

A G E N D A

Audit and Corporate Governance Committee

Date: **Friday, 23rd January, 2009**

Time: **10.00 a.m.**

Place: **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:

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Herefordshire Council

AGENDA

for the Meeting of the Audit and Corporate Governance Committee

To: Councillor ACR Chappell (Chairman)
Councillor RH Smith (Vice-Chairman)

Councillors MJ Fishley, JHR Goodwin, PJ McCaull, R Mills and AM Toon

	Pages
<p>1. APOLOGIES FOR ABSENCE</p> <p>To receive any apologies for absence.</p>	
<p>2. NAMED SUBSTITUTES(IF ANY)</p> <p>To receive any named substitutes.</p>	
<p>3. DECLARATIONS OF INTEREST</p> <p>To receive any declarations of interest by Members in respect of items on the Agenda.</p> <p>GUIDANCE ON DECLARING PERSONAL AND PREJUDICIAL INTERESTS AT MEETINGS</p> <p>The Council's Members' Code of Conduct requires Councillors to declare against an Agenda item(s) the nature of an interest and whether the interest is personal or prejudicial. Councillors have to decide first whether or not they have a personal interest in the matter under discussion. They will then have to decide whether that personal interest is also prejudicial.</p> <p>A personal interest is an interest that affects the Councillor more than most other people in the area. People in the area include those who live, work or have property in the area of the Council. Councillors will also have a personal interest if their partner, relative or a close friend, or an organisation that they or the member works for, is affected more than other people in the area. If they do have a personal interest, they must declare it but can stay and take part and vote in the meeting.</p> <p>Whether an interest is prejudicial is a matter of judgement for each Councillor. What Councillors have to do is ask themselves whether a member of the public – if he or she knew all the facts – would think that the Councillor's interest was so important that their decision would be affected by it. If a Councillor has a prejudicial interest then they must declare what that interest is and leave the meeting room.</p>	
<p>4. MINUTES</p> <p>To approve the Minutes of the meeting held on 21 November 2008.</p>	1 - 8
<p>5. AUDIT AND CORPORATE GOVERNANCE COMMITTEE PROGRESS REPORT</p>	9 - 16

	To receive the Audit Commission's progress report covering its areas of work with the Council. The external auditor will present the report to Committee.	
6.	USE OF RESOURCES	17 - 32
	To receive the Audit Commission's Use of Resources Report - December 2008 (Appendix 1 to this report). The external auditor will present the report to Committee.	
7.	REVIEW OF SCHEME OF DELEGATION	33 - 34
	To consider amendments to the Scheme of Delegation following a review by the Assistant Chief Executive – Legal and Democratic.	
8.	DRAFT REVISED TERMS OF REFERENCE	35 - 48
	<i>To present to the Committee for consideration the draft revised terms of reference for the Audit and Governance Committee.</i>	
9.	THIRD INTERIM AUDIT ASSURANCE REPORT 2008/09	49 - 66
	<i>To provide the Committee with an update on progress in making the planned improvements to the internal control environment and report progress with the Annual Audit Plan for 2008/09.</i>	
10.	INTERNATIONAL FINANCIAL REPORTING STANDARDS	67 - 72
	To report to the Committee on the introduction of International Financial Reporting Standards to local authority accounts.	
11.	LEARNING DISABILITY INSPECTION PLAN - PROGRESS REPORT	
	To receive a response to queries raised at the meeting held on 25 September 2008 (<i>to follow</i>).	
	LEARNING DISABILITY INSPECTION PLAN - PROGRESS REPORT	

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COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

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HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Audit and Corporate Governance Committee held at Council Chamber, Brockington, 35 Hafod Road, Hereford. HR1 1SH on Friday, 21 November 2008 at 10.00 a.m.

Present: Councillor ACR Chappell (Chairman)
Councillor RH Smith (Vice Chairman)

Councillors: MJ Fishley, JHR Goodwin, PJ McCaull, R Mills and AT Oliver

In attendance: Councillors GFM Dawe, PJ Edwards and JG Jarvis

116. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor AM Toon.

117. NAMED SUBSTITUTES(IF ANY)

Councillor A Oliver substituted for Councillor AM Toon.

118. DECLARATIONS OF INTEREST

There were no declarations of interest declared.

119. MINUTES

RESOLVED: that the Minutes of the meeting held on 25 September 2008 were approved as a correct record and signed by the Chairman subject to the following amendments:

- (i) the deletion of the word 'not' in the sixth line in paragraph 3 on page 6;
- (ii) the deletion of the word 'live' in the third line in paragraph 6 on page 6;
- (iii) the deletion of the word 'not' in the second line in Resolution (a) on page 7.

120. THE EXTENT AND VALUES OF CURRENT POOLED BUDGETS

The Head of Financial Services presented a report on the extent and values of pooling of budgets under the National Health Service Act 2006 along with current thinking and planning towards further pooling. He referred to the seven Section 75 agreements between the Council and the Primary Care Trust, paragraph 12 on page 6 refers, and briefly outlined the areas covered in the agreements. He emphasised that the financial risk was not fully shared. The Council had however put considerable resources into adult social care services which would help with the

redesign of services.

The Director of Integrated Commissioning referred to the concerns of the Committee regarding comments made by the Audit Commission about agreements which had not been signed off. He informed Members signed agreements were in place although some needed updating, overall framework would be put in place within which the Section 75 agreements would be held. There would also be a need to address the risk sharing elements of expenditure and that agreements on these would be in place from 2009.

Councillor RH Smith asked if the terms and responsibilities of the current structure and agreements were entirely proper from the Council's standpoint.

The Head of Financial Services stated that they were from Council's viewpoint and that the Council's risks were clear.

Councillor Smith referred to paragraph 10 of the report and was of the view that there seemed to be some degree of tension between the Council and the Primary Care Trust (PCT) with regard to the risk sharing.

The Director of Integrated Commissioning stated that delivering the priorities of the PCT and the Council would be embedded in the Section 75 agreements. In answer to a question from the Chairman, he stated that there was no statutory way to bring the PCT and Council organisations together, so the Section 75 agreements were the key vehicle.

Dr P Ashhurst, Chair of the PCT Audit and Assurance Committee, agreed that the Section 75 agreements were the vehicle for the way forward in the integration of services but with the provision that the two statutory bodies maintain their separate responsibilities in funding and risk sharing.

RESOLVED: that the report be noted.

121. DATA QUALITY - SIX MONTH UPDATE

The Head of Policy and Performance presented a report which updated the Committee on progress against the data quality action plan as required by the Council's data quality policy. He reported that the report was positive and that the data quality position was improving. Progress, however, was not as quick as was originally anticipated in the first six months of the action-plan with more attention needed in certain areas, paragraph 5 of the report refers.

In the 24 hours prior to the Committee meeting, he had received the draft summary of the Audit Commission's 2008 audit. This showed no problems against performance indicators. The summary pointed out that the full effects of the improvements would not be seen until the next assessment and that improvements needed to continue.

Councillor Smith asked whether resources or commitment was the reasoning for the slower progress and who was driving the process.

The Head of Policy and Performance stated that data quality was a relatively new area of work but that it was not seen by some managers as top priority. He oversaw the delivery of the action plan. The Joint Management Team (JMT) had taken an interest and supported more work on data quality.

The Deputy Chief Executive (Interim) informed the Committee that it was his role to drive the data quality process and that JMT were in receipt of regular data quality reports. There were significant improvements but there was a need for more work by services to ensure that all services treat data quality with the appropriate priority. With the necessary directions from management and the improvement to systems, data quality management would improve further.

Councillor Smith referred to paragraph 10 of the report regarding employee training and the need to pursue this area.

The Head of Policy and Performance informed Members that the Assistant Chief Executive Human Resources had informed all key managers of the need to amend job descriptions and identify staff who would benefit from training with regard to data quality.

Councillor Smith referred to the pre-Crookall culture of the way in which some officers responded on issues and took the view there were signs with regard to data quality that the culture was clinging on.

The Deputy Chief Executive (Interim) stated that in data quality an approach is being set out and actions would be taken in appraisals and reviews. There was a need to move in areas of poor performance. Procurement had also been tightened. There was recognition that there is a significant cultural change in data quality as well as the culture of change in the PCT and Council joint working. He was of the view that managers want to perform for the Council and he did not consider that the pre-Crookall culture was clinging on.

Dr P Ashurst, Chair of the PCT Audit and Assurance Committee, stated that with regard to culture change, the PCT was undergoing intense scrutiny on World Class Commissioning, commissioning services, the procurement of services and the data quality agenda in the procurement process.

The Assistant Chief Executive Legal and Democratic reminded the Committee not to bring into discussion areas which were not on the agenda. He advised that if Members were aware of non-compliance on procurement that such matters should be reported to the Section 151 officer.

In answer to a Member's question, the Head of Policy and Performance reported that he planned to re-issue the Data Quality Action Plan with revised target dates and he would circulate this to the Committee. Providing there was adequate support across the organisation he anticipated being able to complete the actions by April 2009.

RESOLVED: that

- (i) progress against the data quality action plan be noted;**
- (ii) the plan be fully completed by the next annual review; and**
- (iii) a revised Data Quality Action Plan with revised target dates be circulated to the Committee.**

122. USE OF CONSULTANTS

The Head of Financial Services presented a report on the Council's use of consultants in 2007/08. He referred Members to the Strategic Monitoring Committee

(SMC) report on the use of consultants, attached as an appendix to the report, which was key to the discussion. He emphasised that there had been occasions when the term consultancy had been used when in fact interim management arrangements had been the correct definition. He made reference to an example in ICT where the definition of consultancy had been used incorrectly, paragraph 5 of the SMC report refers. Paragraph 8 of the SMC report contained the definition of consultancy agreed by that Committee. He made reference to the Value for Money questionnaire which had been completed by service areas with the results detailed in paragraph 14 of the SMC report. The findings were that consultants had been appropriately used and appropriate procedures had been followed and value for money had been achieved. He stressed strongly that there was nothing wrong with using consultants and referred to Hereford Connects where Capita had carried out testing and that they had been excellent value for money. In summary, he emphasised that tendering processes were being adhered to with regard to the use of consultants.

The Chairman asked if there was a preferred list of consultants and also questioned the use of former employees as consultants.

The Head of Financial Services informed the Committee that there was an approved government list of consultants. However, managers did take advice on which consultants to use, such appointments being in accordance with standing orders.

Councillor PJ Edwards referred to need for consultants costs to be charged in a uniform way. With regard to paragraph 11 of the report, Councillor RH Smith stressed the need to confirm budgetary cover before engaging consultancy support.

The Head of Financial Services agreed and stated that the coding of consultancy charges had been tightened up.

RESOLVED: that the report be noted.

123. PLANNING OBLIGATIONS AGREEMENTS

The Planning Policy Manager presented a report which reviewed arrangements for Planning Obligation Agreements. He referred to information which had been requested by the Committee, paragraph 4 of the report refers. He drew Members attention to paragraphs 5 to 14 of the report which gave details of the planning obligations. He emphasised that planning obligations are used to address the impact of any development. Therefore, the planning file would contain details showing where Section 106 monies would be utilised. He informed Members that copies of the Section 106 agreements were held by the Legal service and the Land Charges section.

Councillor R Mills referred to the perception that the Head of Planning and Transportation Services had the responsibility to account for Section 106 monies received but that this aspect was questionable.

The Head of Planning and Transportation Services informed Members that the Supplementary Planning Document (SPD) contained the policy which had been approved by Council and was followed in respect of Section 106 agreements. There was a clear route to which the monies would be used and the service departments were the recipients of the monies so that they track receipt and expenditure. The SPD suggests, however, that there should be a more central and corporate procedure on tracking and receipt of the monies. The Service had not yet appointed a Monitoring officer who would provide the new procedure. Due to the current economic climate, the appointment had been delayed. Arrangements were being put

in place to appoint the officer to be in post in April 2009. After discussions with the Director of Resources, it had been agreed that the Monitoring officer would have a centralised role linking up the various issues arising from Section 106 agreements.

