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Audit and Corporate Governance Committee

Date: **Friday, 21st September, 2007**

Time: **10.00 a.m.**

Place: **Brockington, 35 Hafod Road,
Hereford.: The Council Chamber,
Brockington, 35 Hafod Road,
Hereford, HR1 1SH.**

Notes: Please note the **time, date** and **venue** of the meeting.

For any further information please contact:

Democratic Services tel: 263408

**County of Herefordshire
District Council**

AGENDA

for the Meeting of the Audit and Corporate Governance Committee

To: Councillor ACR Chappell (Chairman)
Councillor GFM Dawe (Vice-Chairman)

Councillors: MJ Fishley, JHR Goodwin, R Mills, RH Smith and AM Toon

In Attendance: T Tobin (Audit Commission), Councillor H Bramer, Cabinet Member (Resources).

	Pages
1. APOLOGIES FOR ABSENCE To receive any apologies for absence.	
2. NAMED SUBSTITUTES(IF ANY) To receive any details of Members nominated to attend the meeting in place of a Member of the Committee.	
3. DECLARATIONS OF INTEREST To receive any declarations of interest by Members in respect of items on the Agenda.	
4. MINUTES To approve and sign the Minutes of the meeting held on 29th June 2007.	1 - 6
5. USE OF RESOURCES ACTION PLAN To receive an update on the Use of Resources Action Plan (Appendix 1 refers).	7 - 16
6. UPDATE ON IMPLEMENTATION OF RECOMMENDATIONS FROM SPECIAL INVESTIGATIONS To provide the Audit and Corporate Governance Committee with a further update on progress with implementing the recommendations approved by the Corporate Management Board to improve the internal control environment as a result of the 'lessons learned' from special investigations carried out by Audit Services in 2005/06.	17 - 20
7. UPDATE ON STATEMENT OF ACCOUNTS 2006/07 AND STATEMENT ON INTERNAL CONTROL 2006/07 To advise the Audit and Corporate Governance Committee on changes to the Statement of Accounts for 2006/07 resulting from the Audit Commission's review work since the Committee's last meeting. To advise the Audit and Corporate Governance Committee on changes to the Statement of Internal Control for 2006/07 needed as a result of the	21 - 30

	special report of the Director of Resources that appears elsewhere on this agenda.	
8.	ANNUAL GOVERNANCE LETTER	
	To receive the Annual Governance letter (<i>Report to Follow</i>)	
9.	INTERIM ASSURANCE REPORT 2007/08	31 - 36
	<i>To provide the Audit and Corporate Governance Committee with a first interim Assurance Report for 2007/08 that:</i>	
	<ul style="list-style-type: none">• <i>provides an update on progress with the significant internal control issues identified in the Assurance Report for 2006/07; and</i>• identifies the significant internal control issues identified to date in 2007/08.	
10.	SPECIAL REPORT FROM THE DIRECTOR OF RESOURCES	37 - 58
	To receive a special report from the Director of Resources.	

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COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

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COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

MINUTES of the meeting of Audit and Corporate Governance Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford, HR1 1SH on Friday, 29th June, 2007 at 10.00 a.m.

Present: Councillor ACR Chappell (Chairman)
Councillor GFM Dawe (Vice Chairman)

Councillors: JHR Goodwin, RH Smith and AM Toon

In attendance: Councillor H Bramer

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors MJ Fishley and R Mills.

2. NAMED SUBSTITUTES(IF ANY)

There were no named substitutes made.

3. DECLARATIONS OF INTEREST

There were no declarations of interest made.

4. MINUTES

RESOLVED: That the Minutes of the meeting held on 13th April, 2007 be approved as a correct record and signed by the Chairman.

5. STATEMENT OF ACCOUNTS 2006/07

The Head of Financial Services presented a report about the Council's formal Statement of Accounts for 2006/2007 which was determined each year in accordance with the Chartered Institute of Public Finance (CIPFA) and Accountancy Code of Practice on Local Authority Accounting. He advised on the following changes to the 2006/07 Statement of Accounts compared to previous years:

- (a) the removal of notional interest from the capital charges to services in the published accounts. This did not have an effect on the 'bottom line' charge to council tax but reduced the level of spend shown in services;
- (b) there was a new set of core statements presented in a specified order and followed by a consolidated set of notes:
 - income and Expenditure Account;
 - statement of movement on the General Fund Balance;
 - statement of Recognised Gains and Losses;
 - balance Sheet; and
 - cash flow statement;
- (c) the statements presented the figures in a completely new way and the Council was also required to restate the figures for 2005/06 to enable a

comparison to be made.

He went on to explain that the next stage would be completion of the external Audit and final publication of the Accounts by 30th September 2007.

Members asked a number of questions about the different aspects of the report. The Director of Resources said that forthcoming training had been arranged about the Councils financial matters.

RESOLVED

THAT the 2006/07 Statement of Accounts be approved.

6. MONITORING OFFICERS REPORT

The Legal Practice Manager presented the report of the Head of Legal and Democratic Services about the Council's performance for 2006/07 with regard to complaints to the Ombudsman, "Whistleblowing" and those matters which fell under the remit of the Head of Legal and Democratic Services as the Council's Monitoring Officer. He advised that the role of the Monitoring Officer was to ensure that the Council and its Members acted with probity in accordance with the law and in its Constitution. He provided the Committee with details about the following:

- (a) matters dealt with by The Complaints Panel;
- (b) complaints investigated by The Local Government Ombudsman;
- (c) the work of The Standards Committee;
- (d) the Register of Gifts and Hospitality;
- (e) the Register of Members Interests; and
- (f) risk management – the implications of changes in legislation or case law that may impact on the delivery of services or impose statutory duties on the Authority, and training for Officers and Members.

RESOLVED

THAT the report be received and noted.

7. AUDIT SERVICES ANNUAL ASSURANCE REPORT

A report was presented by the Audit Services Manager on the Audit Services Assurance Report which set out the progress being made in relation to the Audit Plan and related key internal control issues. He said that the report also updated Members on the actions or the current position on key issues raised for 2005/06 that required attention. He advised that five key issues had been identified as being relevant to the Councils Statement on Internal Control, and that good progress was being made on the key issues identified in relation to 2005/06. He also said that three key elements had affected the overall completion of the Audit Plan for 2006/07,

namely:

- (a) the level of time spent verifying performance indicators;
- (b) the time taken to review the Council's fundamental systems; and
- (c) the work required on the new DfES Toolkit.

The Audit Services Manager said that the Audit Services Review in relation to the Statement showed that the Council's procedures and protocols for internal control compared favourably with the CIPFA checklist and overall had been found to be satisfactory. Eighteen key systems had been reviewed and the majority had received favourable reports. Management action was being taken in respect of the systems identified as having scope for improvement and he would provide the Committee with progress reports on these. He said that the response of the Council's Management to audit recommendations continued to be positive during the year with action being agreed in some 97% of them. He outlined the follow-up work which was being done by Audit Services said that the Committee would be advised of the outcome at future meetings.

The Committee thanked the Audit Manager for his informative report and asked a number of questions. He provided further details about the work that was being undertaken by the Audit Section about reviewing the effectiveness of internal procedures, and the associated follow-up work which was carried out where necessary.

RESOLVED

THAT the Audit Services Assurance Report 2006/07 be received and noted.

8. STATEMENT OF INTERNAL CONTROL 2006/07

The Audit Services Manager presented a report about the work and process followed in relation to the completion of the Council's Statement on Internal Control. He advised that the CPA Use of Resources highlighted the Criteria for judgement in relation to the Statement of Internal Control as follows:

- an appropriate member group has responsibility for review and approval of the Statement on Internal Control and considers it separately from the accounts;
- the Council has conducted an annual review of the effectiveness of the system of internal control and reported on this in the Statement on Internal Control;
- the sources of assurance to support the Statement on Internal Control have been identified and are reviewed by senior officers and members ;
- there are action plans in place to address any significant internal control issues reported in the Statement on Internal Control;
- the Council has put in place an assurance framework that maps the council's strategic objectives to risks, controls and assurances;

- the assurance framework provides members with information to support the Statement on Internal Control;
- the assurance framework is fully embedded in the Council's business process; and
- the Council can demonstrate corporate involvement in/ownership of the process for preparing the Statement on Internal Control.

The Audit Services Manager advised that the Council currently scored 2 out of 4 for the Internal Control element of the Use of Resources Assessment in 2006 and that it was aiming to score at least 3 at the next assessment. The Statement on Internal Control Assurance Framework set out the key documents used to evidence the Council's Statement on Internal Control. He explained the main elements of the process and how it related to the work which was undertaken by Cabinet in relation to monitoring the progress of the Council's Capital and Revenue budgets. The Committee discussed the different aspects of the report and the Audit Services Manager provided further details. It was noted that a further report would be presented to the Committee in September to look at progress on the areas for improvement that had been identified.

RESOLVED

THAT the Council's Statement on Internal Control be approved.

9. ANNUAL AUDIT AND INSPECTION LETTER

The District Auditor presented the report of the Audit Services Manager about the Audit Commission's Annual Audit and Inspection Letter 2005/06. He said that the report summarised the Audit Commission's assessment of the Council by drawing on the findings and conclusions from audit work and from analysing the Council's performance and its improvement over the year, as measured by the Comprehensive Performance Assessment. He said that the Council had been found to be improving adequately and had maintained its performance with improvements in priority areas such as safeguarding vulnerable children and helping more elderly adults to live at home. The production of Accounts was found to be good and timely and the systems of internal control and financial management had improved significantly in the year. The Commission had also recommended the steps that should be taken in continued performance management, the need to continue to focus on improving service outcomes, a robust approach to benchmarking in all service areas and appropriate monitoring and review.

RESOLVED

THAT the report be received and noted.

