'limited assurance' ratings which had been given had risen from 1 to 2 compared to the previous financial year, and

details of these were outlined in the Officer's report. As a result of the audit work, 3 urgent recommendations had been made, which was the same number that were made in the preceding financial year. The overall opinion of TIAA was that the Council operated an effective system of internal control. The 2 audits which had received a 'limited assurance' rating were on a similar theme, and were in relation to procurement and contracts.

A Committee member was pleased to note the high level of assurance which had been achieved, and considered that this was evidence of good levels of control within the Council with no significant problems, and the failings which had been noted were in compliance areas, and not across the whole area of the audit. Considering the limited assurance ratings which had been received, however, they expressed unease at the way the procurement system was operating, and requested further details in respect of the concerns raised during the audit, wondering what steps the Council needed to take strategically to deal with these concerns. Hayley McGrath confirmed that one of the issues experienced by the Council was in relation to the central control of suppliers. The council delivered a very broad range of services, and each service area was responsible for procuring its own goods and external services. When each service area was considered individually, no set expenditure thresholds were breached, but when the spend of all the service areas was combined, the Council's thresholds were breached, and what was currently missing was a central control and assessment of combined spend across the organisation. Fiona Dodimead, Director of Audit for TIAA, confirmed that it was difficult for the Council to monitor spend with a devolved service, and the Committee heard that some Councils dealt with this via a central register which required additional support.

In respect of the issues which had been raised in relation to the maintenance of registers, Hayley McGrath confirmed to the Committee that a lot of the items in question had originally been purchased via a framework and services became used to using a particular supplier. The frameworks used were national frameworks which expired, and services were continuing to use the same supplier after the expiration of the framework, when a new framework should have been implemented or new resourcing was carried out via a tender process. As things currently stood, no central checks were available to determine when frameworks had expired and contracts therefore needed to be addressed.

The Committee considered the recommendation which had been made by TIAA in relation to the maintenance of a central catalogue in support of the Councils aim to use local suppliers wherever possible. The intention to secure additional social value through the use of local suppliers was considered, and it was suggested that there was an inherent problem when determining what element of the cost of the contract was to be ascribed to the key deliverable service being procured, and how much of the cost of the contract was then associated with additional social value. As the auditors had made a recommendation in relation to local suppliers, were they concerned that this presented an issue for the Council? Fiona Dodimead confirmed to the Committee that the Council had made a policy decision in relation to where procurement was to be directed. It was considered that the policy either had to be

complied with, or modified to ensure that its intentions were clear and capable of being met.

The Committee sought the advice of TIAA to see if they were able to offer any guidance on how to approach the procurement issues, and it was also suggested that a recommendation be made that the Committee consider the area further, later on in the municipal year. Fiona Dodimead confirmed that it was for the Council to decide how it arranged its services, and the audit would only highlight potential risks that were identified. Hayley McGrath suggested that the Council's Procurement Policy could be referred to the Committee later in the municipal year, at the same time as the Committee considered the Council's ethical governance policies, a suggestion that was welcomed by the Committee.

A Committee member noted that the internal audit report had highlighted referred to a culture in the Council of not including the procurement team in the procurement process, and questioned by there had been no recommendation on this point. Was the culture ingrained in the Council, or had it arisen as a result of the Covid-19 pandemic? Hayley McGrath explained that the Covid-19 pandemic did have an impact on staff communication, and in addition to this the management responsibility for the procurement team had been moved within the council, coinciding with the loss of a procurement officer. Although the procurement process had been highlighted as an issue, what was not reflected was the large number of contracts which passed through the procurement team in a year. the audit which had been carried out of the procurement process had been requested by a manager from another service area, and the culture surrounding procurement was to be addressed as part of a review of the service.

A Committee member commented on the lack of information in the report concerning the steps which were taken to ensure supplier viability or key supplier continuity. Hayley McGrath confirmed to the Committee that these issues were addressed as part of the procurement process, together with supplier resilience, ethical standards and the provision of social value. In response to a question from a member of the Committee, Olufolake Mustafa, Audit Manager for TIAA, advised the Committee that matters such as staff access to Council systems after they had left the organisation were monitored, but the reason that these matters did not form part of the overall audit report was because no exceptional circumstances had been found.

*RESOLVED* that:

- Internal audit activity for the period 1 April 2021 to 31 March 2022 be noted,
- Colchester Borough Council's Procurement Policy be referred to the Committee at its meeting in November 2022.