Councillor A Oliver wanted to make reference to a particular Section 106 agreement.

The Assistant Chief Executive Legal and Democratic advised the Committee that it was not the remit of the Committee to discuss individual Section 106 agreements.

In answer to a Member's question, The Head of Planning and Transportation Services stated that Section 106 agreements set out the projects where such monies would be spent.

The Chairman asked what would happen if developers decided not to adhere to the contents of a Section 106 agreement.

The Planning and Policy Manager informed the Committee that a housing developer, for example, would not be able to sell properties on a site if they did not adhere to the Section 106 agreement. The Council could if necessary pursue the non compliance of a Section 106 agreement through the Courts.

The Head of Planning and Transportation Services stressed that it was important that Section 106 agreements were complied with. The agreements were flexible to the extent that they could be amended where circumstances prevail in a development. In the current economic climate, some developments remained at the planning approval stage for some time and, therefore, did not provide the trigger point for the Section 106 agreement to take effect. Payments were being secured as a consequence of the SPD although, due to the economic downturn, few developments were commencing and therefore, since April 2008 no Section 106 monies had been received. He also emphasised that his service ensured that local communities and parish councils were consulted with regard to the needs of the area.

The Planning Policy Manager reminded Members that copies of Section 106 agreements were kept on the planning file appertaining to a development and were public documents available for perusal by members of the public.

Councillor RH Smith referred to a report received from the Chief Internal Auditor which referred to a most unsatisfactory audit finding on Section 106 agreement procedures in February 2004 and similar findings of further audit work had been highlighted in July 2005 and 2006/07. He considered that the questions before the Committee were now corporate governance issues. He also considered that the Committee wanted confirmation that comprehensive and accurate records exist of Section 106 agreements enacted and approved both before and since the approval of the SPD, that planning obligations were being discharged and for the purposes defined in the respective agreements and that there was a clear and satisfactory mechanism being applied whereby ward members and town and parish councils were consulted. He was, however, of the view that planning officers should decide ultimately where monies will be expended. He was also of the view that the Planning Policy Manager had satisfactorily answered these questions.

In answer to a question, Councillor JG Jarvis informed Members that approximately 90 per cent of Section 106 agreements were put before Committee and that the remainder were dealt with by officers in accordance with delegated powers.

The Director of Regeneration informed Committee that a new planning system would be implemented in August 2009 which would give important help to the new

AUDIT AND CORPORATE GOVERNANCE COMMITTEE FRIDAY, 21 NOVEMBER 2008

Monitoring officer. He expressed the view that local Members and parish councils needed to discuss and set out priorities as to where they consider Section 106 monies should be spent before developments are considered by the Council.

The Planning Policy Manager informed the Committee that he was unaware of any historic Section 106 agreement monies which had remained unpaid.

The Chairman asked that the Monitoring officer be requested to attend the May 2009 meeting of the Committee.

RESOLVED: that

- (i) the current arrangements for Planning Obligations be noted and that a further report be submitted at the end of the current financial year, and**
- (ii) the Planning Monitoring officer attends the May 2009 meeting of the Committee.**

124. UPDATED ANNUAL GOVERNANCE STATEMENT FRAMEWORK 2008/09

The Chief Internal Auditor presented a report which updated the Annual Governance Statement Framework in line with the Code of Governance approved by Council on 31 October 2008.

RESOLVED: that the updated framework for gathering evidence supporting the Annual Governance Statement as set out in appendices 1 and 2 to this report be approved.

125. UPDATE ON AUDIT AND CORPORATE GOVERNANCE COMMITTEE RESOLUTIONS AND RECOMMENDATIONS - MAY 2007 TO JUNE 2008

The Chief Internal Auditor presented a report which identified the resolutions and recommendations made by the Audit & Corporate Governance Committee between May 2007 and June 2008 that required further monitoring because:

- (i) The position reported to the Committee by the responsible officer was satisfactory but the matter was not yet concluded – ‘open and ongoing’ items.**
- (ii) The position reported to the Committee by the responsible officer was not satisfactory.**

He made particular reference to paragraph 7 of the report which set out the position of the remaining Recommendations and Resolution which were not yet closed.

RESOLVED: that the report be noted.

126. SECOND INTERIM AUDIT ASSURANCE REPORT 2008/09

The Chief Internal Auditor presented a report which provided the Committee with an update on progress in making the planned improvements to the internal control environment and progress with the Annual Audit Plan for 2008/09.

Councillor RH Smith informed the Committee that he and the Chairman were content that the recommendations referred to in paragraphs 26 and 29 of the report were issues that had now been dealt with satisfactorily. With regard to item 9 on page 87, he questioned whether this should be revisited. However, the Chief Internal Auditor informed members that employees and managers had been issued with clear guidance on how to make and authorise travel and subsistence claims in accordance with the Council's terms and conditions of employment and circulated a copy of the guidance for Members information.

The Assistant Chief Executive Legal and Democratic referred to item 42 on page 90 regarding election expenses and informed the Committee that negotiations would be entered into with the Herefordshire Association of Local Councils as to the costs of local elections in 2011. What was before the Committee was a basic update on the way in which the issue was moving forward. He reminded Members that the election process was the remit of the Returning Officer who makes accounts available to the Electoral Commission. Also, that although it was the responsibility of the Returning Officer to make sure elections take place, it was not that Officer's responsibility to ensure that finances were in place. The Council had a statutory duty to promote elections and the Strategic Monitoring Committee had made suggestions in this regard. Performance Indicators would be put in place in 2009. He would make enquiries of the Commission with a view to the accounts being made available to Members.

With regard to a Member's question, the Director of Resources informed the Committee that the Employee Code of Conduct was in place.

The Chief Internal Auditor informed the Committee that the Code was specific about entertainment given by officers and that this had to be signed off by Directors.

The Assistant Chief Executive Legal and Democratic informed the Committee that there was a White Paper currently on the review of the Member's Code of Conduct which would bring into being a statutory code of conduct for Members and this would include some of the issues raised.

Councillor Smith requested that item 71 on page 92 of the report should be re-opened as this has not yet been reported to Committee.

RESOLVED: That subject to the following the report be noted:

(i) item 71 regarding Learning Disability Inspection and Action Plan on page 92 of the report be re-opened and a report be submitted to the Committee.

The Chairman informed Members that it was the last meeting of the Committee that Sonia Rees, Director of Resources, would be attending before leaving the Council for a post with the Audit Commission. He thanked her for all her hard work whilst being with the Council.

The meeting ended at 12.40 p.m.

CHAIRMAN

AUDIT AND CORPORATE GOVERNANCE COMMITTEE PROGRESS REPORT

Report By: Acting Director of Resources

Wards Affected

County-wide.

Purpose

1. To receive the Audit Commission's progress report covering its areas of work with the council. The external auditor will present the report to Committee.

Financial Implications

2. None directly arising from this report.

Background

3. The audit Commission has a programme for its work with the council. Some of this programme is statutory and other elements are agreed in discussion with the council.

RECOMMENDATION

- THAT: (a) The Audit and Corporate Governance Committee discusses the content of the Progress Report with the Audit Commission.**

Further information on the subject of this report is available from
Mr David Powell, Acting Director of Resources on tel: 01432 383519

Reasons

4. The Audit Commission has a significant and important work programme that provides assurance to the public and the council for several areas of activity.

Risk Management

5. Failure to respond to the recommendations in the attached report and develop appropriate action plans will affect the council's ability to improve.

Appendices

6. Audit & Corporate Governance Committee Progress Report

Further information on the subject of this report is available from
Mr David Powell, Acting Director of Resources on tel: 01432 383519.

Page 2 of 2

Audit and Corporate Governance Committee Progress Report



Herefordshire Council

Audit 2007/08

Date **January 2009**

Contents

Progress Report

3

Purpose of this progress report

This progress report provides a short summary for Members' information of Audit Commission work in 2007/08. Detailed reports have already been provided to Officers where indicated. All recommendations in these reports have been accepted by Officers and action plans are being developed to implement them.

DRAFT

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Progress Report

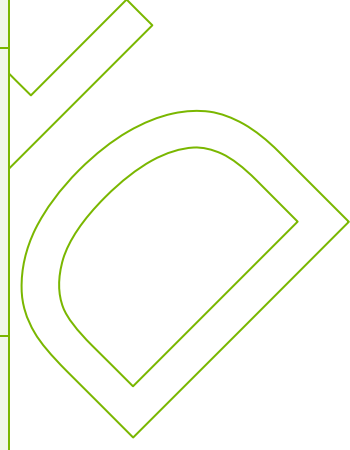
Item no.	Area of Work	Status of Work	Comments
1	Planning (2007/8 and 2008/09)	Complete	Plans agreed by Committee
2	Statement of Accounts (7/8)	Complete	Annual Governance Report presented to Committee in September 08. Unqualified audit opinion given for accounts and use of resources. Quality of accounts, working papers and support to audit were very good and an improvement on last year.
3	Use Of Resources (7/8)	Complete	Performance improved in several areas. Overall score increased to a three and financial reporting theme now an impressive four. Report agreed.
4.	Delivering VFM in Older Peoples Services(7/8)	On-going	Almost completed second of three phases. Have fed back results to Officers of phase 1 work, which showed an improvement made overall and also discussed where some more work was necessary. Formal draft report due April 2009.
5.	Data Quality (7/8)	Complete	Summary paragraph for Annual Audit and Inspection Letter (AAIL) shared with Officers. Overall arrangements still adequate and direction of travel positive in the year. No significant issues on individual PIs tested.
6.	Herefordshire Connects (8/9 plan)	Set up meeting with Deputy Chief	Follow up work from last year's detailed report commencing January 09 and should be reported in AAIL in March.

Item no.	Area of Work	Status of Work	Comments
		Executive held	
7	Annual Audit and Inspection Letter (7/8)	Not started	Draft likely to be sent to Officers in February 2008
8	Claims(7/8)	On-going	NNDR and Teachers pension claims complete along with number of smaller claims. Housing Benefit claim was certified in November with minor qualification.
9	Development Control (8/9 Plan)	Set up meeting with Director taken place and brief agreed.	Main on-site field work to take place in January and February 2009 with some committee observation/document review before then.
10	Procurement (8/9 Plan)	Draft report issued for discussion.	Involves overview of Council wide processes and also review of Highways procurement. Field work now complete. Draft report issued for comments from Officers
11	Direction of Travel	On-going	Draft words discussed with Officers in mid December.
12	New Use Of Resources(8/9)	On-going	Held a workshop with Officers in December to help prepare for the new assessment.
11	Safer Roads Partnership(SRP)	Complete	The Partnership asked us to carry out an overview of its approach to the issues raised in the AC publication 'Changing lanes'. We are awaiting the joint action plan. We concluded that Partners in the SRP are committed to working together to improve road safety in the

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Item no.	Area of Work	Status of Work	Comments
			<p>area. But the transition from the earlier successful safety camera partnership has been slow and is still incomplete. The Partnership does not use the information available to identify the best approach to improving road safety. The majority of the Partnership's work is enforcement activity although it is increasing its awareness raising work. Police data is used effectively to identify activity but the opportunity to use data held by other partners has not yet been explored. There is some good joint working on individual publicity campaigns and the communication sub-group is looking at ways to expand this activity. The SRP does not currently make use of partners' existing links to engage effectively with the community to both inform its work and communicate its messages. Performance management is limited by the lack of a clear strategy. The Partnership monitors the contribution of safety cameras to road safety targets and assesses the costs of these against the savings from reducing accidents. However it does not assess whether the activity is delivering the best value for money from the resources committed.</p>



USE OF RESOURCES REPORT - DECEMBER 2008**Report By: DIRECTOR OF RESOURCES****Wards Affected**

None.

Purpose

1. To receive the Audit Commission's Use of Resources Report - December 2008 (Appendix 1 to this report). The external auditor will present the report to Committee.