10. TELEPHONE USAGE ACTION PLAN

The Audit Services Manager presented a report about an action plan and work being undertaken arising on recommendation made by Audit Services in respect of telephone usage by the Council. He said that this formed part of the current cost savings review being carried out. Further details about progress would be reported

to the next meeting of the Committee.

RESOLVED

THAT the report be received and noted.

11. AUDIT COMMISSION AUDIT AND INSPECTION PLAN 2007/08

The District Auditor presented the report of the Audit Services Manager about the Audit Commission's Audit and Inspection Plan for 2007-2008 which highlighted the key statutes that govern the Commission's Audit and Inspection duties. He provided the Committee with details of the Audit Commission's estimated total fee and said that the Commission did not intend to carry out any service inspection during 2007/08. He advised that work within this area would be covered in the annual Direction of Travel assessment; and liaison work between the Council and the Audit Commission, other inspectorates, Government Office and other key stakeholders. The Commission would complete a Use of Resources Assessment for 2007 which would focus on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services. Data quality work would be based on a three-stage approach covering:

- Stage 1 – management arrangements;
- Stage 2 – competencies check; and
- Stage 3 – risk based data quality spot checks of a sample of performance indicators.

The results of the work at Stage 3 would inform the Commission's CPA assessment and with regard to the Council's Best Value Performance Plan, the Commission was required to report on whether the Council had complied with legislation and statutory guidance in respect of its preparation and publication. The Commission had identified the following risks in terms of the 2006/07 financial statements:

- creating a GAAP compliant Revaluation Reserve to replace the Fixed Asset Restatement Account;
- potential revisions to accounting treatment for Waste Management PFI; and
- valuation of fixed assets and coding of intangible assets.

The Committee was also provided with the Commission's initial assessment of risk on use of resources and the reviews that would be undertaken.

RESOLVED

THAT the report be received and noted.

The meeting ended at 1.05 p.m.

CHAIRMAN

**UPDATE ON PROGRESS WITH THE USE OF RESOURCES
ACTION PLAN****Report By: Audit Services Manager****Wards Affected**

County Wide.

Purpose

To receive an update on the Use of Resources Action Plan (Appendix 1 refers).

Financial Implications

None.

RECOMMENDATION

THAT the report be noted.

Reasons

The Use of Resources judgement assesses how well the Council manages and uses its financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the council's priorities and improve services. The five themes covers:

- financial reporting;
- financial management;
- financial standing;
- internal control; and
- value for money.

The Use of Resources assessment reflects the requirement for continuous improvement and helps to establish clear minimum requirements that will provide the foundation for reducing regulation in the future.

The Councils target is to achieve a level 4 by no later than 2009-10.

Considerations

1. The Audit and Corporate Governance Committee considered the Audit Commission's Use of Resources report for 2006 in January 2007. The key areas requiring action were discussed.
2. A detailed action plan was presented to the Audit and Corporate Governance Committee on 13th April 2007. The action plan was developed with relevant officers and highlighted the specific actions to be taken and the timescales.
3. This report updates the Audit and Corporate Governance Committee on progress.
4. The Audit Services Manager will continue to act as Project Manager and report progress to the Audit and Corporate Governance Committee on a regular basis.
5. Preparations for the 2007 Use of Resources judgement have been made. The Council's self-assessment was prepared and delivered to the external auditor on time (31st August 2007). The external auditor will be carrying out his review during the course of the next few weeks. Some interviews have already been held.

Risk Management

5. The Council now has in place a Statement of Internal Control Assurance Framework that has been approved by the Audit and Corporate Governance Committee. Part of the process involves actions that arise from the Council's Annual Audit and Inspection letter and associated reports. Lack of action on the Council's part could have an adverse effect on the Council's Use of Resources score.

BACKGROUND PAPERS

Use of Resources Auditor Judgement 2006.

Use of Resources 2006/07 Action Plan

Key Line of Enquiry	Audit Commission Comments	Action Taken	Action to be taken by	Date Action to be completed
Financial Reporting				
1.1	The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	Further improve quality of working papers particularly in relation to capital accounts.	Head of Financial Services reviewed working papers for 2006/07.	Completed
	Improve the analytical review in relation to the Consolidated Revenue Account.	Variance analysis undertaken prior to working papers being sent to the Audit Commission.	David Powell	Completed
1.2	The Council promotes external accountability.	The preferred formats for the annual report could be further developed by incorporating user views.	Head of Financial Services to develop a questionnaire and liaise Martin Heuter (Senior Community Involvement Officer) on the best approach.	October 2007
Financial Management				
2.1	The Council's Medium-term Financial Management Strategy (MTFMS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.	There have been a number of innovations during this financial year (see above), which now need embedding into the culture of the Council.	The Performance Improvement Cycle for 2008/09 budget setting is a more rigorous test of budget and service planning than in 2007/08 and has allowed closer integration of service and financial planning..	Ongoing
	The Corporate Business plan needs to include financial sensitivity analysis.	To be completed as part of the 2008/09 planning process.	David Powell	March 2008
	A new system for revenue and capital projects including a project appraisal, business plan and	The new Head of Asset Management & Property Services arrived in post in May 2007. The	Head of Asset Management	Ongoing

Use of Resources 2006/07 Action Plan

Key Line of Enquiry	Audit Commission Comments	Action Taken	Action to be taken by	Date Action to be completed
	affordability test needs to be embedded.	Corporate Asset Strategy Group has been set up, with two sub-groups. One to monitor the capital programme, the other to look at asset strategy. There has been one meeting in June 2007 and one in August 2007.	and Property Services	
	Level 4 tests need consideration.	Included as part of service improvement planning in Financial Services.	David Powell	Ongoing
2.2 The Council manages performance against budgets	Innovations during this financial year (see above) which now need embedding into the culture of the Council	Revised Integrated Performance Report in place.	David Powell	Completed
	Training must be provided to Members and relevant non-financial staff.	Members have received training on financial scrutiny from the Head of Financial Services. Further training for Members took place in July 2007.	Sonia Rees	July 2007
		Level 1 training for non-Financial Managers commenced. Regular events included in the Corporate training calendar.	David Powell	March 2007 and on going
		Level 2 training for non Financial Managers held 28th March 2007. Regular events included in the Corporate training calendar.	David Powell	March 2007 and ongoing
	Underspends and overspends need to be closely managed with	Integrated Performance Report format changed to give more	David Powell	Completed

Use of Resources 2006/07 Action Plan

Key Line of Enquiry	Audit Commission Comments	Action Taken	Action to be taken by	Date Action to be completed
	reported variances to Members being a more accurate reflection of the Council's spend to date	clarity to members and management of budgets will form part of the level 2 training to officers.		
	Level 4 tests need consideration	Part of service improvement planning in Financial Services.	David Powell	Ongoing
2.3 The Council manages its asset base.	Innovations during this financial year which now need embedding into the culture of the Council.	The creation of the Corporate Asset Strategy Group allows a cross-departmental approach to asset management that was previously missing.	Head of Asset Management and Property Services	Completed
Financial Standing				
3.1 The Council manages its spending within the available resources.	The Council must ensure that it continues to manage its level of reserves more robustly. This includes regular reports to members on the level of reserves needed. The Council must set and monitor targets for all material categories of income collection and recovery of arrears, based on age profile of debt.	Head of Financial Services reported to Strategic Monitoring Committee on 30 th March and Cabinet 12 th April 2007.	David Powell	Completed
		Responsibility for debt recovery has now been brought together under one team. All outstanding debt is currently being reviewed and once this is completed age profiles will be created and recovery targets set for all years debts.	Mike Toney	April 2007

Use of Resources 2006/07 Action Plan

Key Line of Enquiry	Audit Commission Comments	Action Taken	Action to be taken by	Date Action to be completed
Internal Control				
4.1 The Council manages its significant business risks	The risk management process should be reviewed and updated at least annually. All significant risks should be included in the corporate risk log.	Forms part of The Audit Plan Draft Risk Management Audit Report with Audit Manager The Corporate Risk Register has been reviewed and is an ongoing process.	Tony Ford	September 2007
	All appropriate staff should be offered relevant training.	Risk Management Training for appropriate staff now complete and external provider engaged.	David Powell	Completed but will be updated May 2007
	The Council risk register must be clearly aligned to the Council's strategic objectives.	To be part of the Corporate Risk Manager's work programme.	David Powell	
4.2 The Council has arrangements in place to maintain a sound system of internal control	The assurance framework should more clearly map the strategic objectives to the risk register, controls and assurances.	This will be completed for the Council's 2007/08 objectives and is in progress. Programme of meetings with Directorate Management Teams arranged.	Tony Ford	September 2007
	All reports submitted to Members must be formally considered for legal issues before presentation.	The Head of Service sees reports with any legal implication and advises authors accordingly.	Alan McLaughlin	April 2007
	Regular reconciliations of all significant financial systems should be carried out.	Significant systems identified and reconciliation commenced.	David Powell	Ongoing
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.				
	The Code of Conduct for	New Code of Conduct adopted by	Alan	November

Use of Resources 2006/07 Action Plan

	Key Line of Enquiry	Audit Commission Comments	Action Taken	Action to be taken by	Date Action to be completed
		<p>Members and Officers needs review and there should be some tightening of the rules around the receipt of gifts and hospitality.</p> <p>More emphasis needs to be placed on having stronger arrangements for probity and propriety in place by actively ensuring staff and others involved with the Council are aware of and understand policies and processes (e.g. Whistleblowing)</p>	<p>resolution of full Council on 27th July 2007 and includes hospitality and gifts.</p> <p>Whistle-blowing Policy on website. SMT informed October 2006. Policy due for annual review.</p>	<p>Mclaughlin</p> <p>Alan Mclaughlin</p>	<p>2007 Completed</p> <p>Ongoing</p>
		<p>Whistle blowing processes must be communicated to all staff and external partners. This can be carried out internally by displaying posters etc</p>	<p>All payment remittance slips sent out has a 'Please note the Council's Whistle-blowing policy' message that includes the web link.</p> <p>Posters displayed on notice boards.</p> <p>Reminder in News and Views.</p>	<p>Tony Ford</p>	<p>Completed</p>
5.1	<p>Value For Money The Council currently achieves good value for money</p>	<p>The Council's understanding of its cost pressures is improving, with a more robust and rigorous approach to medium term planning. The Council needs to continue to embed this</p>	<p>Financial Services supported Adult Services needs analysis work. The bi-annual 'refresh' of the MTFMS will draw out these issues</p>	<p>David Powell</p>	<p>Ongoing</p>