### **317. Review of the Governance Framework and Draft Annual Governance Statement**

Hayley McGrath, Corporate Governance Manager, attended the meeting to present the report and assist the Committee with its enquiries. The Committee heard that Colchester Borough Council (the Council) had a duty under the Accounts and Audit Regulations 2015 to ensure that the Council had a sound system of internal control, which facilitated the effective exercise of the Council's functions and achievements of its aims and objectives. As part of the annual statement of account process, the Council was required to demonstrate that it had systems of internal control in place, and an internal review of the governance arrangements was carried out every year to ensure that this was the case. The Council was required to produce an Annual Governance Statement, and this had been prepared for the financial year 2021/2022. The Statement complied with the 7 principles of good governance set out by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), and was set out in the format provided by CIPFA.

Areas of financial control were required to be examined as part of the annual review, including financial controls and procedures. As part of the review process, every member of the Council's Senior Management Team was interviewed individually, prior to the completion of the review, and any areas of concern were highlighted in the Statement. The governance arrangements for the Council's wholly owned companies were also examined to ensure that these remained fit for purpose, together with the arrangements for the Council's joint services, Colchester and Ipswich Museum Service and the North Essex Parking Partnership. Also taken into account during the review was the Head of Internal Audit Annual Report. As part of the process the Statement was referred to the Governance and Audit Committee for approval prior to being signed off by the Leader of the Council and the Chief Executive and went into the Council's statement of accounts.

This year, three areas had been identified where it was felt that improvements could be made in the control arrangements to improve the arrangements what were currently in place. The first of these areas was the Council's procurement arrangements, where it was felt that this was an area which would benefit from more appropriate controls. The second area of concern was in relation to the extended delays in finalising the Council's annual statement of accounts. Although this was an area over which the Council had little control, it was felt that it was appropriate to flag this as a concern as part of the Statement. The final area of concern was the governance arrangements for the Council's wholly own company, Colchester Commercial Holdings Limited (CCHL). The company had been operating for a number of years, and it was felt appropriate that its governance arrangements were subject to a review to ensure that they remained relevant and accurate.

The Committee noted the need for a review of the Council's procurement process, and took the view that the issues which had been experienced with the Council's statement of accounts should be raised both with the Local Government Association

(LGA), and central government. It was a particular concern that local authorities found themselves in such a position, which was wholly unacceptable. Hayley McGrath confirmed that the Council's head of Finance and the Deputy Chief Executive were actively engaged with making the necessary representations to the relevant bodies in respect of the position with the Council's external audit delays.

It was suggested that as CCHL had been active for a number of years, that it was appropriate for a special meeting of the Governance and Audit Committee to be convened with the Board of CCHL in order that it could dispense its duties as the shareholder committee for the companies. Hayley McGrath considered that it would be appropriate to hold a shareholders meeting in respect of the Council's companies, confirming that an external advisor had been assigned to look at the current governance arrangements for CCHL, and a shareholder meeting would take place after this review had been finalised. The Committee confirmed that it would welcome training on its shareholder responsibilities before the meeting took place.

The Committee considered the governance arrangements which were in place in respect of CCHL, noting that these were closely aligned with the arrangements of the Council itself, but wondered whether this arrangement would cost the companies the flexibility that they needed to be successful. An update was requested on the cyber security issue which had been raised as part of the Governance Statement for the previous year, and it was questioned whether the Council's procurement policy should be included as part of its ethical governance framework. Hayley McGrath confirmed a review of the difference between the governance arrangements of the Council and CCHL would be included as part of the external assessment of the companies which was to take place. It was not proposed that the Council's procurement policy form part of its ethical governance policies, and the criteria for inclusion in this suite of policies had been set before the Committee in the past. The issue of cyber security was a continuing national problem, and the Council was making continual efforts to ensure the safety of its systems, including regular testing of staff.

*RESOLVED* that:

- The Council's compliance with the seven principles of good governance (CIPFA International Framework: Good Governance in the Public Sector 2016) including the review of effectiveness of the internal control arrangements be noted
- Annual Governance Statement for 2021/22 be approved

### **318. Work Programme**

Matthew Evans, Democratic Services Officer, attended the meeting to present the report and assist the Committee with its enquiries.

The Committee noted that there had been discussion during the meeting about scheduling an additional shareholder meeting, together with shareholder training and an update on cyber security. It was content to allow Officers to liaise outside the

meeting to locate the most appropriate times for these proposals and agree these with the Chair and Group Spokespersons in due course.

A Committee member requested that items on the work programme which were required to be presented to the Committee at a certain time due to a statutory deadline be highlighted in the report.

Hayley McGrath, Corporate Governance Manager, requested that the item on 2021/2022 Year End Review of Risk Management be moved from the September meeting of the Committee to its meeting in July.

*RESOLVED* that: the contents of the work programme be noted, subject to the following amendments:

- an additional meeting of the Governance and Audit Committee as Shareholder Committee to Colchester Commercial Holdings Limited be scheduled
- an additional update report in relation to the Colchester Borough Council's position in relation to cyber security be provided to the Committee at a future date
- the agenda item 2021/2022 Year End Review of Risk Management be considered at the July meeting of the Committee