Financial Implications

2. None directly arising from this report.

RECOMMENDATION**THAT:**

- (a) **The Audit & Corporate Governance Committee discusses the content of the Use of Resources report for 2008 with the Audit Commission.**

Reasons

3. The Council's overall score for Use of Resources has risen to 3 (performing well) in 2007/08 from a 2 (adequate performance) in 2006/07. The key message is one of improvement, with three of the five themes improving. The Use of Resources judgement contains eleven key lines of enquiry (KLOEs); five of eleven have improved and the remainder stay the same, with none lower than adequate performance.
4. The scores for the themes are as follows:
 - a) Financial Reporting has risen to 4 (performing strongly) in 2007/08 from 3 (performing well) in 2006/07.
 - b) Financial Management remains at 3 (performing well).
 - c) Financial Standing has risen to 3 (performing well) in 2007/08 from 2 (adequate performance) in 2006/07.
 - d) Internal Control has risen to 2 (adequate performance) in 2007/08 from a 1 (inadequate performance) in 2006/07).

Further information on the subject of this report is available from
Mr David Powell, Acting Director of Resources on tel: 01432 383519

- e) Value for Money remains at 2 (adequate performance in 2007/08).

Considerations

5. The Use of Resources assessment is a significant element of the Comprehensive Performance Assessment (CPA) framework, the Audit Commission's annual assessment of the services provided by councils for local people. This is the last year of CPA and this Use of Resources judgement will be part of this assessment. However, it will carry through into the new Comprehensive Area Assessment (CAA) system. The Use of Resources assessment encompasses financial reporting, financial management and financial standing, together with internal control and value for money.
6. The Director of Resources is accountable for many of the criteria within the Use of Resources assessment, although many other officers also have direct accountabilities. Together these officers ensure that the framework for effective financial governance is in place so that use of resources is optimised in providing services to local people.
7. The Council has to be able to demonstrate that all parts of the organisation work consistently within the agreed framework with the utmost regard for probity and propriety. This makes the Use of Resources an issue for every officer and councillor.
8. From 2009/10, the Use of Resources assessment will undergo significant change and the council is already working on the self-assessment document that will draw on improvement areas identified in the attached report. The new process is significantly different and, as such, a specific improvement plan based on the current judgement has not been produced. Instead, this report will feed into the self-assessment document.

Risk Management

9. Failure to improve across the board in relation to the assessment criteria within Use of Resources will have a reputational impact for the Council as the CPA is replaced by the Comprehensive Area Assessment (CAA). The new assessment framework will start in Spring 2009 and will be much more focused on the community's perceptions of how well the council is performing.

Appendix

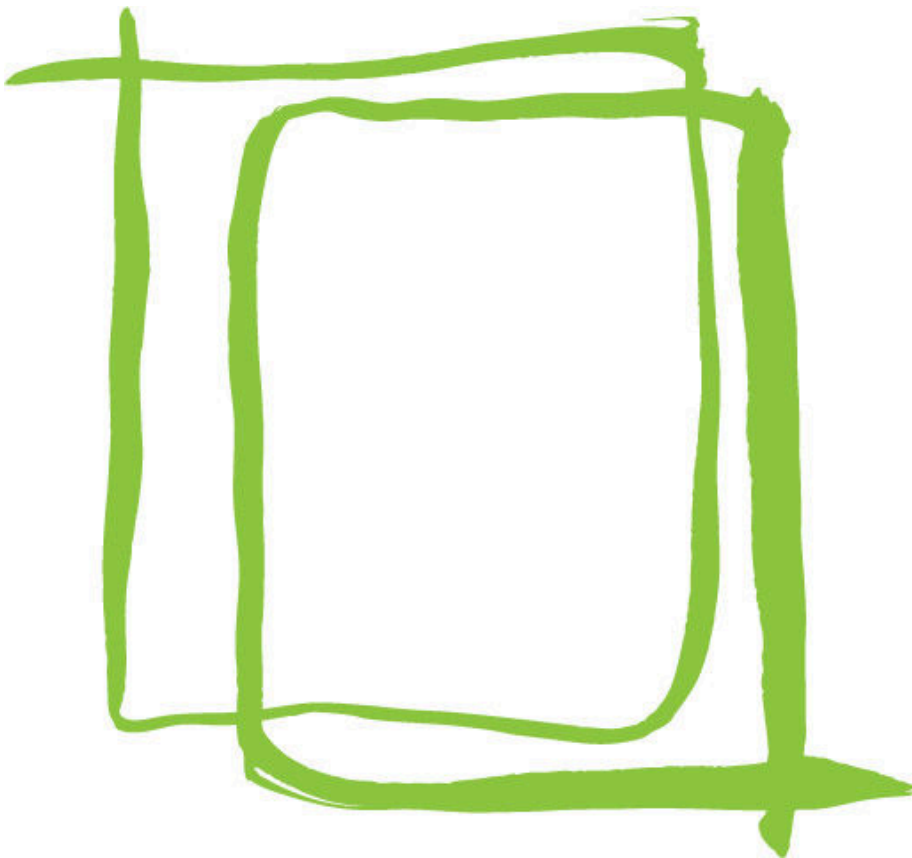
Audit Commission's Use of Resources Report – December 2008.

Use of Resources

Herefordshire Council

Audit 2007/08

December 2008



Contents

Introduction	3
Use of resources judgements	4
Theme summaries	5
Conclusion	13

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Introduction

- 1 The Use of Resources assessment evaluates how well councils manage and use their resources. This is the fourth assessment carried out at the council and is the last under the CPA framework. Next year there will be a new assessment which will form part of the Comprehensive Area Assessment. The assessment Use of Resources focuses on the importance of having strategic financial management, sound governance and effective financial reporting arrangements. These should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This assessment relates to the financial year 2007/08 and is based on the key lines of enquiry for 2008. Changes to the criteria underpinning the key lines of enquiry were consulted on in April 2007 and the final key lines of enquiry were published in August 2007. These changes were made to:
 - reflect developments in professional guidance, legislative requirements and best practice; and
 - signal some of the changes proposed for the new use of resources under CAA, smoothing the transition to CAA.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale, see Table 1 below. This scale is used across its inspection and performance assessment frameworks.

Table 1 Standard scale used for assessments and inspections

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

-
- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2008, which can be found on the Commission's web site. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.
 - 5 The five theme scores for Herefordshire Council are outlined overleaf.
 - 6 This summary sets out our key findings in relation to each theme and key areas for improvement.

Use of resources judgements

Table 2 Summary of scores at theme and KLOE level-overall score 3

Key lines of enquiry (KLOEs)	Score 2008	Score 2007
Financial reporting		
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	4	3
1.2 The Council promotes external accountability.	3	3
Financial management		
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	3	3
2.2 The Council manages performance against budgets.	3	3
2.3 The Council manages its asset base.	3	2
Financial standing		
3.1 The Council manages its spending within the available resources.	3	2
Internal control		
4.1 The Council manages its significant business risks.	2	2
4.2 The Council has arrangements in place to maintain a sound system of internal control.	2	1
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	2	1
Value for money		
5.1 The Council currently achieves good value for money.	2	2
5.2 The Council manages and improves value for money.	2	2

Theme summaries

7 The key findings and conclusions for each of the five themes are summarised in the following tables.

Financial reporting

Theme score 4	
Key findings and conclusions	
<p>The Council produces accounts to a very good standard, on time and in accordance with agreed protocols. The Council has continually monitored the standard of working papers supporting the accounts and has responded well to advice on how these can be improved. The working papers provided for this year were very good. There were no significant errors to the accounts.</p> <p>Staff availability for the audit was good, and even though the audit was carried out during holiday season, this did not impact on the quality of support provided by the Council.</p> <p>The Director of Resources provides a good commentary which supports the accounts provided to the Audit and Corporate Governance Committee and the Committee are very robust in their scrutiny of the accounts prior to adoption.</p> <p>Papers were provided to the Audit Committee to an earlier timescale, but this did not detract from the standard of the papers provided.</p> <p>The Council's website is good, with immediate access to the accounts. The Council provides a very good summary booklet which provides an annual review and summary accounts. This booklet has a wide distribution, is accessible to the public and provides easy to understand information.</p>	
Improvements	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<ul style="list-style-type: none"> Working papers have improved. Staff Availability has improved. Final Accounts in 2007/08 were of a high quality with few errors.
Recommendations	
	<p>R1 The Council must now maintain the improvement in the production of accounts and the supporting working papers as well as continuing to provide good support at audit.</p>

Financial management

Theme score 3	
Key findings and conclusions	
<p>The Council has a good Medium Term Financial Management Strategy (MTFMS) and this is linked to key strategic objectives and is updated regularly. Budget management and monitoring of both capital and revenue budgets are robust.</p> <p>There are good links between the Corporate Plan and MTFMS. The Corporate Plan takes account of stakeholder consultation. The Council needs to consider including all revenue implications of significant projects within the Corporate Plan.</p> <p>The Council has continued to improve its management of performance against budgets. The budget is reported to Members bi-monthly and is part of the Integrated Performance Report (IPR) which provides both qualitative and quantitative information.</p> <p>The standard of reporting of budgets to Officers is good, monthly reports are provided which allow Officers the opportunity to review and provide action plans to address possible over or under spends. Training has improved and could now be considered strong.</p> <p>The Asset Management Plan has been updated during 2007/08. There are clear linkages between the Capital Strategy, Corporate strategy and MTFMS. Property reports are submitted to the appropriate monitoring committees. There is an annual programme of planned maintenance and the level of backlog maintenance has been assessed. The Council can improve the reporting of data regarding efficiency, effectiveness and running costs within its asset register.</p> <p>Investment decisions are now made based on a more thorough and robust appraisal. We reported in 2006/07 that there was not initially a full options appraisal for Herefordshire Connects. The Council has taken on board our recommendations regarding Herefordshire Connects and the latest proposals include options appraisal to Members.</p>	
Improvements	
<p>KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>	<ul style="list-style-type: none"> • The Council continues to provide sound and realistic budgets which are well monitored and expenditure comes in or close to target. • The Council has maintained good practice in this area and this now needs to embed.

Theme summaries

Recommendations	
	<p>R2 The Council should continue to build upon the good practice with regards to maintaining and updating the MTFMS.</p> <p>R3 The Council should consider including the revenue implications of all major projects in the Corporate Plan.</p>
KLOE 2.2 The Council manages performance against budgets.	R4 There has been a marked improvement in financial training offered and the Council must ensure that it continues to train all staff involved in financial matters.
KLOE 2.3 The Council manages its asset base.	R5 Improvements in options appraisals should be maintained.