Use of Resources 2006/07 Action Plan

Key Line of Enquiry	Audit Commission Comments	Action Taken	Action to be taken by	Date Action to be completed
	understanding.			
	Significant service overspends need to be robustly tackled	Part of ongoing discussions with Directorates. Working with Adult & Community Services on a recovery plan.	David Powell	Ongoing
5.2 The Council manages and improves value for money.	Embed the improvements made in planning for and delivering value for money, e.g. Herefordshire Connects.	This will be developed when the partner has been identified.	Herefordshire Connects Project Board	Ongoing
	Ensure robust approaches to benchmarking in all service areas, and ensure that challenge (e.g. Scrutiny) is robust	The performance improvement network will undertake an assessment of current benchmarking and rectify the major gaps — commenced in June 07. Other benchmarking gaps to be addressed subject to findings in action above.	Head of Performance Management	By April 2008
	Ensure that improvements in value for money are accounted for in a straightforward and transparent way, by improving service planning and reporting	Approval for a new scrutiny development plan. The benefit card is now being used as part of Herefordshire Connects and is part of various procurement activities in each directorate.	Dean Hogan	By April 2009
				31 December 07
				Ongoing

APPENDIX 1

Use of Resources 2006/07 Action Plan

Key Line of Enquiry	Audit Commission Comments	Action Taken	Action to be taken by	Date Action to be completed
	arrangements	Some further work required to embed this process.		
	Issue updated guidance to services on measuring efficiencies, and improve the assurance arrangements to ensure that efficiency gains are robustly stated.	As above.	Dean Hogan	Completed
	Corporate approaches to procurement are still not well developed	The postal service review has been completed and the agency staff contract started on 1 st September 2007. The telephone usage Audit Action Plan has been completed. The Strategic Procurement and Efficiency Review Manager is involved in major procurement exercises within directorates. This will help improve the corporate approach to procurement and improve the quality of outcomes.	Dean Hogan	Ongoing

UPDATE ON IMPLEMENTATION OF RECOMMENDATIONS ARISING FROM SPECIAL INVESTIGATIONS

Report By: AUDIT SERVICES MANAGER

Wards Affected

None.

Purpose

To provide the Audit and Corporate Governance Committee with a further update on progress with implementing the recommendations approved by the Corporate Management Board to improve the internal control environment as a result of the 'lessons learned' from special investigations carried out by Audit Services in 2005/06.

Financial Implications

None directly arising from this report.

RECOMMENDATION

THAT:

- (a) the updated position be noted;**
- (b) the action taken by Audit Services be endorsed; and**
- (c) a further update be provided at the Committee's next meeting.**

Reasons

The Audit and Corporate Governance Committee considered the Audit Service Manager's Annual Assurance report for 2006/07 on 29th June 2007. The report noted that not all Heads of Service were able to confirm that they had implemented the recommendations agreed by the Corporate Management Board to improve the internal control environment as a result of special investigations.

Considerations

1. A report by the Audit Services Manager entitled Special Investigation Report 2005/06 was presented to Corporate Management Board on 5th September 2006.
2. Following discussion at Corporate Management Board the report presented was adopted and several recommendations agreed (Appendix 1 refers).

Further information on the subject of this report is available from Tony Ford (Audit Services Manager)
on tel: (01432) 260425

3. The report was presented to Senior Management Team on 8th September 2006 when Senior Management Team's attention was drawn to the agreed recommendations requiring their attention.
4. As noted in the Annual Assurance Report for 2006/07 presented to the Audit and Corporate Governance Committee on 29th June 2007, feedback from a number of Heads of Service was still outstanding.
5. The latest position is that two Heads of Service have not replied confirming that they have taken the required actions. One Head of Service has recommendation (c) as work in progress but has implemented the other recommendations.
6. The Audit Services Manager has informed the Directors concerned and has stressed the need to be able to confirm to the Audit and Corporate Governance Committee's next meeting that the issues have finally been addressed.

Risk Management

The special investigations in 2005/06 identified a risk that Council monies were not being accounted for in line with Financial Regulations. Implementing the recommendations agreed by Corporate Management Board will mitigate this risk.

Background Papers

Audit Services Manager's Special Investigation report to Corporate Management Board dated 5th September 2006.

SPECIAL INVESTIGATIONS RECOMMENDATIONS FOLLOW UP ACTION

Recommendations made:

- (a) That all Key Managers are required to make a written disclosure to their Head of Service stating that they manage or do not manage directly or indirectly a spouse, partner or near relative. Heads of Service making disclosure to the Head of Legal and Democratic Services.**
- (b) Key Managers are informed that they must have arrangements in place to check that income banked appears on the relevant Cedar income code.**
- (c) Subject to agreement of (b) above checks should be backdated to 1st April 2006 and written assurance received from Heads of Service.**
- (d) Miscellaneous Income Slips become Controlled Stationery and where possible the income codes are pre-printed on the slips.**
- (e) That Audit Services procedures are updated to include the Chief Executives instruction that all cases of possible theft are passed to the police in the first instance.**
- (f) All income handed over at cash offices by members of staff should be receipted at the time of deposit with no exceptions.**
- (g) The Principal Audit Manager attends Senior Management Team and reinforces to Heads of Service their Internal Control responsibilities.**
- (h) Managers ensure that HR, Legal and Audit advice is sought at the commencement of any investigation.**
- (i) Managers undertake training in investigations, presentation and hearing of disciplinary issues (as relevant) before undertaking any of these roles**

**UPDATE ON STATEMENT OF ACCOUNTS 2006/07 AND
STATEMENT ON INTERNAL CONTROL 2006/07****Report By: Director Of Resources****Wards Affected**

County-wide.

Purpose

To advise the Audit and Corporate Governance Committee on changes to the Statement of Accounts for 2006/07 resulting from the Audit Commission's review work since the Committee's last meeting.

To advise the Audit and Corporate Governance Committee on changes to the Statement of Internal Control for 2006/07 needed as a result of the special report of the Director of Resources that appears elsewhere on this agenda.

Financial Implications

These are outlined in the report.

RECOMMENDATION**THAT:**

- (a) **the amendments to the Statement of Accounts for 2006/07 be noted;
and**
- (b) **the amendments to the Statement on Internal Control for 2006/07 be noted.**

Reasons

The Audit Commission has audited the Statement of Accounts presented to the Audit and Corporate Governance Committee in June 2007. The auditors have suggested changes to the accounts that have been accepted by the Director of Resources.

Considerations**STATEMENT OF ACCOUNTS 2006/07**

1. The external auditors identified three items for discussion that had a potential impact on the figures included in the Statement of Accounts for 2006/07 approved by the Audit and Corporate Governance Committee in June 2007 during their audit review. The issues have been discussed in detail with the Audit Commission and it is accepted that the accounting statements need to be

Further information on the subject of this report is available from Sonia Rees on (01432) 383819

altered to provide a more accurate representation of the Council's financial position at the end of 2006/07.

2. The first item relates to changing the classification of ICT related expenditure from capital to revenue expenditure. The expenditure totals £1.224m and covers expenditure on a contract for the Community Network Upgrade project. It is now shown in the revenue account within the ICT & Customer Services division. The Council will mitigate the position by taking out the revenue contribution to the capital programme of £509k that was included in the accounts. This will reduce the adjustment on the revenue position to £715k and thus reduce the impact on General Fund balances for 2006/07. The result is a reduction in General Fund balance of this amount leaving a closing balance for the year of £8.023m. The accounts still show an under spend of £2.5m overall compared to the anticipated position for 2006/07. The change does mean that additional capital resources of £715k are now available in 2007/08 and there is a corresponding increase in the capital receipts reserve of £715k, increasing the balance from £21.711m to £22.426m.
3. The second item covers Goodrich Voluntary Controlled Primary School. As with other Council assets, the school's value is reflected in the Council's balance sheet. However, as part of the on-going review of the value of assets, the school was reclassified as an asset owned by another body and removed from the balance sheet. This arose because the relevant section of the School Standards and Framework Act 1998 can, in some circumstances, see the Local Education Authority transfer its interest in a site and any buildings to a relevant body. This does not apply to this school so it should remain on our balance sheet. The correct classification of the asset to Council owned does not affect the "bottom-line" on the accounts.
4. The third item also does not affect the "bottom-line". The auditors noted that the method of apportionment of property services costs to those areas in receipt of services was incorrect due to an error in a working paper. The costs have now been reapportioned correctly in line with the Best Value Accounting Code of Practice.
5. It should be stressed that amendments outlined above have been made on a voluntary basis by the Council following discussions with the Audit Commission. The combination of the three items outlined in the report will not lead to a qualification of the accounts and the Council's decision to address the issues swiftly is likely to be seen in a positive light. Additional checks will be built into the systems and procedures used to close the accounts for 2007/08 to address the issues brought to light in this year's audit.

STATEMENT ON INTERNAL CONTROL 2006/07

6. The Statement on Internal Control for 2006/07 agreed by the Audit and Corporate Governance Committee has been reviewed to:
 - correct typographical errors;
 - reflect comments made by the external auditor;

- include a reference to the changes to the Statements of Account for 2006/07 as outlined above; and
 - include a reference to internal control issues reported by the Director of Resources whilst the external audit review of the 2006/07 Statement of Accounts was in progress.
7. A separate report on this agenda outlines the position with regard to the last bullet point in paragraph 6 above.
 8. The revised Statement on Internal Control for 2006/07 is attached to this report at Appendix 1.

