

A G E N D A

Audit and Corporate Governance Committee

Date: **Tuesday 26 May 2009**

Time: **2.00 pm**

Place: **Brockington, 35 Hafod Road, Hereford
HR1 1SH**

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

For any further information please contact:

*Paul Rogers, Democratic Services Officer. Tel
01432 383408*

E-mail progers@herefordshire.gov.uk

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
1. APOLOGIES FOR ABSENCE	
2. NAMED SUBSTITUTES(IF ANY)	
3. DECLARATIONS OF INTEREST	
To receive any declarations of interest by Members in respect of items on the Agenda.	
GUIDANCE ON DECLARING PERSONAL AND PREJUDICIAL INTERESTS AT MEETINGS	
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4. MINUTES	1 - 8
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To report progress against the data quality action plan 2008 / 09 and the plan for the next 12 months.	

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To outline the Action Plan that the Planning Obligations Manager will undertake in the next six months in developing a monitoring system for section 106 Agreements.	
7. 2008/09 AUDIT OPINION PLAN	23 - 34
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To report to the Committee on the Review of Procurement undertaken by the Audit Commission.	
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To report to the Committee on the project plan for implementing International Financial Reporting Standards.	
10. ANNUAL GOVERNANCE STATEMENT 2008/09	61 - 80
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11. AUDIT SERVICES ASSURANCE REPORT 2008/09	81 - 104
To provide the Committee with the Chief Internal Auditor's final audit assurance report for 2008/09.	
12. ANNUAL AUDIT FEE 2009/10	105 - 110
To inform the Committee of the work to be undertaken for 2009/10 financial year by the Audit Commission.	

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HEREFORDSHIRE COUNCIL

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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 20 March 2009 at 10.00 am

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

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

In attendance: Councillor PJ Edwards

138. APOLOGIES FOR ABSENCE

There were no apologies for absence.

139. NAMED SUBSTITUTES(IF ANY)

There were no substitutes made.

140. DECLARATIONS OF INTEREST

The Chairman, Councillor ACR Chappell, declared a personal interest in paragraph 12 regarding Level 3 Complaints, page 21 of the agenda refers.

141. MINUTES

RESOLVED: That the Minutes of the meeting held on the 23 January 2009 be approved as a correct record and signed by the Chairman.

142. USE OF RESOURCES

The Director of Resources presented a report which gave details of the Action Plan which was requested at the previous meeting of the Committee in respect of the improvement opportunities identified in the Use of Resources report 2008, Appendix 1 refers. He drew attention to the Audit Commission report having less actions this year mainly because significant improvements had been made. He had split the Action Plan into five themes. The first being Financial Reporting where the highest score Level 4 had been achieved. In Theme 2, Financial Management, he emphasised that the Medium Term Financial Strategy would be developed to become a joint document for the Council and Primary Care Trust. With regard to debt monitoring in Financial Standing, Theme 3, the Director outlined the current appraisal and performance. In Theme 5, Internal Control, value for money had given the greatest opportunities for improvement. Training programmes for officers in this respect were being put in place. The report reflected the improvement of Use of Resources overall at a score of Level 3.

Councillor RH Smith suggested that the second paragraph of point 2.3 of the Financial Management commentary on page 12 should be amended to include the

words 'including a fully costed financial appraisal of each option' after the word 'appraisal'. He further referred to paragraph 5.1 on page 14 and stated that the integrated performance report did not make provision for value for money assessments. The Director of Resources informed Members that the whole issue of how performance management issues would be presented was currently being reviewed by the Deputy Chief Executive.

In answer to a Member's question, the Director of Resources assured the Committee that although options appraisals are required to be carried out on all projects likely to cost more than £140,000, appraisals are also carried out on projects costing less than £140,000.

With regard to the updating of Business Continuity Plans, paragraph 4.4 refers, the Director of Resources informed the Committee that this included 2008/09 plans.

Councillor AM Toon referred to the 3 per cent budget cuts and asked for identification on how value for money was helping to achieve such cuts. The Director of Resources stated that the Authority did not have a value for money strategy. He was, however, communicating with Shropshire County Council who did have a good value for money strategy which could be utilised for this Authority.

Councillor R Mills requested that a reporting system be put in place to show the current position on projects.