Financial standing

Theme score 3	
Key findings and conclusions	
<p>The Council has a good track record of achieving financial balance. The Council has consistently under-spent against its budget and in 2007/08 this was by only £591k. The Medium Term Financial Management Strategy (MTFMS) has improved the management of reserves with revenue reserves being more clearly aligned to specific service areas. There is a clear policy on reserves with general reserves intended to not go below £4.5m.</p> <p>Capital and Revenue reserves have reduced in 2007/08 with Capital Reserves now standing at £17.9m and Revenue Reserves £23.2m. This compares with prior year reserves of £22.4m and £27.8m respectively. The MTFMS is used as a tool to monitor reserves.</p> <p>Debt monitoring has improved. In 2006/07 we reported that there was still significant debt that was over 5 years old. There has been some movement, notably the monitoring and management of debt has improved. Aged Council Tax debt has reduced and the Council has set targets to reduce the debt further.</p>	
Improvements	
Recommendations	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>R6 Debt management should continue to improve with achievable targets set for debt reduction.</p> <p>R7 Continue to carefully monitor reserves to ensure that revenue reserves stay within the boundaries set within the MTFMS.</p>

Internal control

Theme score 2
Key findings and conclusions
<p>There have been significant improvements within internal control of the Council. In last year's assessment there was significant emphasis on issues in relation to ICT. These have been addressed and the Council must now fully embed the arrangements that they have put in place.</p> <p>Risk Management continues to improve and the partnership with the PCT should see risk management improving still further. Risks are linked to strategic objectives, however some consideration should be given to including all significant risks, such as the Edgar Street Grid (ESG), within the Corporate Risk Register. We have been informed that the ESG will be included in the next register produced.</p> <p>The Member responsible for risk does not have specific terms of reference. Minutes from meetings where risk is discussed did not provide assurance that any discussion had taken place.</p> <p>The Council has improved its internal control arrangements throughout 2007/08 and into 2008/09. The Council has a robust and challenging Audit and Corporate Governance Committee which has continued to improve. Issues addressed in the Crookhall report have also been or are being addressed through Cabinet.</p> <p>The status and effectiveness of Internal Audit has continued to improve from a good base and all material systems are reviewed by Internal Audit annually. A Corporate wide Business Continuity Plan is now in place and this is embedding into Council culture.</p> <p>The Council has tightened up the reconciliations of financial systems. Scrutiny needs to continue to develop. For example, the Children's and Community Scrutiny Committee made a recommendation regarding children's dental health which has not been followed through into later meetings.</p> <p>The weaknesses identified in 2006/07 in relation to gifts and hospitality and the recording of them have been addressed. The Council has updated its constitution, including the Code of Conduct, Financial Procedures and Whistle-blowing Policy. The Gifts and Hospitality Register is monitored by the Monitoring Officer and there are six monthly reminders sent to all key staff to ensure that they are aware of their responsibilities. These changes will need to embed into the culture of the Council.</p> <p>The Council has improved the way in which it disseminates information to staff but there are still improvements to be made. For example, the Whistle-blowing Policy is not easily accessible to staff or the public via the internet. The Council has ensured that Members and Officers are aware of their ethical responsibility. A training session was held in May 2007 and the Audit Commission's 'Your Business at Risk' tool has been used more recently to assess issues.</p>

Improvements	
KLOE 4.1 The Council manages its significant business risks.	<ul style="list-style-type: none"> • Risk management continues to embed into Council culture. • Training for all staff in risk management has improved.
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	<ul style="list-style-type: none"> • The Audit and Corporate Governance Committee has continued to develop well and provides a robust scrutiny function for the Council. • The Council has developed its Business Continuity Plan to reflect Corporate needs. • Reconciliations of fundamental systems have improved and occur on a more regular basis.
Recommendations	
KLOE 4.1 The Council manages its significant business risks.	<p>R8 Use the partnership arrangement with the PCT to further improve risk management.</p> <p>R9 Clarify terms of reference for the Member responsibility for risk management.</p> <p>R10 Ensure that all significant risks are included within the risk register.</p> <p>R11 Ensure that minutes adequately evidence of risk discussion.</p>
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	<p>R12 Scrutiny Committees should have an effective and consistent process for dealing with recommendations.</p> <p>R13 The Business Continuity Plan will need to embed into Council culture.</p>
KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	<p>R14 The changes to policies to ensure good conduct are good and now need to continue to bed into Council culture.</p> <p>R15 The Monitoring Officer should continue to inform staff of their responsibilities.</p>

Value for money

Theme score 2	
Key findings and conclusions	
<p>The Council remains a generally low cost authority with a mixture of performance. Areas of higher spending are broadly in line with stated priorities. In some areas this results in improved services (eg in Education). In others the Council is directing higher spending to improve outcomes (Adult Social Care) and long term resource commitment is continuing to help poor performance improve (waste disposal). There has been continued improvement in some priority areas since 2006/07. In Education - the Council's largest area of spend - overall performance compared to all councils is generally good and improving. In Environment Planning and Transport value for money remains reasonable. Spending in Children and Adult Social Care has increased as a result of in depth analysis of needs, putting both now in line with the average. Overall performance in these areas remains average with improvements being made in some services although this is not consistent yet. In Benefits and Local Taxation, costs remain low and some improvements have been made in performance. Overall satisfaction with Council services has not improved significantly</p> <p>The Council is in the process of making improvements to its arrangements to define and secure value for money (VFM) and to manage costs but these are not yet resulting in consistently improved outcomes. The Council still does not bring together the comparative data that it has with cost data to measure VFM internally or in comparison with other councils. Work to fill in the gaps and inconsistencies in benchmarking is ongoing. Processes for reviewing and improving VFM are developing but there is not yet a consistent approach to measuring and reporting VFM. The Council is improving and expanding its information on the needs and views of different community groups and this is starting to influence service planning. However its approach to collating and analysing cost information still does not yet consistently contain an analysis of equity across the community. The Council's strategy to deliver Gershon targets has been successful and targets have been exceeded. It is extending its procurement through partners and the joint working with the PCT aims to deliver improved VFM.</p>	
Improvements	
<p>KLOE 5.2 The Council manages and improves value for money.</p>	<ul style="list-style-type: none"> Revised procurement arrangements have a high profile. Improvements in VFM have begun to be secured through their implementation.

Recommendations	
<p>KLOE 5.1 The Council currently achieves good value for money.</p>	<p>R16 Ensure that additional investment in key services results in improvements in performance towards stretching targets and to user satisfaction to enable value for money to be demonstrated.</p> <p>R17 Continue to focus effort on improving cost versus performance ratio in areas of higher spend and below average performance.</p>
<p>KLOE 5.2 The Council manages and improves value for money.</p>	<p>R18 Build on the work to date to collect benchmarking cost and performance information across services by embedding its consistent use as part of performance management and target setting.</p> <p>R19 Develop a consistent approach to measuring and reporting VFM including analysis of the achievement of improved services for the range of communities and user groups.</p>

Conclusion

8 The Council is performing well. Given the issues identified last year, this is a marked improvement. The investment the Council has put into enhancing the overall arrangements for delivering value for money is clearly visible and this has been reflected in the increase in score across several themes as well as the overall score. Of particular merit was the very good performance in financial reporting in 2008, which lead us to award the Council the highest possible score. The Council now needs to focus more on demonstrating the positive outcomes delivered from having these arrangements which will be a key feature of the new style of assessment next year.

Use of resources 2008/09

- 9** From 2008/09, the auditors' assessment of use of resources will be based on new key lines of enquiry and will form part of the new performance assessment framework for local government and its partners, known as Comprehensive Area Assessment (CAA).
- 10** Key lines of enquiry for use of resources were published in May 2008 following consultation. These reflect the needs of CAA and incorporate a number of improvements including: a clearer focus on value for money achievements and further emphasis on commissioning of services, outcomes for local people and partnership working.
- 11** The assessment is structured into three themes:
- managing finances: sound and strategic financial management;
 - governing the business: strategic commissioning and good governance; and
 - managing resources: effective management of natural resources, assets and people.
- 12** The approach to use of resources will continue to be risk based and proportionate, drawing on evidence from previous years where relevant. Not all key lines of enquiry in the managing resources theme will be assessed each year. For single tier and county councils auditors will assess natural resources and strategic asset management (where there is continuity with 2008).
- 13** The Commission will specify each year in its annual work programme and fees document which key lines of enquiry will be assessed in that year.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

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REVIEW OF SCHEME OF DELEGATION

Report By: Assistant Chief Executive - Legal and Democratic

Wards Affected

All

Purpose

1. To consider amendments to the Scheme of Delegation following a review by the Assistant Chief Executive – Legal and Democratic.

Financial Implications

2. There are no financial implications.

RECOMMENDATION

THAT the proposed amendments to paragraphs 12.4.2 and 12.4.4. of the Scheme of Delegation be approved;

Reasons

3. The Scheme of Delegation was approved by Council on the 25th July 2008 and some amendments are required in order to be consistent with the Constitution.

Considerations

4. The Assistant Chief Executive – Legal and Democratic has carried out a review of the Scheme. The review has highlighted that the Scheme in parts is not consistent with other parts of the Constitution. The Scheme at paragraph 12.4 Cabinet Member Decisions sets out at 12.4.1 that Cabinet Members be confined to decisions within their area of responsibility. However paragraph 12.4.2 of the Scheme sets out that Cabinet Members Decisions “do not fall within the definition of an Administrative or Management Decisions (see 12.5) and are not Key Decisions”. This in effect prevents Cabinet Members making Key Decisions within their area of responsibility as intended by Paragraph 12.4.1 and Part 6 of the Constitution. The proposed amendment is to delete the word “and” to be replaced by “which” so that paragraph 12.4.2 will read:-

“Cabinet Member Decisions are those that do not fall within the definition of an Administrative or Management Decisions (see 12.5) which are not Key Decisions as defined in the Council’s Constitution”.

All Key Decisions will remain to be notified to all Members of the Council and Scrutiny Call In Procedures can be exercised in respect of such Key Decisions.

Further information on the subject of this report is available from Alan McLaughlin,
Assistant Chief Executive - Legal and Democratic on Telephone Number 01432 260200

5. Urgent Cabinet Member Decisions at paragraph 12.4.11 permits Cabinet Members to take an Executive Decision in exceptional circumstances. These decisions would be Key Decisions and notified to all Members. The Council's Scrutiny arrangements would apply. Paragraph 12.4.12 b) requires that the Assistant Chief Executive – Legal and Democratic to provide an additional report to Cabinet. It is proposed that the Scheme be amended to avoid duplication and to delete the following words from Paragraph 12.4.12 b) - "The report must be sent to the Assistant Chief Executive – Legal and Democratic to present to the next convenient Cabinet meeting".
6. The Committee should note that there is a review of the Constitution taking place and as a result of that review there may be further amendments to the Scheme of Delegation.

Risk Management

7. The proposed amendments do not affect the Council's checks and balances it has in place in respect of the Scheme of Delegation and the Council's Scrutiny arrangements set out in the Constitution.

BACKGROUND PAPERS

None

DRAFT REVISED TERMS OF REFERENCE**Report By: Chief Internal Auditor****Wards affected**

1. County-wide.

Purpose

2. To present to the Committee for consideration the draft revised terms of reference for the Audit and Governance Committee.

Financial Implications

3. None.

Recommendation

THAT (a) Subject to any comments by the Audit & Corporate Governance Committee, the draft revised terms of reference and the proposed change of name to Audit and Governance Committee be put forward for consideration by the Constitutional Review Group.

Reasons

4. It is necessary to demonstrate compliance with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. In order to do this, the terms of reference should be subject to periodic review.

Considerations

5. The current terms of reference (Appendix 1 refers) were approved by Council at its meeting on 28th July 2006.
6. The Terms of Reference form part of the council's constitution and will require full council to agree the final version.

7. The Chartered Institute of Public Finance and Accountancy (CIPFA) code of Practice for Internal Audit states that the purpose of an audit committee is to :
 - i) Provide independent assurance of the adequacy of the risk management framework and the associated control environment;
 - ii) Provide independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment; and
 - iii) Oversee the financial reporting process.
8. The code also highlights that the Audit Committee role is different from that of the scrutiny function, the major difference being the purpose of the scrutiny function is to review policy and to challenge whether the executive has made the right decisions to deliver policy goals.
9. In comparison with a scrutiny function, the Chartered Institute of Public Finance and Accountancy's (CIPFA) latest best practice guidance for Audit Committees highlights their role as being:
 - To consider the effectiveness of the council's risk management arrangements, the control environment and associated counter fraud and corruption arrangements;
 - Seek assurance that action is taken on risk related issues identified by auditors and inspectors;
 - Satisfy themselves that the council's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it;
 - Approve (but not direct) Internal Audit's strategy, Audit plan and oversee performance;
 - Review summary internal audit reports and the main issues arising and seek assurance action is taken where necessary;
 - Receive the annual report of the Head of Internal Audit;
 - Consider the reports of external audit and inspection agencies;
 - Ensure there are effective relationships between external and internal audit inspection agencies and other relevant bodies;
 - Ensure the organisation's activity promotes the value of the audit process; and

10. Review the financial statements, external auditor's opinion and reports to members and oversee management action in response to the issues raised by external audit.
11. The requirements as set out in paragraph 9 above have been highlighted in the draft revised terms of reference, along with the suggested actions required by the committee to meet the CIPFA requirements. (Appendix 2 refers).
12. Matters not covered by the latest CIPFA guidance have been added at paragraph 11 of the draft revised terms of reference.