Risk Management

The reduction in the general fund balance of £715k will reduce financial capacity to deal with any forecast and as yet unknown financial pressures in 2007/08. All Directors have a responsibility for ensuring the Council's budgets are carefully managed in line with Financial Regulations in order to mitigate this risk.

Herefordshire Council

Statement of Internal Control 2006- 2007

1. Scope of responsibility

- 1.1 Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.
- 1.2 In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control that:
- facilitates the effective exercise of the Council's functions; and
 - includes arrangements for the management of risk.

2. The purpose of the system of internal control

- 2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to support the Council's operation and manage risk in a balanced and effective manner, acknowledging that an element of risk is inevitable if policies, aims and objectives are to be achieved.

3. The internal control environment

- 3.1 The key elements of the internal control environment at Herefordshire Council include:
- establishment and monitoring of the Council's statutory obligations and organisational objectives as evidenced by:
 - the Council's Corporate and Annual Operating Plans;
 - the Council's Directorate and Service Plans; and
 - effective arrangements for compliance with and monitoring of legislative changes.
 - the Council's Medium Term Financial Management Strategy;
 - an integrated corporate, service and financial planning process;
 - the Performance Management Framework which sets out the Council's approach to performance management;

- the Council's Constitution which sets out members' and officers' responsibilities, delegations to officers and committees and the terms of reference of all the Council's committees;
- the Council has systems and process as outlined in the Risk Management Strategy in place to identify principal risks to the achievement of the Council's objectives, supplemented by the consideration of risk in committee reports and the decision making process;
- the Director of Resources has overall responsibility for embedding the Council's risk management process;
- there are written Financial Regulations and Contract Standing Orders that are subject to regular review;
- adoption of statutory and professional standards such as the Codes of Practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA);
- financial administration procedures agreed by the Section 151 officer;
- the Council has in place a written Whistleblowing Policy, an Anti Fraud & Corruption Policy, a Code of Conduct for employees and a Code of Conduct for councillors, all of which have been regularly brought to the attention of all those concerned;
- an Audit and Corporate Governance Committee is now operating as part of the Council's internal control process;
- an independent audit function that submits regular assurance reports to the Council's Audit and Corporate Governance Committee;
- adoption of a Statement of Internal Control assurance process; and
- devolved financial management arrangements where key managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures.

4. Review of effectiveness

- 4.1 Herefordshire Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The Corporate Management Board carries out this review at officer level with the Audit and Corporate Governance Committee undertaking the review at member level.
- 4.2 The Audit Services Manager informs both the Corporate Management Board and the Audit and Corporate Governance Committee of any significant issues that warrant their attention.
- 4.3 The review of the effectiveness of the system of internal control is informed by the work of the Council's Internal Audit Service, officers of the Council who have responsibility for the development and maintenance of the control environment and also by comments made by the Audit Commission and other review agencies and inspectorates.

Internal Audit Service

- 4.4 Herefordshire's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2003. This responsibility is delegated to the Director of Resources, the officer with responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.
- 4.5 The Audit Services Team operate in accordance with best practice, professional standards and guidelines. The team independently and objectively reviews, on a continuous basis, the extent to which reliance can be placed on the internal control environment. This is evidenced by the opinion given on the Council's overall system of control by the Audit Services Manager.
- 4.6 The Audit and Corporate Governance Committee receives interim and annual reports on internal audit activity and approves the annual plan and Audit Strategy for the forthcoming year.

The Monitoring Officer

- 4.7 The role of the Monitoring Officer is a statutory office whose duties are set out in the Local Government and Housing Act 1989 and the Local Government Act 2000. The main responsibilities of the Monitoring Officer are to ensure that the Council and its elected Members act with probity in accordance with the law and in accordance with its Constitution and to avoid determinations of maladministration being issued by the Local Government Ombudsman.
- 4.8 The Monitoring Officer is also responsible for carrying out investigations and reporting to the Standards Committee of the Council any breaches of the Code of Conduct of members referred to it by the Standards Board for England.

Officers of the Council

- 4.9 Individual Directors and Heads of Service are responsible for establishing and maintaining an adequate system of internal control within their own Directorate and services respectively and for contributing to the control environment on a corporate basis.
- 4.10 Written assurances have been received from all Directors and all Heads of Service stating that:
 - agreed actions plans in response to recommendations from internal audit, external audit and other inspection reports have been or are being implemented within the timetable agreed; and
 - they are satisfied with the operation of internal control within their area of responsibility.

Audit Commission and other review agencies / inspectorates

- 4.11 The Audit Commission's Annual Audit and Inspection letter for 2005/06 (dated March 2007) stated that the Council's systems of internal control met the minimum requirements for the Use of Resources assessment. The main areas

identified by the Audit Commission that would benefit from improvement are listed below together with an update in *italics* of progress to date:

- demonstrate that it actively manages risk and there are outputs from management. Officers need to be trained in risk awareness and the Council needs to demonstrate that they have adequately considered partnerships in their risk Assessments.

Risk Management is an integral part of the Council's Performance Management Framework with the Corporate Risk Log being regularly reviewed by Corporate Management Board. The Corporate Risk Logs are also an integral part of the Council's Integrated Performance Reports submitted to Cabinet.

- embed the assurance framework and the links between the Council's objectives and risks could be clearer. Reconciliations of key feeder systems need to occur monthly. Partnership arrangements need to be developed with standing orders showing how good governance and partnerships relate.

The Council's agreed assurance framework has been followed with regular updates being provided to the Audit and Corporate Governance Committee. The links between the Council's objectives and risks are being identified. The development of the governance framework for partnership arrangements will form part of the pending review of the Council's Standing Orders.

- raise awareness concerning ethical behaviour but also needs to raise awareness of whistleblowing procedures and the antifraud and corruption policy.

The Council has placed posters on notice boards at its administrative buildings and continues to remind staff by regular notices on payslips.

- act on feedback from the ethical survey of Members and Senior Officers. There were some areas identified as areas for action such as the work of the Standards Committee and improved communication to the public on the whereabouts of public documents.

Legal and Democratic Services has carried out training for Members in relation to the role of the Council's Standards Committee as part of a wider programme of Member training. The Council's Head of Communication is reviewing the Council's arrangements with regards to communication with the public.

Benefits Fraud Inspectorate

- 4.12 The Benefit Fraud Inspectorate gave the service a '2 star' for 2006 which equates to a 'fair' performance overall. Although user focus continued to be good, the service failed to achieve its annual target for interventions work and claims processing. The service has, however, been improving steadily and has self-assessed against the inspection criteria for 2007 as a 'good' service. The formal results will be announced in November 2007.

Annual Performance Assessment

- 4.13 The 2006 Annual Performance Assessment of Services for Children and Young People in Herefordshire showed that there were no inadequate assessments, with the Council getting a score of 2. The latest action plan shows that progress is being made. However, the Government Office for the West Midlands (GOWM) remained concerned about the Council's ability to sustain the improvement and will, at the Government's request, continue to oversee the Improvement Board for Children and Young People the end of September 2007. The August 2007 examination results for Herefordshire were good. The next Annual Performance Assessment is scheduled for the end of September 2007 and will result in an updated external assessment of the Council's Children and Young People services.

Fostering Service

- 4.14 The Commission for Social Care Inspection (CSCI) found the Fostering Service to be good with some outstanding features. An action plan has been developed that will ensure that the service continues to improve.

Cultural Services

- 4.15 The Audit Commission's inspection of Cultural Services showed the service to be fair with promising prospects for improvement. The Head of Service has developed an action plan to address issues raised.

Learning Disabilities

- 4.16 The Commission for Social Care Inspection (CSCI) has inspected the Learning Disabilities Service. The outcome was that people were not being served well and the capacity for improvement was uncertain. An action plan has been developed and agreed. It is being implemented as an integral part of the Council's comprehensive programme of improvement for Adult Social Care Services.

5. Significant internal control issues

- 5.1 The Council is required to report upon any significant internal controls issues including those that have:
- seriously prejudiced or prevented achievement of an objective;
 - resulted in the need to seek significant additional funding;
 - had a material impact in the accounts;
 - resulted in formal action by the Monitoring Officer, Chief Finance Officer or have been reported as significant by the Audit Services Manager; or
 - attracted significant public interest.
- 5.2 The following issues have been identified as falling within the categories listed in paragraph 5.1:
- The Learning Disabilities Service has been judged by CSCI as not serving people well.

- Three fundamental systems were given a **marginal** (a number of areas have been identified for improvement) audit opinion in 2006/07. These were:
 - Education Transport;
 - Housing Benefit Payments; and
 - Salaries in Children Services.

Audit recommendations have been made in relation to each of the above systems. Audit Services will review implementation of the agreed action plans as part of planned activity in 2007/ 2008.

- One fundamental system was given an **unsatisfactory** audit opinion (unacceptable risks identified, changes should be made). This relates to the financial management and procurement system within ICT. Audit recommendations and progress will be monitored in line with usual protocol.

- 5.3 It is also appropriate to highlight concerns arising in the current financial year that relate to the previous year of account.
- 5.4 A separate report on the Audit and Corporate Governance Committee's agenda for 21st September 2007 explains changes necessary to the Statement of Accounts for 2006/07 that were approved by the Audit and Corporate Governance Committee in June 2007.
- 5.5 A further report on the Audit and Corporate Governance Committee's agenda for 21st September 2007 gives details of an corporate action plan proposed by the Director of Resources to address concerns about financial governance arrangements emerging in ICT and Customer Services. One of the issues identified is linked to one of the changes necessary to the Statement of Accounts for 2006/07.

Cllr R. Phillips
Leader of the Council

N. Pringle
Chief Executive

Mrs. S. Rees
Director of Resources

September 2007

INTERIM ASSURANCE REPORT 2007/08**Report By: Audit Services Manager****Wards Affected**

County Wide

Purpose

To provide the Audit and Corporate Governance Committee with a first interim Assurance Report for 2007/08 that:

- provides an update on progress with the significant internal control issues identified in the Assurance Report for 2006/07; and
- identifies the significant internal control issues identified to date in 2007/08.