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

- (i) **the second paragraph of point 2.3 of the Financial Management commentary on page 12 should be amended to include the words 'including a fully costed financial appraisal of each option' after the word 'appraisal'; and**
- (ii) **a report indicating the position statement on major projects to be included as a standard item on the agenda.**

143. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Acting Head of Financial Services presented a report on the progress on implementing International Financial Reporting Standards (IFRS) as requested at the previous meeting. She referred to the Hereford and Worcester Financial Managers Group, paragraph 5 of the report refers, which had been set up to work jointly on IFRS issues and informed the Committee that the Group had adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Project plan on the issues. The Group had also set up five sub groups to consider Assets and Capital, Financial Statements and Policies, Employee Benefits, Joint Benefits, and Leases. The sub groups would then report to the main group.

Councillor AM Toon declared a personal interest as a governor of Whitecross High School. paragraph 8(a) (i) of the report refers.

The Chairman, Councillor ACR Chappell, referred to the fact that the Primary Care Trust (PCT) was having IFRS introduced ahead of the Council and that hopefully the Council can learn from the Herefordshire PCT. He also referred to the probable need to employ more financial staff as a consequence of the implementation of the IFRS system. The Director of Resources stated that any financial personnel with the necessary experience in working with IFRS currently command higher rates of pay.

He would be flagging up the need for additional support with the Joint Management Team. He would also be working closely with the PCT.

Regarding Councillor Toon's query on the accuracy of school asset records with regard to IFRS, the Acting Head of Financial Services informed Members that school asset accounting would be closely monitored to ensure compliance with the new accounting procedures.

The Director of Resources stated that an item would be appearing on the Herefordshire Schools Forum agenda regarding IFRS and that his staff would also be working with the Schools Bursars Group on IFRS matters. With regard to a Member's question on whether the new accountancy standards would provide efficiencies, he stated that bodies like CIPFA had concerns on that issue.

On a contracts issue the Assistant Chief Executive Legal and Democratic reminded Members that it was a legal requirement that European companies should be asked to tender for certain contracts if contracts were above European procurement figures.

The Acting Head of Financial Services referred to Private Finance Initiatives (PFI) Accounting being very complex and emphasised the probable need to employ expert advice in this area.

The Director of Resources informed Members that he would be putting in place a corporate training event for Members on IFRS issues by using one of the allocated Resources Directorate training days. Councillor Chappell recognised the need for Members to appreciate the IFRS system and how property issues of the Authority are affected.

Councillor RH Smith made reference to the recently revised Medium Term Financial Management Strategy and asked if the £766,000 'capacity' in 2009/10 would be affected by IFRS. The Director of Resources informed members that the 'bottom line' impact of IFRS was not yet known on that issue but that he would report back to the Committee as soon as the issue became clear.

RESOLVED: That

- (i) a standing report be made on the current position with regard to the implementation of the IFRS; and**
- (ii) the report be noted.**

144. MONITORING OFFICER REPORT 2007/08

The Assistant Chief Executive, Legal and Democratic presented a report which informed the Committee of the Authority's performance for 2007/08 with regard to complaints to the Ombudsman, Whistleblowing and those matters within the responsibility of the Monitoring Officer's control as the Head of Legal and Democratic Services. He referred to paragraph 12 and emphasised that the majority of complaints were in the planning environment. With regard to complaints dealt with by the Standards Committee, between January 2009 and the current date, thirty complaints had been referred through the local filtering system most of which related to parish councils.

Councillor AM Toon expressed disappointment that the Annual letter from the

Ombudsman had not been circulated to members. She pointed out that the headings on Appendix 2 on page 29 and the headings on Appendix 3 on page 31 did not match which made the information difficult to compare. She also took the view that there was an issue regarding the definition of a complaint and that there was a need for training in the Authority to ensure consistency on the issue.

Councillor RH Smith referred to paragraph 5 bullet point 3 on page 20 and asked what were the local settlements. Also, in paragraph 12 on page 21, information regarding the action by the officers subsequent to decisions to partially uphold complaints would be useful to enable the committee to consider such action.

The Assistant Chief Executive, Legal and Democratic stated that he would be able to let Members have the information on those complaints which were upheld and those resolved by local settlement in a confidential letter. He would also endeavour to achieve consistency with regard to figures in the Appendices.

RESOLVED: That the report be noted.

145. UPDATED DRAFT REVISED TERMS OF REFERENCE

The Chief Internal Auditor presented updated draft revised terms of reference for the Audit and Corporate Governance Committee's consideration.

Councillor R Mills referred to page 34 paragraph 7(iii) and asked for a report on the provision of Amey services and how well it is managed. The Chief Internal Auditor informed the Committee that the next item on the agenda, the Audit Plan Minute No.146 refers, would be the fundamental system where the Amey contract would be reported.