The process of review involved assessing the Terms of Reference of other authorities with good performance ratings.

Risk Management

13. There is a risk that the Audit and Corporate Governance Committee does not meet the CIPFA terms of reference, which would have an adverse impact on the Council's Use of Resources. The actions required by the committee have been linked to the CIPFA guidance.

BACKGROUND PAPERS

- Code of Practice for Internal Audit 2006
- Audit Committees – Practical guidance for Local Authorities 2005

CURRENT TERMS OF REFERENCE

9.8 AUDIT AND CORPORATE GOVERNANCE COMMITTEE

9.8.1 Composition

- 9.8.1.1.** The Committee will consist of seven Councillors and may include one independent person who is not a Councillor. This person, if appointed, must be appointed Chairman of the Committee in accordance with Standing Order 4.3.3.

9.8.2 Terms of Reference

- 9.8.2.1** To consider the Audit Services Manager's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- 9.8.2.2** To consider summaries of specific internal audit reports as requested.
- 9.8.2.3** To consider reports dealing with the management and performance of the providers of internal audit services.
- 9.8.2.4** To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- 9.8.2.5** To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- 9.8.2.6** To consider specific reports as agreed with the external auditor.
- 9.8.2.7** To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 9.8.2.8** To liaise with the Audit Commission over the appointment of the Council's external auditor.
- 9.8.2.9** To commission work from internal and external audit.
- 9.8.2.10** Approve the terms of reference for the Internal Audit Charter.
- 9.8.2.11** Approve the Internal Audit strategy.
- 9.8.2.12** Consider the resourcing of Internal Audit.
- 9.8.2.13** To maintain an overview of the Council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.
- 9.8.2.14** To review any issue referred to it by the Chief Executive or a Director, or any Council body.
- 9.8.2.15** To monitor the effective development and operation of risk management and corporate governance in the Council.
- 9.8.2.16** To monitor Council policies on 'Raising Concerns at Work' and the anti-fraud and anti-corruption strategy and the Council's complaints process.
- 9.8.2.17** To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.
- 9.8.2.18** To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
- 9.8.2.19** To consider the Council's compliance with its own and other published standards and controls.
- 9.8.2.20** To review the annual Statement of Accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- 9.8.2.21** To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

DRAFT REVISED TERMS OF REFERENCE FOR THE AUDIT AND GOVERNANCE COMMITTEE (NOTE CHANGE IN TITLE)**Composition** (no change)

The Committee will consist of seven non-executive councillors and may include an independent person who is not a councillor. This person, if appointed, must be appointed chairman of the Committee in accordance with Standing Order 4.3.3.

Purpose

The Council appoints the Audit & Governance Committee from amongst the non-executive members to ensure the financial affairs of the Council are properly and efficiently conducted. The main purpose of this Committee is therefore to review and approve the council's annual governance statement and annual statements of account. In so doing, the Committee shall scrutinise the effectiveness of, and management compliance with, the systems identified in the annual governance statement framework and monitor the progress made by management in implementing improvements to elements of that framework identified by external or internal audit review.

Key Terms

The **annual governance statement framework** identifies the individual systems and sources of evidence used to support the preparation of the **annual governance statement**. The key systems identified in the framework include risk management, the whistle blowing policy, the control environment and associated counter fraud and corruption arrangements, and the complaints process. The key sources of evidence identified in the framework include the annual governance letter, external audit reports and the Chief Internal Auditor's audit assurance reports. The **annual governance statement** provides a commentary from management on compliance with the council's code of governance and identifies areas for further improvement and is prepared in advance of the annual statements of account.

Scope of the Audit & Governance Committee

The functions, powers and duties of the Audit & Governance Committee are set out in its Terms of Reference. The Committee is able to call senior officers and appropriate members to account on issues within the Committee's remit as defined by its Terms of Reference.

The Committee is not responsible for reviewing external audit or inspection reports on service performance (for example, the annual OFSTED inspection) unless issues have been identified that directly relate to matters within the Committee's remit (for example, risk management of service related issues).

DRAFT REVISED TERMS OF REFERENCE FOR THE AUDIT AND GOVERNANCE COMMITTEE (NOTE CHANGE IN TITLE)

The Committee will not receive detailed information on investigations relating to individuals. The general governance principles and control issues may be discussed, in confidential session if applicable, at an appropriate time, to protect the identity of individuals and so as not to prejudice any action being taken by the council.

Terms of Reference

The Committee's terms of reference shall be maintained in line with the Chartered Institute of Public Finance & Accountancy's (CIPFA's) latest best practice guidance for Audit Committees. The key statements made by CIPFA are highlighted in bold in the Committee's Terms of Reference.

1. To consider the effectiveness of the council's risk management arrangements, the control environment and associated counter fraud and corruption arrangements by:

- i. Reviewing and approving the annual governance statement framework once a year.
- ii. Approving the council's counter fraud and corruption policies and reviewing them on a biannual basis.
- iii. Approving the council's whistle blowing policies and reviewing them on a biannual basis.
- iv. Monitoring the effective operation and development of the systems identified in the annual governance statement framework, calling for special reports where necessary and bringing to notice any inconsistency, short comings or duplications in these systems.

2. Seek assurance that action is taken on risk related issues identified by auditors and inspectors by:

DRAFT REVISED TERMS OF REFERENCE FOR THE AUDIT AND GOVERNANCE COMMITTEE (NOTE CHANGE IN TITLE)

- i. Monitoring acceptance by management of audit recommendations and progress in implementing agreed action plans.
 - ii. Reviewing audit recommendations not accepted by management and making an appropriate recommendation to Cabinet if it is considered that the course of action proposed by management presents a risk in terms of the effectiveness of or compliance with the council's control environment.
 - iii. Monitoring progress of the further improvements identified in the annual governance statement.
 - iv. Monitoring progress in respect of resolutions and recommendations made by the Committee.
- 3. Satisfy themselves that the council's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it by:**
- i. Reviewing and approving the annual governance statement.
- 4. Approve (but not direct) internal audit's strategy, plan and oversee performance by:**
- i. Reviewing and approving the internal audit strategy, internal audit charter and annual internal audit plan once a year, commenting on the adequacy of internal audit resource to ensure key systems are reviewed in line with the assessed level of risk.

DRAFT REVISED TERMS OF REFERENCE FOR THE AUDIT AND GOVERNANCE COMMITTEE (NOTE CHANGE IN TITLE)

- ii. Reviewing performance against the internal audit plan through the interim and final audit assurance reports prepared by the Chief Internal Auditor for each of the Committee's meetings.
 - iii. Noting the external auditor's opinion on the quality and effectiveness of the internal audit function.
 - iv. Commenting on the scope for further improvement in internal audit performance and / or cost effectiveness where appropriate to do so.
- 5. Review summary internal audit reports and the main issues arising, and seek assurance action is taken where necessary by:**
- i. Noting the Chief Internal Auditor's summary of key findings for audit reviews that have resulted in an unsound or unsatisfactory audit opinion being issued which will be included in his / her interim audit assurance reports and commenting on the management response to those issues as appropriate.
- 6. Receive the annual report of the Head of Internal Audit by:**
- i. Reviewing the interim and final audit assurance reports prepared for the Committee by the Chief Internal Auditor.
- 7. Consider the reports of external audit and inspection agencies by:**
- i. Reviewing and commenting on external audit and inspection reports where relevant to the Committee's remit.

DRAFT REVISED TERMS OF REFERENCE FOR THE AUDIT AND GOVERNANCE COMMITTEE (NOTE CHANGE IN TITLE)

- ii. Reviewing and commenting on the management response to external audit and inspection recommendations that are relevant to the Committee's remit.
- iii. Monitoring progress in implementing the management response to external audit and inspection recommendations that are relevant to the Committee's remit.

8. Ensure there are effective relationships between external and internal audit, inspection agencies and other relevant bodies by:

- i. Reviewing and agreeing the external auditor's annual audit plan, including the annual audit fee.
- ii. Receiving regular update reports on progress from the external auditor.
- iii. Meeting privately with the external auditor once a year, if required.
- iv. Monitoring the effectiveness of relationships between the external and internal auditors to ensure that the combined value of the two audit processes is maximised.

9. Ensure the organisation actively promotes the value of the audit process by:

- i. Providing effective, objective scrutiny of the council's governance arrangements, recognising the separate roles and responsibilities of the executive and scrutiny functions.

DRAFT REVISED TERMS OF REFERENCE FOR THE AUDIT AND GOVERNANCE COMMITTEE (NOTE CHANGE IN TITLE)

- ii. Reviewing and commenting on any issue referred to it by the Chief Executive, a Director or Cabinet Member or any council body.
- iii. Reviewing and making recommendations on any amendments to the council's code of corporate governance, financial procedure rules, contract procedure rules, scheme of delegation and budget policy and procedure rules that the executive function proposes to make.

10. Review the financial statements, external auditor's opinion and reports to members, and oversee management action in response to the issues raised by external audit by:

- i. Reviewing and approving the annual statement of accounts, commenting where appropriate on any issues that need to be brought to the attention of the council.
- ii. Reviewing and approving the annual letter of representation.
- iii. Receiving the external auditor's annual governance letter and endorsing the management response to any recommendations made.

11. Other matters not covered by CIPFA's latest best practice guidance for audit committees:

- i. The Committee's meetings shall follow the principles of scrutiny i.e. no party whip shall be applied and a constructive, evidenced based approach will be used.

DRAFT REVISED TERMS OF REFERENCE FOR THE AUDIT AND GOVERNANCE COMMITTEE (NOTE CHANGE IN TITLE)

- ii. The Committee shall ensure that its Committee members receive adequate training on the areas covered by the Terms of Reference.

- iii. The Committee's members will ensure that any sensitive or confidential information obtained as a result of membership of the Committee is treated as such.

- iv. The Committee shall review their effectiveness and Terms of Reference on an annual basis.

- v. The Committee shall monitor progress in developing joint internal audit arrangements on matters of mutual or shared interest with the primary care trust.

THIRD INTERIM AUDIT ASSURANCE REPORT 2008/09

Report By: Chief Internal Auditor

Wards affected

1. County-wide.

Purpose

2. This report provides the Committee with an update on progress in making the planned improvements to the internal control environment. It also reports progress with the Annual Audit Plan for 2008/09.

Financial Implications

3. None.

Recommendation

THAT (a) Subject to any comments by the Audit & Corporate Governance Committee, the report is noted.

Reasons

4. The council needs to demonstrate it complies with good practice as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom. Compliance with the Code of Practice is an important element of the overall assurance process.

Considerations

Key Issues Identified in 2007/08

5. On 20th June 2008, the Audit & Corporate Governance Committee reviewed (and approved) the Annual Governance Statement for 2007/08 (AGS). The AGS identified the key governance and internal control issues to be addressed in 2008/09. These issues are set out in the following table, along with commentary provided by the responsible officer on progress to date. Text in italics in the 'reported progress' column of the table is new information supplied for this report.