Financial Implications

None.

Recommendation**THAT the report be noted.****Reasons**

To comply with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

To provide the Audit and Corporate Governance Committee with an update on the significant internal control issues.

Considerations**Key Issues Identified in 2006/07**

1. The Audit and Corporate Governance Committee considered the Annual Assurance report for the year ending 31st March 2007 on 29th June 2007. The Audit and Corporate Governance Committee also reviewed and adopted a Statement on Internal Control for 2006/07 at that meeting, and has considered a revised Statement on Internal Control for 2006/07 earlier on this agenda.
2. The significant internal control issues identified in the revised Statement on Internal Control for 2006/07 are set out below, along with comments on progress in *italics*:

Further information on the subject of this report is available from Tony Ford (Audit Services Manager) on 01432 260425

- The Commission for Social Care Inspection (CSCI) has judged to the Learning Disabilities Service as not serving people well.

CSCI has approved an action plan agreed by Cabinet in consultation with scrutiny. Robust project management arrangements are in place with progress regularly reviewed by the Director of Adult and Community Services via his management team. Formal progress reports to Cabinet and scrutiny are also planned. The Annual Review Meeting with CSCI took place in early September 2007 and formal feedback is awaited.

- Three fundamental systems were given a **marginal** audit opinion in 2006/07 (a number of areas have been identified for improvement). These were:
 - Education Transport;
 - Housing Benefit Payments; and
 - Salaries in Childrens Services.

As in previous years, work in relation to the 2007/08 audit of fundamental systems will include follow up work on recommendations made in previous years. Audit work in this area has just started. The Audit and Corporate Governance Committee will be informed of any significant internal control issues in routine reports from the Audit Services Manager.

- One fundamental system was given an **unsatisfactory** audit opinion in 2006/07 (unacceptable risks identified, changes should be made). This relates to the financial management and procurement system in ICT.

Audit Services has been completed the follow-up work in relation to this audit. Some of the actions agreed in response to the audit recommendations have been actioned. However, nine recommendations had not been actioned, two of which were ranked as critical. One of the critical recommendations related to the reconciliation of the ICT financial management and procurement system to the corporate financial management system. This was not up to date at financial year-end. The Acting Head of Service took swift action in requesting support from Financial Services and they successfully reconciled the ICT financial management and procurement system to the corporate financial management system as at 31st March 2007. The other critical recommendation related to the budget management. The Acting Head of ICT is working closely with Financial Services to establish the ongoing base budget requirement for ICT services and an appropriate charging mechanism. The ICT finance team has recently transferred to the Resources Directorate and good progress is now being made in conjunction with the Corporate & Customer Services Directorate.

Progress with the Audit Plan for 2007/08

3. The Audit and Corporate Governance Committee approved the Audit Plan for 2007/08 on 13th April 2007. The current status of work is set out in Appendix 1.

4. Work to assess financial management arrangements within secondary schools in line with Department for Children, Schools and Families (DCSF) standards is coming to an end. At the present time, 6 out of 14 reports have been finalised. Two schools met the required standard and the remaining four are on target to meet it. Follow-up work is planned to ensure these four schools meet their targets for improvement. Draft reports are with the remaining 8 secondary schools for comment and action planning. The lessons learned from carrying out the reviews in secondary schools will be used to improve the approach in primary schools.
5. Work on a sample of 12 performance indicators is in progress. Early indications are that there continues to be a need for better checking of data by managers to meet data quality standards. Corporate Management Board has been briefed and a joint report by the Head of Policy and Performance and the Audit Services Manager will be highlighting the actions necessary for improvement.
6. Following discussions with the relevant Heads of Service the timetabling of the fundamental system reviews has been completed.

Audit Opinions

7. Appendix 1 shows the current status of work carried out by Audit Services, with final audits showing an audit opinion. The unsatisfactory opinion on the Drugs Forum was given on the basis that there was a need for some form of monitoring, feedback and assurance process to demonstrate that the forums were achieving satisfactory and desirable outcomes. Not all the recommendations made will apply to all the forums as some had better systems than others.

Recommendations made

8. Under current reporting protocols, the Audit Services Manager has to bring all critical recommendations to the attention of the Audit and Corporate Governance Committee. These are recommendations where non-compliance will be a high risk to the Council and where action is required urgently or within an agreed timescale.
9. Please see paragraph 10 below for the issues identified to date.

Areas of concern

10. A special report by the Director of Resources elsewhere on this agenda includes an action plan to address issues arising from an audit review that has recently been drawn to a close that contains a number of critical recommendations.

Risk Management

There is the risk that the resources needed to carry out the work needed to give an opinion on the Council's Internal Control system is not available. The Audit Services Manager keeps progress against the Audit Plan under constant review reporting progress on a monthly basis to the Director of Resources. The Director of Resources recommends that the level of resource be increased to support the actions outlined in the special report elsewhere on this agenda.

Background Papers

Code of Practice for Internal Audit 2006

STATUS OF AUDITS STARTED DURING THE YEAR

Audit	Status	Audit Opinion
Fundamental Systems		
Bank Reconciliation	WIP	
Housing Benefit	WIP	
Statement on Internal Control 2006/07	Final	Satisfactory
Non Fundamental Systems		
Management of Property	WIP	
ICT- Use of Contractors	Draft with Client	
Lifelong Learning	Final	Good
Governance		
Delegations Arrangements – Directors Responsibilities	Draft with Client	
ICT Contractors Expenses	Draft with Client	
Performance Management		
Best Vale Performance Indicators	WIP	
Establishment Audits		
Kingstone High School (DCSF Standard)	Draft with School	
John Kyrle High School (DCSF Standard)	Final	Standard met
Aylestone High (DCSF Standard)	Draft with School	
Wyebridge Sports College (DCSF Standard)	Final	On target to be met.
Weobley High (DCSF Standard)	Draft with School	
Lady Hawkins High (DCSF Standard)	Draft with School	
Wigmore High (DCSF Standard)	Draft with School	
Queen Elizabeth High (DCSF Standard)	Draft with School	
St. Marys High (DCSF Standard)	Draft with School	
Whitecross High (DCSF Standard)	Final	On target to be met
Fairfield High (DCSF Standard)	Final	On target to be met
Minster College (DCSF Standard)	Draft with School	
Bishop of Hereford Bluecoat (DCSF Standard)	Final	Standard met
John Masefield High (DCFS Standard)	Final	On target to be met
Verification and Probity		
Drugs Forum - Partnership Management	Final	Unsatisfactory
Contract - Ross Flood Alleviation	Final Draft	
Local Area Agreement - Grant	Final	N/a
Recommendation Follow up		
Control of ID Cards	Draft with Manager	
ICT FMS	Draft with Client	
Risk Management		
Risk Management Framework	Draft with Manager	

STATUS OF AUDITS STARTED DURING THE YEAR

Quantification and Classification of Internal Control Levels

Control Level	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

The Audit Opinion is based on a number of factors including the number of Level 1 and, to a lesser extent, Level 2 recommendations. Weighting is given to different aspects of the Audit e.g. a high weighting for budgetary control. It is expected that larger systems and establishments will receive higher numbers of recommendations and allowance is made for this.

SPECIAL REPORT

BY: DIRECTOR OF RESOURCES

TO: AUDIT & CORPORATE GOVERNANCE COMMITTEE

SUBJECT: FINANCIAL GOVERNANCE IN ICT & CUSTOMER SERVICES

DATE: 21ST SEPTEMBER 2007

BACKGROUND

1. The financial governance arrangements within ICT & Customer Services have given cause for concern for some time. The risks identified by both Audit Services and Financial Services have been reported on an ongoing basis in line with the Council's agreed audit and financial management reporting arrangements.
2. A recent special audit investigation into travel and subsistence expenses within ICT & Customer Services concluded there were serious weaknesses in compliance with agreed internal control arrangements (see attached). An audit review on the use of contractors within ICT & Customer Services has recently been drawn to a close. The audit conclusion is that systems and procedures as evidenced were **unsound** (major risks identified; fundamental improvements required).
3. These latest findings, coupled with those previously reported, now makes the financial governance arrangements within ICT & Customer Services a serious concern. A special report from the Director of Resources to senior management, Cabinet and the Audit & Corporate Governance Committee is the appropriate course of action given the circumstances. This approach has been discussed fully with senior management colleagues and is supported by them. It has also been discussed with the Audit Commission.
4. The purpose of this report is therefore to:
 - Summarise the key issues of concern in relation to the financial governance arrangements within ICT & Customer Services;
 - Outline the actions taken and planned by senior management to address the issues identified;
 - Describe the potential implications for the Council's corporate financial standing and reputation; and
 - Recommend an action plan to demonstrate a strong corporate response to the issues identified in this report.

5. The scope of this report is to disclose significant non-compliance issues within the ICT & Customer Services division revealed as a result of recent audit activity. Offering an opinion on whether the contractual arrangements entered into represent best value or not, or whether a different procurement decision would have resulted had the correct procedures been followed, is beyond the scope of this report. A further technical and financial appraisal would be required to assess these issues.