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress
Complete the review of the Constitution and implement the remaining actions from the Director of Resources' special report and the Crookall review.	Deputy Chief Executive Assistant Chief Executive (Legal & Democratic) Assistant Chief Executive (HR)	This review is being jointly co-ordinated by the Democratic Services Manager and the Head of the Chief Executive's Office. <i>External, expert constitutional governance support is being secured to enable the review to be completed during Spring 2009 in order to propose the adoption of a revised constitution at Annual Council in May 2009.</i> Progress implementing the remaining

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress
		actions from the Director of Resources' special report and the Crookall review are now reported to Cabinet as part of the bi-monthly Integrated Corporate Performance Report.
Produce the Corporate Plan for 2010 – 2013 in accordance with the agreed timetable.	Deputy Chief Executive	Being actioned by the Head of Policy & Performance through the Performance Improvement Framework and in accordance with the Comprehensive Area Assessment action plan, both agreed by Cabinet. See box below.
Review and update the Medium Term Financial Strategy regularly in line with the agreed approach to integrating corporate, service and financial planning.	Acting Director of Resources	The Joint Management Team agreed the process by which The Corporate Plan 2008-2011 and the Medium Term Financial Management Strategy 2008-2011 was updated in an integrated way on 8 September 2008. <i>Update to be completed mid-January 2009.</i>
Review the Code of Governance in line with the approved governance framework.	Assistant Chief Executive (Legal & Democratic)	Council approved a Code of Governance on 31 October 2008.
Continue to promote improvement of the Council's financial management arrangements in line with the Use of Resources assessment criteria, audit reviews and the newly updated Constitution.	Acting Director of Resources	Training sessions for both councillors and employees have been taking place and are scheduled into the future. Over 200 employees with financial management responsibilities have now attended the in-house financial management training course appropriate to their specific responsibilities in order to obtain their 'licence to practice'.
Implement the remaining elements of the improvement plan for the Council's performance management arrangements and report progress to Cabinet in September 2008.	Deputy Chief Executive	Being actioned by the Joint Management Team through the Performance Improvement Framework agreed by Cabinet. <i>The next regular report is scheduled for Cabinet and Strategic Monitoring Committee to consider in February 2009.</i>
Implement the new assurance framework and risk management arrangements for 2008/09 and improve linkages between corporate, directorate and service risk registers.	Assistant Chief Executive (Legal & Democratic)	Joint Management Team considered the draft Integrated Corporate Performance Report presented to Cabinet and Strategic Monitoring Committee in November 2008. This report incorporated the risk assurance framework and it was recognised that further work was needed to ensure it reflected key council risks accurately. This will be carried out for the next quarterly reporting cycle.
Continue to promote the Council's anti fraud, anti corruption and whistle-blowing policies, keeping them under regular review	Assistant Chief Executive (Legal & Democratic) Director of Resources	The Council's whistle-blowing policy has been reviewed and an associated 'Do the right thing' leaflet has been distributed to staff. The anti fraud policy is due for review in March 2009. It is intended that a joint policy is developed with the PCT. These policies are also brought to the attention of staff through notices on pay slips and notice boards. In addition, creditor remittance slips inform all recipients of the Council's whistleblowing policy.

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress
Continue to promote the Council's adopted approach to managing major programmes and projects.	Deputy Chief Executive	Approval by Cabinet of the Herefordshire Connects procurement policy has been supported by the extension of Prince 2 project management good practice, resources and training for projects managed or supported by the Corporate Programmes and Herefordshire Connects teams.
Continue to develop the Council's community engagement arrangements including strategic consultation on corporate objectives, priorities and budget allocations.	Deputy Chief Executive Acting Director of Resources	The Joint Management Team agreed proposals for public consultation on strategic budget options on 8 September 2008. These proposals were agreed with the Executive. Feedback from the consultation exercise and will be used to inform decisions on budget setting for 2009/10 and following years. <i>A Member seminar will be held in early 2009.</i>

6. The Audit Commission made two recommendations in their Annual Governance Report for 2007/08 that the Committee considered on 25 September 2008.
- (i) The first recommendation related to the system used during the 2007/08 financial year for paying nursing homes. The Audit & Corporate Governance Committee was advised on 25 September 2008 that the issues identified by the Audit Commission in respect of this system had already been addressed and resolved.
 - (ii) The second recommendation related to the pooled budget arrangements between the Council and PCT for certain health and social care services. The Committee received a report at its meeting of 21st November 2008 expanding on the management response and proposed action plan to address the issues raised by the Audit Commission. The Audit Commission has invited the council and PCT to take part in a national study of joint financing arrangements. This invitation has been accepted by the Director of Integrated Commissioning.

Audit & Corporate Governance Resolutions & Recommendations

7. The first interim assurance report for 2008/09 presented to the Committee on 25 September 2008 listed the 65 separate resolutions and recommendations made by the Committee from May 2007 to June 2008 and, where available from the relevant officer, provided a comment against each resolution and recommendation. The Chair and Vice Chair met with the Director of Resources and the Chief Internal Auditor to identify those items that the Committee no longer needed to monitor because the matter had been satisfactorily dealt with. Those items that were open and ongoing or had not been satisfactorily dealt with by the relevant officer were also identified.
8. As a result of that meeting, 46 items were closed, 10 items were identified as open and ongoing and 9 items needed further explanation from the relevant officer. Following the last Audit and Corporate Governance Committee meeting 10 were closed. Progress with the remaining 9 open and ongoing items since the last meeting is set out in Appendix 1 to this report. .

9. The resolutions and recommendations made by the Committee at its last two meetings (3 July 2008 and 21st November 2008) is at Appendix 2. It includes the progress made by the relevant officer and the current status – i.e. closed or open and ongoing. A total of 16 new resolutions and recommendations were made at these meetings, 10 of which have been closed, with 6 remaining as open and ongoing items. Progress on the remaining items will be reported to the Committee in the next audit assurance report so that the Committee can continue to track progress effectively.

Progress with the Internal Audit Plan 2008/09

10. On 4th April 2008 the annual Internal Audit Plan for 2008/09 was approved by the Audit & Corporate Governance Committee. The current status of work is set out in Appendix 3.
11. Following the restructure of the Audit Services team, appointments have now been made to all vacant posts with all appointed staff now in post. Agency staff are being used to ensure that previous vacancies that affect capacity do not impact adversely on the delivery of the annual Internal Audit Plan for 2008/09.

Fundamental systems

12. The Council's target is for all fundamental systems to achieve at least a satisfactory audit opinion. Work in this area is in progress with two reviews complete and the remainder at different stages on the audit cycle (Appendix 3 refers). It is pleasing to note that of the two reviews completed one was given a **good** audit opinion and one was given a **satisfactory** audit opinion.
13. The Audit and Corporate Governance Committee will be kept informed of future progress.

ICT Protocols and Controls

14. Work reviewing the council's ISO27001 arrangements is ongoing and the current findings can be summarised as follows:
 - **Risk Treatment:** Actions arising from documented risks were continuing to be progressed since the last audit. However, improvement in the processes to manage the open risks and to identify new risks is required;
 - **Physical Security:** It was noted that controls were in place and that security is considered on an ongoing basis. Areas were raised that would further improve physical security arrangements.
 - **Team Compliance:** Controls are in place and security is formally considered during all system upgrades and replacements. There is a good level of monitoring, with monthly checks being carried out and formal investigation into any incidents. However, improvements were needed in the review and update to existing Business Impact Assessment, Business Continuity Plans and Change Control.

The Committee will be kept informed on progress.

15. The governance arrangements for the Integrated Social Care System (ISCS) – the Corelogic Framework application - have been reviewed with no significant issues to report. Appropriate user training, system testing and data cleansing has been completed and the system went live on 10 November 2008.
16. The review covering Computer systems, data, applications and skills in Children Services and ICT Services is complete; audit recommendations have been made to help facilitate discussions between both parties.

Performance Management

17. The audit review of ten performance indicators has been completed and it is pleasing to report that there has been an improvement in the approach taken by service managers. Six were given a **good** audit opinion and four a **satisfactory** audit opinion.

Establishment Audits

18. Work to assess the financial management arrangements within primary schools in line with the Department for Children, Schools and Families (DCSF) standard is in progress. At the present time twelve primary schools have met the standard. The Audit Services team continues to work with schools to ensure that they meet their target of achieving the DCSF standard.

Audit Opinions

19. The Payment to Independent Providers Audit review was given an **unsatisfactory** audit opinion. In line with paragraph 4.18 of the Council's Financial Regulation Rules the Chief Internal Auditor provided the Leader, the Chair of the Audit & Corporate Governance Committee and the Cabinet Member Social Care Adults with a copy of the report. There is an agreed action plan and Audit Services will carry out a follow up review and report progress to the Leader, the Audit and Corporate Governance Committee and the Cabinet Member Social Care Adults.
20. As required by paragraph 4.19 of the Council's Financial Procedure Rules the Chief Internal Auditor provided the Leader, the Chair of the Audit & Corporate Governance Committee and the relevant Cabinet Member(s) with written confirmation of audit review reports with a satisfactory or good audit opinion.
21. Appendix 3 shows the current status of work carried out by the Audit Services team, with final audits showing an audit opinion. In line with the council's Financial Procedure Rules, relevant members have been informed regarding the audit opinions.

Management Acceptance of Internal Audit Recommendations 2007/08

22. The Audit & Corporate Governance Committee received a report at its last meeting that analysed the internal audit recommendations made in 2007/08. The Committee noted that all but 7 of the 648 recommendations made by the Audit Services team in the year had been accepted. The Vice Chair of the Committee took the view that 4 of the 7 recommendations not accepted should stand. The

Committee asked the Chair and Vice Chair of the Committee to meet with the Director of Resources and the Chief Internal Auditor and report on their findings with respect to those 4 recommendations.

23. The first of the 4 recommendations examined by the Chair and Vice Chair of the Committee with the Director of Resources and Chief Internal Auditor related to an audit review of the asset register created for final accounts purposes. A query arose about the arrangements for maintaining inventories of plant and equipment that are regarded as 'de minimus' for asset accounting purposes. It was agreed that a separate audit review of directorate arrangements for complying with the council's Financial Procedure Rules for maintaining inventories will be carried out. This approach closes this particular item.
24. The remaining 3 recommendations were all level 2 recommendations (medium risk) and related to an audit review of contract letting and monitoring arrangements before the council's Contract Procedure Rules were revised. The audit review identified that a tender invitation panel did not consist of the minimum recommended number of officers (three) in one of the contract letting exercises examined. The Audit Services team found difficulty in obtaining the documentary evidence in respect of another contract letting exercise. In addition, the documentation available for this contract letting exercise did not contain a statement indicating management acceptance or rejection of specialist advice.
25. The Chief Internal Auditor has discussed these points with the relevant officers since the meeting held with the Chair and Vice Chair of the Committee and the Director of Resources. The relevant officers' attention has been drawn to the need to comply with all internal audit recommendations or agree an alternative way of managing the identified risk with the Chief Internal Auditor and that the Audit & Corporate Governance Committee is monitoring the situation closely. The Chief Internal Auditor has also reminded the officers concerned of the need to comply in full with the council's new Contract Procedure Rules and Financial Procedure Rules. The relevant officers have taken these matters on board. In addition, the Chief Internal Auditor has liaised with the Communications Team and an appropriate message has been sent to all employees through established employee communication channels (First Press) about the importance of complying with the council's agreed policies and procedures.

Management Acceptance of Internal Audit Recommendations 2008/09

26. The following table summarises the number of recommendations made by Audit Services to date in 2008/09 and those accepted by management.

Management Acceptance of Internal Audit Recommendations 2008/09						
Audit Area	Level 1		Level 2		Total	
	Made	Accepted	Made	Accepted	Made	Accepted
Fundamentals	0	0	9	9	9	9
Governance and anti fraud	3	3	1	1	4	4

Management Acceptance of Internal Audit Recommendations 2008/09						
Audit Area	Level 1		Level 2		Total	
	Made	Accepted	Made	Accepted	Made	Accepted
Other key systems	2	2	11	11	13	13
ICT protocols and Controls	24	24	2	2	26	26
Establishment Audits	10	10	63	61	73	71
Recommendation Follow up	0	0	4	4	4	4
Performance Management	0	0	8	8	8	8
TOTAL	39	39	98	96	137	135

27. Management has accepted 98% of recommendations which compares favourably with the target of 95%.
28. The two unaccepted recommendations relate to an establishment audit of a primary school. These were level 2 recommendations (medium risk) and the Chief Internal Auditor has agreed an alternative way of managing the risk identified with the client.
29. Under current reporting protocols the Chief Internal Auditor must bring to the attention of the Audit & Corporate Governance Committee 'Critical 1' recommendations where non-compliance will be a high risk to the council and where action is required urgently or within an agreed timescale.
30. At the present time one 'Critical 1' recommendation has been made, relating to the Payment to Independent Providers Review in relation to assurances regarding receipt of income from client contributions. The recommendation states:

'A comprehensive reconciliation should be undertaken between the values of client contribution assessments recorded on the ISIS system to the corresponding value of invoices raised in CEDAR.'

31. The reconciliation is in progress and Audit Services will follow up this recommendation as part of their work programme.

Recommendation Follow-Up Work

32. The Audit Services team continues to monitor implementation of internal audit recommendations made in 2007/08.
33. Two audit reviews from 2007/08 relating to ICT have recommendations that have not yet been fully implemented. A total of 40 separate action points were agreed

with the client in respect of these two audits. Sixteen actions remain open and ongoing. The Chief Internal Auditor is very pleased with overall progress and is confident that this will be maintained. The Committee will continue to receive regular updates on progress with the remaining 16 actions.

34. In addition a level 1 and a level 2 recommendation remains open and ongoing regarding the Asset Register Fundamental review. This is because the actions required are linked to the Herefordshire Connects Programme.

Areas of concern

35. There are no areas of concern.

Risk Management

36. There is a risk that the level of work required to give an opinion on the council's systems of Internal Control is not achieved. The Director of Resources and the Chief Internal Auditor keep delivery of the annual Internal Audit Plan under continual review in order to mitigate this risk.

BACKGROUND PAPERS

- Code of Practice for Internal Audit 2006

APPENDIX 1

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
OPEN AND ONGOING ITEMS							
3	21 (i)	21/09/07	Special Report from the Director of Resources	Implementation of the recovery plan as detailed and attached to the Special Report is prioritised in line with the time table indicated within it	David Powell (Sonia Rees)	Progress has been regularly reported to the Audit & Corporate Governance Committee. Progress is now being reported to the Strategic Monitoring Committee and Cabinet as part of the Integrated Corporate Performance Reporting arrangements. The next update will be reported to Cabinet in February 2009.	Remains open and ongoing until Cabinet has agreed that the recovery plan has been fully implemented.
29	43	30/11/07	Revised Audit Plan 2007/08	A report be submitted to this Committee giving details on how the ISO 27001 in ICT will affect the Council.	Zack Pandor (Geoff Cole)	These issues have been incorporated into the ICT review being carried out by the Strategic Monitoring Committee. The Strategic Monitoring Committee received this report in November 2008. The Chief Internal Auditor has also addressed this issue within his Third interim assurance report.	Remains open and ongoing until the Chief Internal Auditor has completed his review of the council's ISO27001 arrangements and reported findings in line with agreed reporting protocols.

APPENDIX 1

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
39	49 (ii)	30/11/07	Update of Action in the Special Report – Governance Improvement Plan.	All future reports to this Committee to give details of risks, the service they relate to and the name of the officer who manages the risk.	Alan McLaughlin	The report template is being reviewed with the intention to introduce it in January 2009.	Remains open and ongoing until the review of report templates has been completed.
40	49 (iii)	30/11/07	Update of Action in the Special Report – Governance Improvement Plan.	The Strategic Monitoring Committee be requested to review the control of asset management process and procedure and actions which are taken against officers who do not adhere to these rules.	Zack Pandor (Geoff Cole)	Information still outstanding. The Chief Internal Auditor will take this issue up with the new Interim Deputy Chief Executive.	Move to 'open and ongoing' until the new Interim Deputy Chief Executive has had the opportunity to investigate and report back to the Audit & Corporate Governance Committee.
41	51 (i)	30/11/07	Updated Interim Assurance report 2007/08	A form of wording to be incorporated in the Financial Standing Orders to ensure that contract sums cannot be divided to be reduced below £50,000.	David Powell (Sonia Rees)	This was omitted for the review completed in March, 2008, but will be added to Financial Procedure Rules and Contract Procedure Rules of the next annual review.	Remains open and ongoing until the next annual review of the Financial Procedure Rules

APPENDIX 1

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
42	51 (ii)	30/11/07	Update of Action in the Special Report – Governance Improvement Plan.	An action plan be formulated regarding monies payable by Parish Councils when elections take place.	Alan McLaughlin	The Assistant Chief Executive (Legal & Democratic) confirms that there are no outstanding election contributions from parish councils and that he is currently reviewing arrangements for the future with HALC. <i>The Strategic Monitoring Committee has received a report on the action plan for Electoral Services at its meeting on the 17th November 2008. Meeting with HALC to be arranged for 12th January 2009 to discuss elections and fees. Further meetings to be arranged to monitor progress.</i>	Open and ongoing until confirmation has been provided that a new arrangement for recovering elections expenses from the parish councils is in place.
44	51 (iv)	30/11/07	Update of Action in the Special Report – Governance Improvement Plan.	The Head of the Economic and Community Service be instructed to review the Terms of Reference of the Drugs Forum Partnership in relation to its involvement in alcohol issues and report back to this Committee accordingly.	Natalia Silver	The Terms of Reference have been reviewed since November 2007 and a copy is available from the Herefordshire Community Safety & Drugs Partnership Manager.	Open and ongoing until the members of the Audit & Corporate Governance Committee have been provided with the information requested.

APPENDIX 1

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
47	56(i)	21/12/07	Update on Community Network Upgrade and Critical recommendations In Use of Contractors In ICT Services.	All Councillors be given half day awareness training on Prince 2 Project Management and also on the analysis of business cases.	Annie Faulder (Andrew Williams)	The Corporate Programmes Manager is liaising with the Assistant Chief Executive (Legal and Democratic) to schedule Prince 2 training for members within the priorities and budget for member training.	Remains open and ongoing until the training has been delivered. Item 61 refers.
61	76	29/2/08	Training for Members	Training in respect of Prince2 be delivered by external trainers.	Annie Faulder (Andrew Williams)	The Corporate Programmes Manager is liaising with the Assistant Chief Executive - Legal and Democratic to schedule Prince 2 training for members within the priorities and budget for member training.	Remains open and ongoing until the training has been delivered. Item 47 refers.

APPENDIX 2

**Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 21st November 2008**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
OPEN AND ONGOING ITEMS							
67	105	03/07/08	Review of Code of Corporate Governance	The Audit & Corporate Governance Committee receives a report formally reviewing the Code of Corporate Governance at the meeting scheduled to be held on 20 March 2009.	Alan McLaughlin	Review not due until March 2009.	Open and ongoing.
71	113 (b)	25/09/08	Learning Disability Inspection Action Plan- Progress Report	The interim Director of Adult Social Care submits a report to the next meeting clarifying the points raised by Councillor Toon in (i) to (iii) above. [Reference to '(i) to (iii) above' in Minute 113 (b) relates to points in the preamble to the Minute.]	Dr. Ian Williams (Eleanor Brazil)		Open and ongoing Linked to Item 81 below
73	115 (a)	25/09/08	First Interim Assurance Report	The Committee should send out a clear message to all Directorates that failure of management not to adhere to the Council's procurement rules and procedures will not be tolerated.	Tony Ford	The Chief Internal Auditor has liaised with the Communications Team and an appropriate message has been sent to all employees through established employee communication channels (First Press dated 6 th January 2009) about the importance of complying with the council's agreed policies and procedures.	Closed
78	115	25/09/08	First Interim Assurance Report	A report be submitted to the next meeting regarding the current position with regard	Tony Ford	In addition the Acting Director of Resources has requested that the	Open and on going

APPENDIX 2

**Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 21st November 2008**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
	(f)		Assurance Report	to the handover of assets to Wyebridge Academy.		Resources has requested that the Chief Internal Auditor carry out a review of the whole process to ensure compliance with the Department for Children, Schools and Families (DCSF) guidelines and frameworks.	
79	121	21/11/08	Data Quality – Six month update	A revised Data Quality Action Plan with updated expectations be circulated to the Committee.	Tony Geeson		Open and ongoing
80	123	21/11/08	Planning Obligations Agreement	The Planning Monitoring Officer attends the May 2009 meeting of the Committee.	Peter Yates		Open and ongoing
81	126	21/11/08	Second Interim Assurance Report 2008/09	Item 71 regarding Learning Disability Inspection and Action Plan on page 92 of the report be reopened and a report be submitted to the committee	Dr. Ian Williams		Open and ongoing

STATUS OF AUDITS STARTED DURING 2008/09

Audit	Status	Audit Opinion
Fundamental Systems		
Payroll	Draft with Client	
Education FMS	Work in Progress	
Council Tax and NDR	Work in Progress	
Creditors	Draft with Client	
Bank Reconciliation	Final	Good
Asset Register	Final	Satisfactory
Financial Management System	Draft with Client	
ICT Financial Management System	Work in Progress	
Non Fundamental Systems		
Payments to Independent Providers	Final	Unsatisfactory
Governance and Anti Fraud		
Brockington Ramp	Final	n/a
Scheme of Delegation - Resources	Audit Manager-Review	
Scheme of Delegation - Corporate	Work in Progress	
Staff Gift and Hospitality Register	Audit Manager-Review	
Other Key Systems		
Members Register of Interests and Gifts	Final	Satisfactory
Cash Office/Post Opening	Final	Satisfactory
ICT Protocols and Controls		
E-Pop Cedar E Purchasing	Final	Good
Access Controls	Final	Satisfactory
Review of Computer Systems, Data, Applications and Skills CYPD and ICT Services	Final	n/a
ISO 27001 Top level ICT Operation Procedures (QMS)	Final	n/a
ISO 27001 Risk Treatment (3358)	Final	n/a
ISO 27001 Team Compliance (3360)	Final	n/a
ISO 27001 Physical Security (3359)	Final	n/a
ISO 27001 Third Party Management (3357)	Final	n/a
Smart Phones	Work in Progress	
ISIS system	On going	
Performance Management		
Number of private sector dwellings returned into occupation (BVPI 64)	Final	Good
Speed of processing new claim to Housing Benefit/Council Tax Benefit. (BVPI 78a)	Final	Good
Speed of processing changes of circumstances to Housing Benefit/Council Tax Benefit. (BVPI 78b)	Final	Good
Accuracy of Housing Benefit/Council Tax Benefit (BVPI 79a)	Final	Good
Housing Waste Management (recycling) (BVPI 82a)	Draft with Client.	
Housing Waste Management (Composting) (BVPI 82b)	Draft with Client	
Pedestrian crossings with facilities for disabled people (BVPI 165)	Final	Satisfactory

STATUS OF AUDITS STARTED DURING 2008/09

Audit	Status	Audit Opinion
Average length of Stay in Bed and Breakfast (BVPI 183a)	Final	Satisfactory
Average length of stay in Hostels (BVPI 183b)	Final	Good
Local street and environmental cleanliness (BVPI 199abc)	Final	Satisfactory
Repeat Homelessness (BVPI 214)	Final	Good
Housing Strategy Statistical Appendix (HSSA) 2008 – Vacant Dwellings	Final	Satisfactory
Schools Establishment Audits (DCSF Standard)		
Trinity Primary School	Audit Manager- Review	
Riverside Primary School	Draft with Client	
St. Thomas Cantilupe C.E Primary School	Draft with Client	
Blackmarston Special School	Final	Standard met
Ledbury Primary School	Final	Standard met
St Mary's C.E Primary School	Final	Standard met
Holmer C E. Primary School	Draft with Client	
Marlbrook Primary	Final	Standard met
St. Paul's C.E. Primary School	Final	Standard met
Lugwardine Primary School	Final	Standard met
Weobley Primary School	Audit deferred	
St. Francis Xavier R.C. School	Final	Standard met
Kingstone & Thruxton Primary School	Audit deferred	
Barrs Court Special School	Final	Standard met
Hampton Dene Primary	Final	Standard met
Madley Primary School	Final	Action plan in place to meet the standard by end of November 2008.
Much Birch C. E. Primary School	Final	Standard met
Orleton C. E. Primary School	Draft with Client	
Dilwyn Primary School	Final	Standard met
Broadlands Primary School	Audit Manager-Review	
The Minster - follow up	Final	Standard met
Verification and Probity		
Local Area Agreement Grant	Final	n/a
Flood Grant Claim	Final	n/a
Whitecross High –School and Sports Co-ordinator Grant	Final	n/a
Minster College- School and Sports Co-ordinator Grant	Work in progress	
Recommendation Follow up		
Telephone Usage	Final	n/a
Use of ICT Contractors (no.1)	Final	n/a
ICT Petty Cash	Final	n/a
ICT FMS (no.1)	Final	n/a
Housing Performance Indicators	Final	n/a
Household Waste Management Performance Indicator	Final	n/a

STATUS OF AUDITS STARTED DURING 2008/09

Audit	Status	Audit Opinion
Pedestrian Crossing Performance Indicator	Final	n/a
Street Cleanliness Performance Indicator	Final	n/a

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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Report By: ACTING HEAD OF FINANCIAL SERVICES

Wards Affected

None affected.