FINANCIAL GOVERNANCE ARRANGEMENTS IN ICT & CUSTOMER SERVICES

Context

6. The ICT & Customer Services division was the only service division to have dedicated financial management support when the Council's senior management arrangements were re-organised in May 2005. The service-based accountant managed a small finance team reporting directly to the service manager.
7. The key risks with this type of arrangement are that the accountant 'goes native' or is unable / unwilling to access appropriate professional support. This can result in poor quality financial advice to the Council as a corporate body. These risks, if realised, can be exacerbated if the service maintains its own financial ledger system and as a result manages the prime accounting records.
8. Senior management has recognised the risks that can be associated with devolved financial management support arrangements. Adult & Community Services transferred their finance team to the Resources Directorate in November 2005. Senior management agreed restructuring proposals to consolidate financial administration and financial management support activities in the Resources Directorate in early 2006.
9. Senior management decided to transfer the service-based finance team in the ICT & Customer Services division to the Resources Directorate when the service-based accountant resigned their position in early 2006. This decision was in line with the strategy senior management had agreed to consolidate financial support activities as outlined in the preceding paragraph and was fully supported by the Director of Corporate & Customer Services. Despite clear instructions from senior management, the transfer proved difficult and time consuming to achieve. Interim arrangements were largely unsuccessful despite significant support from senior management. A satisfactory arrangement has recently been established.
10. A very sensitive and confidential HR issue emerged in August 2006 that was not resolved until November 2006. Serious allegations relating to compliance with contracting procedures within ICT & Customer Services were made in March 2007. It is not within the scope of this report to comment on the HR aspects of either of these issues. It is however

important to recognise that these events made it very difficult for senior management to address the issues highlighted in formal audit and financial management reports in as timely a fashion as might otherwise have been reasonable to expect.

11. The next two sub-sections of this report deal with the financial management and financial governance concerns within ICT & Customer Services in turn.

Financial management concerns

12. Financial year-end processes for 2005/06 revealed a significant over spend on the ICT Trading Account that was mitigated by use of accumulated surpluses.
13. Cabinet approved the Council's first comprehensive financial strategy in July 2006 as a working document setting out the financial parameters for detailed service and budget planning for 2007/08 and beyond. Concerns about ICT & Customer Services budgets were noted in the draft strategy as an ICT strategy was in development.
14. Significant improvements in the quality of routine financial management reports were delivered in 2006/07. It was still proving difficult however to establish an accurate financial picture of the whole ICT & Customer Services operation and thus the forecast outturn for the year. These concerns were highlighted in the routine Integrated Performance Reports (IPRs) during the latter half of 2006/07.
15. Greater clarity on the financial implications of the Customer Services strategy was established as part of the detailed service and budget planning work for 2007/08. Council agreed an additional £500k investment in March 2007 for 2007/08 and 2008/09 as the financial model developed by Financial Services indicated that cashable benefits would cover the temporary additional base budget provision in following years.
16. It was not possible to replicate this progress for the ICT budgets – either in terms of the budget for day-to-day operations or future investment requirements. The financial risks were noted in supporting papers as the Council set the budget for 2007/08 in March 2007.
17. Financial year-end processes for 2006/07 highlighted an over spend position on the revenue budget for ICT & Customer Services. By this stage, Acting Head of ICT & Customer Services arrangements were in place and progress in relation to both the financial management and governance issues began to gather momentum.
18. A further concern for 2006/07 is that the external auditor has queried the accounting treatment of payments made to the Community Network Upgrade (CNU) project contractor. These transactions have fed through automatically from the subsidiary financial system in ICT to the corporate

financial system with capital cost codes attached. The Statement of Accounts for 2006/07 approved by the Audit & Corporate Governance Committee in June 2007 reflected the information available.

19. The external auditor challenged some £1.4m of these payments as part of his work reviewing the Statement of Accounts for 2006/07 on the basis he believed they were revenue items. Financial Services reviewed the challenge and as a result the figure has reduced to £1.224m.
20. Further work carried out by Financial Services has identified £509k of capital expenditure funded by revenue contribution that will now be capitalised to mitigate the impact on the closing balance on the General Fund for 2006/07. The net effect is a reduction in the General Fund balance of £715k, compounding the financial pressures that are emerging during the course of the current Performance Improvement Cycle. Work is ongoing to check that the allocation of project expenditure between the revenue and capital accounts is in line with expectations at the time a decision to proceed with the CNU was made.
21. Moving on to the current financial year, Cabinet will consider the month 4 IPR for 2007/08 on 20th September 2007. It notes the recent progress in establishing a forecast outturn for 2007/08 for ICT & Customer Services. An over spend is currently anticipated but work is in hand to reduce it further. The IPR also highlights the potentially significant budget issue in respect of the CNU project referred to in the preceding paragraph.

Financial governance concerns

22. The Back Office Project for ICT & Customer Services led to the introduction of a separate financial management and procurement system for the ICT division. A new technology platform was chosen and interfaced to the Council's corporate financial management system.
23. The value of transactions passing from the ICT back office system to the corporate financial management system was assessed as material in the context of the Council's overall financial accounts. The ICT back office system was therefore classified as a fundamental system requiring annual audit review to provide assurance to management and the external auditor that the information used to prepare the Statement of Accounts was complete and accurate.
24. Audit Services reviewed the ICT back office system as part of their planned audit work for 2005/06. A **satisfactory** (minimal risk; a few areas identified where changes would be beneficial) audit opinion was issued on the following basis:
 - The system was still being implemented and an action plan was in place to bring it up to the expected standard;

- A number of technical problems prevented full testing of system controls but temporary manual controls were satisfactory; and
 - The ICT back office system came with good controls and there was no reason to assume that the full implementation would not be successful.
25. The next planned audit of the ICT back office system began in mid 2006/07. Audit Services noted little progress with the action plan agreed following the first review. Further audit testing highlighted significant concerns relating to budget management and payment processes within the ICT back office system and reconciliations to the corporate financial management system. The audit opinion for this review was **unsatisfactory** (unacceptable risk identified; changes should be made) with three critical recommendations. A further action plan was agreed with management. Follow-up work has been carried out to check progress and address queries raised by the external auditor. Progress was again found wanting and Financial Services needed to provide urgent support to resolve the issues impeding year-end procedures.
26. The Audit & Corporate Governance Committee approved the internal audit plan for 2006/07 in April 2006. An audit review of the use of contractors in ICT was agreed as part of an overall plan to assess financial governance arrangements across the Council.
27. The audit team followed agreed protocols in discussing the details of the audit with management. A start in April 2007 was eventually agreed. The police investigation into the anonymous allegations made about contracting arrangements within ICT & Customer Services in March 2007 led to a further delay in starting this audit review. The audit team was unable to access the necessary documentation until late May / early June. The scope of the planned audit was extended by the Director of Resources to encompass the anonymous allegations. The audit review took longer than planned because the audit trail was not complete or easy to follow.
28. The audit review of the use of contractors in ICT has been drawn to a close. The audit opinion accompanying the draft report is **unsound** (major risks identified; fundamental improvements are required). The key findings, based on the information available at the time the audit review was drawn to a close, are summarised as follows:
- The reports supporting the formal decisions in early 2005 on the ICT back office and Community Network Upgrade projects did not contain a robust options and financial appraisal;
 - There was insufficient evidence to demonstrate that the procurement process in respect of these two projects was robust;

- There was insufficient evidence to confirm that the project management and reporting arrangements for these two projects complied with the PRINCE 2 framework and standards;
 - There was insufficient evidence to confirm that financial management arrangements for these two projects complied with the Council's agreed policies and procedures;
 - There was insufficient evidence to confirm that formal approval was sought to award the contracts for the ICT back office and CNU projects to a contractor other than the one supplying the lowest tender;
 - There was limited evidence to suggest that procedures were in place to ensure that all contracts with an estimated value under £50k were let in accordance with the Council's agreed procedures; and
 - There was evidence to show that the external consultant employed to advise on the CNU project procurement process had concerns that the approach adopted was robust.
29. The evidence currently available to Audit Services shows that the ICT division refuted the concerns noted by the consultant employed to advise on the CNU procurement. The consultant modified some of their comments and withdrew the remainder accepting they were raising concerns outside the scope of their contract with the Council. Audit Services has interviewed the consultant as part of their review work. The consultant has confirmed their concerns about the way in which the CNU procurement process was managed.
30. It is important to note that the audit findings summarised above have been drawn from the information currently available. Audit Services has encountered difficulties in piecing together the evidence for this review as the information that is available is not of the standard expected and there are gaps (e.g. lack of returned tenders for the CNU project). There does need to be a clear audit trail in place for all Council activities that is readily accessible when needed.
31. Audit Services have found it difficult to establish the exact cost of the ICT back office project from the records available. A detailed analysis of source documents plus reconstruction of time sheets would be needed to produce an accurate statement of costs. It is thought that the cost is significantly more than that indicated at the outset. The ongoing annual cost of the ICT back office system is one of the budget pressures being highlighted in formal budget monitoring reports for the current financial year, along with budget issues relating to the contract that supports the CNU project.
32. The audit opinion covering the ICT back office and CNU projects is **unsound** (major risks identified; fundamental improvements are required). The Director of Corporate & Customer Services has already initiated a

review of the CNU contract and has asked for support from Financial Services and Legal Services with this.

33. The accompanying report on the findings of an audit review highlighting internal control weaknesses relating to travel and subsistence claims within ICT & Customer Services is another important piece of context in preparing proposals for a corporate response to the issues identified in this report.
34. Putting the findings of both reviews together, based on the audit evidence available at the present time, the procurement processes for the ICT back office project and the CNU project were flawed.
35. Senior management's attention has also been drawn to the fact that audit fieldwork on other planned audits to test the Council's financial governance arrangements is under way. Senior management has been strongly advised to check their arrangements for complying with financial and non-financial delegations outlined in the Council's constitution in advance of that review reaching their area.

ACTIONS TAKEN / PLANNED BY SENIOR MANAGEMENT

36. It is worth stressing again that the circumstances surrounding ICT and Customer Services have been extremely challenging for senior management.
37. The Director of Corporate and Customer Services has sought to ensure appropriate responses to internal audit reviews and has assisted in agreeing arrangements for follow-up work.
38. The Director of Corporate and Customer Services will be preparing an action plan in response to the audit review on the use of contractors within ICT & Customer Services.
39. Work on clarifying the gross expenditure budget for the ICT & Customer Services division and appropriate recharging methodologies continues.
40. The Corporate Management Board has unanimously agreed to implement the action plan in the attached travel and expenses report with immediate effect.
41. The Corporate Management Board has discussed and unanimously supports the approach set out in this report and the action plan attached to it.

IMPLICATIONS FOR THE COUNCIL'S FINANCIAL STANDING AND REPUTATION

42. The Audit Commission will shortly be sending their draft Annual Governance report to senior management for comment prior to presenting it to the Audit & Corporate Governance Committee on 21st September 2007. This routine report covers two main issues:
- the external audit opinion on the Statement of Accounts; and
 - the external audit opinion on the Council's arrangements for securing economy, efficiency and effectiveness.
43. The Audit Commission has to report their audit opinion by the 30th September of each year.
44. Given the issues identified in this report, it is unlikely that this year's Annual Governance report will be as positive in overall terms as in previous years. There may be adverse comment on the need to alter the Statement of Accounts for 2006/07 and the Council's arrangements for securing economy, efficiency and effectiveness.
45. The issues identified in this report may also be reflected in the external auditors' Use of Resources judgement for 2007. The financial management concerns may reflect in comments under the Financial Management, Financial Reporting and Financial Standing headings. The financial governance issues may reflect in the external auditor's comments on Internal Control. An adverse opinion on the arrangements for securing economy, efficiency and effectiveness could feature in the Value for Money assessment.
46. The ability to maintain the current 3 out of 4 score overall for Use of Resources hangs in the balance. This could have significant reputational impact for the Council in terms of the Comprehensive Performance Assessment / Comprehensive Area Assessment process, especially given the outcome of recent service inspections and our Direction of Travel assessment. It is difficult to convince auditors and inspectors that services are good or better still excellent if the corporate governance arrangements that support them are found or are felt to be wanting. Perceptions matter and senior management will need to work hard to limit the damage.

CORPORATE RESPONSE

47. The Director of Corporate & Customer services will be responding to the audit recommendations contained in the audit reviews referred to in this report in line with agreed protocols. The key findings of the audit reviews and action plans will be reported to Audit & Corporate Governance Committee, also in line with agreed reporting arrangements.
48. Given the seriousness of the issues identified in this report, a corporate response is needed to supplement that within the Corporate & Customer Services Directorate. It is imperative that senior management and Cabinet

works as one to secure and enhance the integrity of the Council's financial governance arrangements, and that the corporate action plan is supported by the Audit & Corporate Governance Committee, Cabinet, and the Strategic Monitoring Committee.

49. The reputational implications with the Audit Commission of failing to agree and implement a robust corporate action plan are set out above. The attached table sets out the issues that need to be addressed and recommends appropriate action to enable positive assurance to be given in respect of the Director of Resources' responsibilities as Chief Financial Officer for the administration of the Council's financial affairs and providing advice (Appendix 17 of the Council's Constitution refers).

CONCLUSIONS

50. The scope of this report is to disclose significant non-compliance issues within the ICT & Customer Services division revealed as a result of recent audit activity and make recommendations on remedial action. Offering an opinion on whether the contractual arrangements entered into represent best value or not, or whether a different procurement decision would have resulted had the correct procedures been followed, is not within the scope of this report. A further technical and financial appraisal would be required to assess these issues.
51. The financial governance issues summarised in this report are serious and significant in both financial and reputational terms. The Council has ambitious plans for improvements in service delivery and value for money. It needs to demonstrate that its corporate governance framework is effective and that it provides a sound basis for such service improvement. It needs to take clear and decisive action where those arrangements are found wanting.
52. As Chief Financial Officer, it is the Director of Resources' responsibility to ensure that the issues highlighted in this report are reported in an appropriate manner to the Audit & Corporate Governance Committee, Cabinet and the Strategic Monitoring Committee if necessary. It is pleasing to be able to confirm senior management's support for this approach and commitment to prioritise the recommendations in this report. My report also incorporates comments made by the Council's Monitoring Officer.

RECOMMENDATIONS

- 53. The Chief Financial Officer's advice, as supported by senior management colleagues, is that:**
- **The Director of Corporate & Customer Services should urgently complete the re-assessment of the CNU contract she has initiated;**

- **Financial governance compliance testing is prioritised in line with the timetable indicated in the attached action plan; and**
- **Implementation of the attached recovery plan is prioritised in line with the timetable indicated within it.**

**SONIA REES
DIRECTOR OF RESOURCES
13TH SEPTEMBER 2007**

	Issue to address	Comments	Suggested corporate response	Responsible officer(s)	Date
1.	Regular review on the progress implementing this corporate response.	The plan needs to be implemented effectively and to timetable.	CMB to monitor on a monthly basis and report to Cabinet. Report to each Audit & Corporate Governance Committee meeting.	CMB DoR	Ongoing
2.	Ensure the corporate response to the travel and expenses audit review is implemented effectively and to timescale.	Recommendations on the corporate response to the travel and subsistence audit review are relevant to this action plan, e.g. reviewing induction training.	CMB to consolidate the corporate responses to the travel and subsistence review and the corporate response to this report into one action plan.	DoR MO	Following discussion at CMB on 7.9.07
3.	Work to establish the cost of existing ICT and Customer Services operations and future investment needs to be urgently concluded to inform the Performance Improvement Cycle.	The audit and financial management reports have been highlighting the budget issues, quantifying them where possible to do so.	Director of C&CS to lead with support from Financial Services.	DC&CS HoFS	30.09.07
4.	Permanent managerial arrangements for ICT and Customer Services need to be established.	Much progress has been made by the Acting Head of Service.	CMB to discuss and agree proposals from DC&CS.	DC&CS CMB	October 2007

	Issue to address	Comments	Suggested corporate response	Responsible officer(s)	Date
5.	Review approach to and arrangements for the delivery of project management services. All post implementation reviews must include a technical and financial appraisal.	CMB has discussed this issue on a number of occasions. Need to conclude as part of the Performance Improvement Cycle.	CMB to discuss and agree proposals from DC&CS.	DC&CS CMB	October 2007
6.	Review of the financial and legal elements of the Council's constitution to ensure clarity and consistency.	The Council's Constitution is not as clear as it could be, nor as robust as it could be in support of the Section 151 Officer's and Monitoring Officers' statutory roles compared to exemplar authorities.	Working group to carry out a review and make recommendations in the first instance to CMB. Need to report to Audit and Corporate Governance Committee and other appropriate decision-making and scrutiny functions prior to being agreed at Council.	DoR HoLDS HoFS CIA HoBES HoHT	Council in November 2007
7.	Council's Constitution and Financial Regulations to be reviewed to ensure the requirement to secure financial and legal advice on all formal reports is explicit.	CMB needs to rigorously police the reports produced in their areas to ensure Financial Services has completed and signed off the financial implications and Legal Services has signed off the legal implications. This will ensure financial and legal advice is available to support all decisions.	CMB to insist on the highest standard in all aspects of report writing, including financial and legal implications. CMB to ensure there are no exceptions to the policy of all formal reports being cleared by the Head of Paid Services, the Monitoring Officer and the Section 151 Officer.	All report authors	Council in November 2007
8.	Audit Services and the Monitoring Officer need to be granted access to staff, records and feeder systems if required to fulfil their statutory obligations.	Key Managers responsible for feeder systems must ensure appropriate licence arrangements are in place in the event access is requested. Key Managers must assist with training if needed.	Incorporate into the review of the Constitution. Re-affirm current provision in the Council's Constitution on audit access.	DoR HoLDS HoFS CIA HoBES HoHT	Council in November 2007

	Issue to address	Comments	Suggested corporate response	Responsible officer(s)	Date
9.	Improve the quality of working papers/files recording business activity.	Important in terms of: <ul style="list-style-type: none"> • new data quality standards; • service continuity planning; and • ability to demonstrate a clear audit trail. 	Guidance on the standards of record keeping needs to be devised.	Information Manager CIA	December 2007
10.	Improve standards of internal control for fundamental systems.	Demonstrates a rigorous approach to improving financial and legal governance.	Minimum acceptable standard is satisfactory – this is a non-negotiable.	CMB HoHR CIA	Allow 3 months' notice for improvement
11.	Improving financial governance in ICT and Customer Services.	A top priority – needs to achieve the minimum standard of satisfactory for the fundamental systems and sign-off that action plans have been implemented for other reviews.	DC&CS to implement agreed action plans for the FMS system in ICT, travel and expenses and use of contractors audit reviews.	DC&CS DoR	January 2008
12.	Complete work in progress on internal recharging mechanisms to the agreed timetable.	This is important to ensure compliance with the Best Value Accounting Code of Practice (BVACOP) and to promote clarity and transparency in the recharging process.	Actions identified and agreed in a report to CMB on 16th August from the SMT SLA working group.	Anne Heath, Chair of SMT SLA Working Group, reporting to CMB.	March 2008
13.	All financial administration and financial management resources transfer to the Resources Directorate as soon as practical.	This principle has been previously agreed by CMB. Further progress will be demanded by the Herefordshire Connects programme. The main opportunities for minimising risk and maximising efficiencies lie within the Children and Young People's Directorate.	Identification and planning for transfer of resources to be considered by the ISS Board with exceptions reported to the Herefordshire Connects Programme Board for decision.	Mike Toney, Chair of ISS Board, reporting to Herefordshire Connects Partnership Board.	March 2008