Purpose

1. To report to the Audit and Corporate Governance Committee on the introduction of International Financial Reporting Standards (IFRS) to local authority accounts.

Financial Implications

2. No financial implications.

RECOMMENDATION

THAT the Audit and Corporate Governance Committee note the report.

Reasons

3. To inform the Audit and Corporate Governance Committee about the changes required by the introduction of IFRS.

Considerations

4. The March 2007 Budget Report announced that International Financial Reporting Standards (IFRS) would be introduced into the public sector. The reason for the change was to bring consistency and comparability between financial reporting in the global economy and to follow private sector best practice. Listed companies in the European Union have had to produce IFRS compliant consolidated accounts since 2005.

Timetable

5. The first year of implementation for central government and the NHS is 2009/10. For local government full implementation is 2010/11, but comparative figures are required for 2009/10, with a restated balance sheet as at 1st April 2009. The changes for Private Finance Initiative (PFI) may come in earlier and the Whole of Government Accounts will be prepared on an IFRS basis for 2009/10. An IFRS code for local government is expected to be published Autumn 2009.

Main Issues

6. There is no specific guidance for local authority accounts at this stage, but the main issues can be identified from the standards and progress in central government.

Further information on the subject of this report is available from Heather Foster,
Acting Head of Financial Services on 01432 383173

Some of the more significant changes introduced by IFRS are as follows:

- a. Presentation and disclosures
- b. Property, Plant, Equipment
- c. Assets held for sale
- d. Investment Properties
- e. Intangible assets
- f. PFI contracts
- g. Leases
- h. Employee Benefits

Presentation and Disclosures

7. When companies introduced IFRS the average increase in the length of financial statements was 56%. For the first set of IFRS accounts there are extensive disclosures including reconciliations from previous UK Generally Accepted Accounting Practice (GAAP) to an IFRS basis. IFRS requires full retrospective adoption of most standards, with some optional exemptions.
8. The statements required by IFRS are different to the current requirements, and are:
 - a. Statement of Financial Performance
 - b. Statement of Financial Position
 - c. Statement of Changes in Taxpayers' Equity
 - d. Cash Flow Statement
9. There are also different requirements for the breakdown of business operations (segmental reporting) to be shown in the published accounts. Currently the first section of the Income and Expenditure Account is required to show segmental reporting in the form of the Best Value Accounting Code of Practice (BVACOP), or this can be shown as a note if an alternative analysis is used. In Herefordshire Council's accounts the spend is broken down by Directorate with the Best Value analysis provided as a note. Under IFRS operating segments relate to business activities as regularly reviewed by the organisation. There are quantitative thresholds to determine how the split should be made. It is possible that this may be over-ridden for local authorities in order to preserve comparability by retaining the BVACOP format.
10. The analysis of the balance sheet will be different under IFRS, with assets and liabilities split between 'current' and non-current'. The classification of assets will change with most of the tangible assets described as 'Property, Plant and Equipment'. Other categories include 'Investment property', 'Intangible assets', and 'Assets held for Sale'.
11. The Statement of Changes in Taxpayers' Equity will replace the Statement of Total Recognised Gains and Losses and the Statement of Movement on the General Fund Balance.
12. The cash flow statement is similar but includes cash equivalents, not just cash. In other words it will now include short term investments.

Property, Plant, Equipment

13. The rules around recognition of fixed assets remain the same i.e. measured at cost, including directly attributable costs. For subsequent measurement the valuation basis for assets will mainly be fair value, with depreciated replacement cost as a last resort. Fair value is determined by professional valuers based on market evidence. Under current arrangements valuations take account of the 'existing use' of the asset.
14. Components of assets will need to be valued and depreciated separately. Also where parts of assets are replaced e.g. a roof, the existing value of the roof would have to be written off before adding the costs of the new roof. Material components need to be identified and separated at the date of transition to IFRS.
15. The current requirement for revaluation is intervals of not more than 5 years, whereas under IFRS there are options for the programme of revaluations.
16. Organisations have to assess at the end of each balance sheet date whether there is any indication that an asset may be impaired. There are no specific requirements under IFRS to carry out impairment reviews at the end of each reporting period where there is no depreciation charge or the useful life exceeds 50 years (as currently required). There are also some technical changes around the treatment of impairments.

Assets Held for Sale

17. Assets 'held for sale' will have to be shown separately in the balance sheet. In order to be classified as 'held for sale' assets have to meet certain conditions:
 - a. Available for immediate sale in its present condition.
 - b. The sale must be probable
18. These assets are not depreciated and any reduction in value is treated as an impairment loss.
19. At the point of transfer to IFRS all assets meeting the definition of 'held for sale' will have to be reclassified and measured as such.

Infrastructure Assets

20. There is also a possible change to the valuation of infrastructure assets for local government, which although not directly the result of IFRS, is being reviewed at the same time. Under the current rules they are valued at depreciated historic cost, but changes to this are under discussion.

Investment Properties

21. The definition of investment properties will be narrower leading to a reduced number of assets defined as investment properties. Investment property will be defined as one used 'solely to generate rental income or capital appreciation' and will be carried at fair value. They will be shown as a separate line on the balance sheet.

Intangible Assets

22. A wider range of assets may be recognised as intangible under IFRS. Some local authorities may be able to recognise internally generated intangible assets such as

computer software and web sites. Also development expenditure may be capitalised if it meets certain criteria.

23. When the opening IFRS balance sheet is prepared previous development work will need to be reviewed to assess whether it should have been capitalised. Also any software included in fixed assets will have to be separated out and re-classified as intangible. All intangible assets will have to be recognised and valued and assessed as having a finite or infinite useful life.

PFI contracts

24. The new standard for accounting for PFIs is likely to mean that more PFI contracts will be 'on balance sheet'. The determining factors will be about control and residual interest, rather than risks and rewards of ownership.
25. The accounting changes for PFI contracts going on-balance sheet are extremely technical and there may also be considerable difficulty in extracting the required information from the contract. Once such area is splitting the annual charge that is part of most PFI contracts into component parts and determining the interest rate implicit in the lease. The Council has two PFI contracts, Waste Disposal and Whitecross School, which will have to be reviewed and revalued.
26. The Chartered Institute of Public Finance and Accounting (CIPFA) is likely to introduce the PFI changes a year earlier, in 2009/10.

Leases

27. IFRS requires leases to be classified as either finance or operating leases, as is currently required, but the criteria for doing this is different under the new and old standards. Currently there is a quantitative test of whether a lease is a finance lease (measuring the value of 90% of discounted payments) which will be replaced by a number of tests. This may mean more leases being classified as finance leases, which have different and more complicated accounting arrangements. Accounting for finance leases requires the recognition of an asset and liability on the balance sheet at fair value or, if lower, the present value of the minimum lease payments. Lease payments have to be apportioned between the finance charge and the reduction of the outstanding liability. The asset is depreciated over the shorter of the length of the lease and its useful life. The council's leases will have to be reviewed, with evidence held for how the lease has been classified.
28. In addition, leases including both land and buildings will have to be split between the two elements. The land is likely to be an operating lease but the building could be either finance or operating.

Employee Benefits

29. One particularly challenging area is around what is termed as 'employee benefits'. These will now have to be accrued when they are earned (similar to pensions). This will include holiday pay, so that holiday outstanding at 31st March will need to be accrued and reflected in the accounts, requiring sophisticated HR systems to be in place. This is more of an issue where the organisation's leave year is not the financial year. This could also include flexi-time accrued at the end of the financial year. This would have a financial impact on the 'bottom-line' of the revenue accounts for the first year of implementation, although the government could legislate to prevent this being a charge on council tax.

Planning and preparation

30. IFRS is a significant change to existing financial reporting and the volume and complexity of the new standards will present a challenge. This is not just a technical issue. It will require changes to processes and systems. Neither is this just a finance issue as it will also include HR, Property and Legal services. External advisors may be needed for the PFI changes.
31. A number of staff in Financial Services have attended training courses and CIPFA provided an in-house training course in December, which was also attended by a member of staff from Property Services.

Risk Management

32. If IFRS is not interpreted correctly in the council's accounts and implemented in accordance with the required timetable it would impact on the Auditor's opinion on the accounts and the Use of Resources score.
33. The management of this identified risk has commenced as evidence by attendance of staff on relevant training courses.
34. The successful delivery of unqualified accounts will require greater involvement from non-financial services staff than has previously been the case. A communications plan is being developed to raise awareness and IFRS will form part of the Council's financial training programme implemented as part of the Crookhall action plan.
35. Sound project management will be a crucial part of the process to keep the project on track and to identify potential problems at an early stage.

BACKGROUND PAPERS

None

LEARNING DISABILITY INSPECTION ACTION PLAN – PROGRESS REPORT

Report By: Interim Director of Adult Social care

Wards Affected

Country Wise

Purpose

1. To respond to issues raised by this Committee at its meeting of the 25th September 2009

Financial Implications

2. Non identified associated with the report

Background

3. Progress on implementing the action plan to improve learning disability services were reported to the previous meeting of this Committee
4. The Committee noted progress made against the Learning Disability action plan and that future progress would be part of the overall improvement plans for adult social care subject to further information on 3 issues

Issues

5. The areas identified for further clarification were all related to improvements in assessment and care management.

Improvement	Query	Response
Sub paragraph a: All service users will have had a review of their support and care needs within a twelve month period by the end of November. Management quality audit of all reviews will be complete by end of December	what do all service users have and what has been done.	The actions relate to 2007 and were to ensure that the backlog of annual reviews for all users was carried out to check that their needs were being met. This was completed. Users are now offered Individual Budgets to increase choice in the way they receive their care and support.
Sub paragraph e: Training	with regard to	There is a training plan in place

Further information on the subject of this report is available from Eleanor Brazil, Director Adult Social Care
on tel: (01432) 383529

<p>now mandatory for all staff. Recruitment of dedicated training officer to extend scope of safeguarding training and awareness.</p>	<p>mandatory training, what is being done, when will this be achieved and is there an accreditation process.</p>	<p>agreed by the Safeguarding Adult Board, which is chaired by the interim Director of Adult social services. The mandatory training is for adult social care staff to ensure that they understand adult safeguarding issues, are aware of the procedures in place, and are trained on how to respond to issues of concern. This training can be considered as part of the ongoing training requirement for registered social workers.</p>
<p>Sub paragraph f. – Team manager supported by dedicated administrator and additional contract monitoring capacity created.</p>	<p>in respect of the dedicated administrator, was there a necessity for this and were the regulations and protocols complied with in the appointment to the post</p>	<p>This post was necessary to support the team manager, who is responsible for the work of a large multi-disciplinary team. The post is essential to ensure work is progressed in a timely way and the manager is freed up to deal with strategic and operational issues. The post was recruited to in compliance with normal regulations and protocols.</p>

RECOMMENDATION

THAT: the report be noted.