	Issue to address	Comments	Suggested corporate response	Responsible officer(s)	Date
14.	Ensuring members receive complete advice from the Monitoring Officer and S.151 Officer on the legal implications and financial implications of all policy proposals.	Need to ensure the Leader and his Cabinet is fully supported by the three statutory officers identified, plus other officers as appropriate. This approach will also help improve the quality of reports, as advice to the executive is complete.	Liaison meetings with the Leader to include the Monitoring Officer and S.151 Officer to be diarised at no more than quarterly intervals.	Chief Executive DoR MO / HoLDS	Immediate effect
15.	Promote compliance with corporate financial governance arrangements by reviewing management practices and accountabilities.	Need to reinforce the importance of robust financial governance arrangements – responsibilities to stakeholders, personal protection for individual employees and organisational reputation.	Make compliance with corporate financial arrangements a non-negotiable. CMB to carry out immediate checks on contracting arrangements and authorised signatory lists.	CMB DoR	Immediate effect
16.	Enhance Key Manager's financial skills and knowledge of the Council's approved corporate governance framework, ensuring the message is constantly reinforced through effective training.	Better understanding of financial management and governance issues will improve compliance with corporate financial governance arrangements.	Make attendance on training courses a pre-requisite to getting a "licence to practise" as a manager. Attendance at refresher training courses will also be mandatory.	HoHR HoFS MO CIA	Immediate effect
17.	Ensure all capital and revenue budget proposals are identified through agreed service and financial planning processes.	Ensures resources allocated in line with longer-term priorities and encourages corporacy and effective forward planning. Also encourages service managers to prepare a robust business and financial case in support of their proposals that is evidence based.	Ensure in-year budget proposals are only brought forward in exceptional circumstances.	CMB	Immediate effect

	Issue to address	Comments	Suggested corporate response	Responsible officer(s)	Date
18.	Enhance Audit Services' capacity.	Early action to enhance the capacity of the Audit Services team will demonstrate commitment to strengthening corporate governance.	CMB to agree restructure proposals identified during the PIC process costing £45k. This can be met from the existing base budget for the Resources Directorate.	CMB DoR	Immediate effect
19.	Enhance strategic procurement capacity to ensure compliance with the Council's contracting policies and procedures.	Early action to enhance strategic procurement capacity will demonstrate commitment to strengthening corporate governance.	CMB to agree additional resources to centralise monitoring of contract procedures within Resources. This can be met from the existing base budget for the Resources Directorate.	CMB DoR	Immediate effect
20.	Check that issues highlighted in ICT and Customer Services are not repeated elsewhere.	Audit Services to re-focus planned activity to provide early assurance that this set of circumstances is not prevalent.	CMB needs to be prepared to respond quickly to Audit Services.	CMB	Immediate effect
21.	Ensure budget is in place before committing expenditure.	Financial Services will continue to reflect the financial implications of formal decisions in the Council's budgets – a further reason for ensuring that the financial implications section of all reports is complete and detailed. This does not absolve Key Managers from ensuring the budget is in place before entering into a financial commitment.	CMB to re-inforce the message that Key Managers need to work closely with Financial Services colleagues to ensure all appropriate permissions to spend are in place before letting a contract.	All	Immediate effect

CIA = Chief Internal Auditor
DoR = Director of Resources
HoLDS = Head of Legal and Democratic Services
HoHR = Head of Human Resources
HoPS = Head of Paid Services
MO = Monitoring Officer

DC&CS = Director of Corporate & Customer Services
HoFS = Head of Financial Services
HoBES = Head of Benefit and Exchequer Services
HoHT = Head of Highways & Transportation

REPORT

BY: DIRECTOR OF RESOURCES
TO: CORPORATE MANAGEMENT BOARD
SUBJECT: SPECIAL AUDIT INVESTIGATION
DATE: 7TH SEPTEMBER 2007

BACKGROUND

1. A special audit investigation is one that falls outside the planned programme of audit work, usually to assist an investigating officer establish the facts of a matter before deciding what if any course of action needs to be taken.
2. A protocol has been established for making sure any weaknesses in the internal control environment identified as a result of special audit investigations are reported to:
 - CMB for action as appropriate; and
 - the Audit & Corporate Governance Committee.
3. This report has been prepared in line with the agreed reporting protocol.

DETAILS

4. Audit Services recently carried out a review of a senior officer's travelling and subsistence claims. The review was requested by the Director of Resources in order to inform the overall investigation into serious allegations made about the senior officer. The review was subsequently extended to include travelling and subsistence claims made by the senior officer's direct reports.
5. The review identified non-compliance with the Council's existing policies for:
 - claiming and reimbursement of travelling and subsistence expenses;
 - employee conduct;
 - declaration of gifts and hospitality.
6. The attached table sets out the key audit findings and the actions necessary to ensure the integrity of the Council's internal control environment across all Directorates.

7. The actions outlined in the attached table will strengthen the existing internal control arrangements for travel and subsistence claims and employee conduct. Whilst it is important that our policies and codes are as clear and as concise as possible, it is just as important employees are aware of and are reminded of the standard of behaviour expected of them and what is an allowable expenses claim. This process begins with employee induction and continues through effective supervision and management. To this end, Corporate Management Board should also ensure that:
- the induction process is effective [**ACTION: Head of HR**];
 - the communications process continually reinforces the message about standards in public office in an appropriate way (e.g. building on the Values work) [**ACTION: Head of Communications**];
 - access to the Council's policies and codes via the Intranet is easy; [**ACTION: Acting Head of ICT**]; and
 - compliance with the Council's code of conduct and financial regulations is a non-negotiable [**ALL**].
8. It is worth noting that the functionality required from the IT platform supporting Herefordshire Connects will assist in managing compliance with these and many other Council policies. This in turn points to the fact that most if not all our existing policies and procedures will need an overhaul as part of that programme.
9. Finding non-compliance with internal controls in one part of the Council raises the concern about compliance elsewhere. Routine audit activity planned for this year will be prioritised to provide the Director of Resources (and the Audit Commission) with speedy assurance that similar problems do not exist in other areas. The audit sample will be drawn from travel and subsistence claims paid to employees on the Key Managers list since 1 April 2006. The audit fieldwork will be completed by early September.
10. CMB are advised that the external auditor may wish to comment on the non-compliance issues highlighted by this special audit as part of the Annual Governance Report for 2006/07 and the 2007 Use of Resources assessment.

SONIA REES
DIRECTOR OF RESOURCES
10TH AUGUST 2007

Audit finding	Internal control mechanism	Suggested action	Responsible officer(s)	Date
Claims paid and pending for entertaining suppliers, Council employees and Council contractors.	Code of Conduct for Employees	Review the Code of Conduct for Employees to ensure the Council's expectations on the required standard of conduct on giving hospitality are clear.	Head of HR	Sept 2007
Claims paid and pending for alcoholic beverages for meetings with suppliers, employees and contractors during office hours.	Code of Conduct for Employees	Review the Code of Conduct for Employees to ensure the Council's expectations on the required standard of behaviour in relation to consumption of alcohol during office hours and whilst representing the Council after office hours is clear.	Head of HR	Sept 2007
Claims paid for mileage following business meetings at which significant amounts of alcohol were purchased.	Code of Conduct for Employees	Review the Code of Conduct for Employees to ensure the Council's expectations on the standard of behaviour regarding working under the influence of alcohol is clear.	Head of HR	Sept 2007
Claims paid and pending for overnight accommodation costs within the Council's area without prior authorisation or clear business need.	Travel & Subsistence Policy Terms and Conditions of Employment	Revise guidance on travelling claims to require separate confirmation by attaching a signed memorandum that the line manager certifies overnight stays within the Council's area. Payroll to reject all claims for overnight stays in the Council's areas that are not accompanied by separate written authorisation by Head of Service and Director.	Head of HR	Sept 2007
Failure to supply VAT receipts for over half of the claims made.	Terms and Conditions of Employment	Payroll to reject all claims that do not have the correct supporting documentation.	Payroll Manager	Immediate

Audit finding	Internal control mechanism	Suggested action	Responsible officer(s)	Date
Failure to submit claims in a timely manner.	Travel & Subsistence Policy	<p>Revise guidance on travelling claims to require monthly submission of travel and expenses claims within a month of the period they relate to.</p> <p>Payroll to reject claims that are received after the deadline indicated in the Councils' Travel & Subsistence Policy.</p>	Head of HR	Sept 2007
Claims authorised for payment although incomplete and in contravention of the Council's policies.	<p>Travel & Subsistence Policy</p> <p>Travel & Subsistence Claim Form</p>	<p>Payroll to reject claims that are incomplete and in contravention of the Council's policies unless all exceptions are individually certified by the relevant Head of Service and Director in writing.</p> <p>Travel & Subsistence Claim Form to be reviewed to ensure the disclaimer the claimant and authorising officer make on signing the form is clear that failure to comply with the Council's policies on travel & subsistence could lead to disciplinary action.</p>	<p>Head of HR</p> <p>Head of Benefit & Exchequer Services</p>	Sept 2007

Audit finding	Internal control mechanism	Suggested action	Responsible officer(s)	Date
Failure to declare hospitality received in line with the Council's policies.	Code of Conduct for Employees	Reminders from the Head of Legal & Democratic Services to all Key Managers to be issued biannually. Head of Legal & Democratic Services to confirm 100% return rate to include nil returns. Biannual assurance statements to be extended to all Key Managers and to include confirmation that systems are in place to promote compliance with the Council's policies on the declaration of gifts and hospitality offered whether accepted or not.	Head of Legal & Democratic Services Audit Services Manager	Sept 2007 Sept 2007
Discrepancies between claims for overnight stays and subsequent declarations of hospitality.	Travel & Subsistence Policy Code of Conduct for Employees	Audit Services Manager to ensure test checks are carried out as part of planned audit work on travel & subsistence.	Audit Services Manager	Sept 2007
Questionable value to the Council of a three-day conference attended by an agency & contracted member of staff in Paris that was run by a Council supplier. Costs reimbursed included travel, accommodation and entertaining expenses.	Travel & Subsistence Policy	Travel & Subsistence policy to be revised to so that all overseas trips are authorised at Director level.	Head of HR.	Sept 2007
Claims for travel and subsistence expenses made by Council contractors not itemised in detail in their invoices.	Contract arrangements.	Contractors should support charges for travel and subsistence included in their invoices with a completed travel and subsistence claim form where the contract allows for reimbursement of costs as incurred.	Key Managers.	Sept 2007