The Director of Resources referred to the fine balance between matters which should be considered by Audit and Corporate Governance Committee and those matters which are more properly dealt with by the scrutiny process and were in effect outside of its terms of reference. He informed Members that the Audit Commission was in the process of preparing a report to be submitted to the Council on Procurement and within that report there was a strong section covering the new Amey contract.

Terry Tobin, representing the Audit Commission, endorsed the Director's comments and informed Members that the relationship between Amey and the Authority had been looked at post Crookhall. The Audit Commission had also raised issues which the Chief Executive had indicated would be addressed.

Councillor AM Toon referred to the Council's procedures and protocols and how far did these extend to its partners. The Assistant Chief Executive, Legal and Democratic informed the Committee that the Council must ensure that it achieves value for money in engaging with its partners. With regard to partners and legal compliance on issues, this was an area where partners were responsible for their own actions.

The Director of Resources informed Members that he would present the Audit Commission's report on procurement that also covered the Amey contract to the next meeting. He stressed the need for the Committee to distance itself from scrutiny areas of working.

Councillor RH Smith stated that the draft revised terms of reference fully reflect the Chairman's and Vice-Chairman's comments. He questioned, however, the appointment of an independent person to the Committee who would then become Chairman and asked what was its rationale. He had concerns that if such an appointment was made, then there was the possibility that on an occasion where the committee reached a quorum of three that the majority vote would be cast by a non elected Member. The Assistant Chief Executive, Legal and Democratic informed the Committee that this had been in the constitution for some time. He emphasised, however, that there was scope for legislation to enforce the issue of the appointment of an independent Member with Chairmanship of the Committee.

RESOLVED: That

- (i) the revised terms of reference together with the proposed change of name of the Committee as set out in Appendix 1 to the report be approved subject to the following amendments:**

 - (a) the word 'policy' being inserted after the word 'blowing' in paragraph 5.1.1 iii;**
 - (b) the words 'financial and associated' be inserted after the word 'Council's' in line two of paragraph 5.1.11 ix;**
- (ii) Council be recommended to approve the quorum of the committee being amended to four Members, three of which must be Members of the Council should the committee appoint an independent Member;**
- (iii) the Audit Commission's Action Plan response with regard procurement be submitted to the next meeting; and**
- (iv) the Environment Directorate be invited to report to the Committee on how the Amey contract with the Council will work and that the Chairman of the appropriate Scrutiny Committee be invited to attend the meeting;**

146. AUDIT PLAN 2009/10

The Chief Internal Auditor presented the 2009/10 Audit Plan to the Committee. He informed members that the Plan had been discussed with the Chief Executive, Deputy Chief Executive and Directors and their comments were included in Appendix 1 to the report. He referred to paragraph 5 of the report which highlighted sections in the Audit Plan which feed into the Audit Strategy. Paragraph 9 highlighted Consultancy work and would not be given an audit opinion, but any issues in those areas would be contained in the Audit Assurance report. Paragraph 12 referred to reductions in audit days to align the plan to resources available. With regard to paragraph 13, Members were informed that an Audit Manager was being seconded to support the Council's Improvement Programme as it was important that audit ensures that internal control procedures were followed. The Herefordshire Connects Programme Manager supported this action. The Chief Internal Auditor emphasised that as part of the Committee's new terms of reference, the Council's procurement and contract procedures reviews were contained in the Governance and Anti-Fraud section, part (c) of Appendix 1. High importance was being given to Criminal Records Bureau (CRB) checks and audit of these was contained in part (d) of Appendix 1. He drew members' attention to the Contact Point database part (e), and

ICT Protocols and Controls (Council Wide), which contained contact details of all school children.

Councillor AM Toon commended the report but raised concerns that electoral services and the processes in respect of elections were not contained in the Plan.

The Assistant Chief Executive Legal and Democratic informed Members that electoral registration was the function of the Deputy Returning Officer (DRO) and that the Electoral Commission had issued standards for the Returning Officer (RO) to adhere to. The committee was reminded that the functions of the RO and DRO were not Council functions but that these were a duty for which there was a personal responsibility to the Electoral Commission and Courts. Members had a vested interest in elections and that was why this role was separated from the Council functions. He reminded members that three reports on electoral issues had previously been considered by the Strategic Monitoring Committee (SMC). He emphasised that the job of the RO and DRO were outside the functions of the Council.

Councillor PJ Edwards informed the committee that SMC had recently received a presentation from the Electoral Commission which had made particular reference to electoral registration services, local elections and Returning Officers.

Councillor MJ Fishley referred to the number of audit days needed for CRB Checks. The Chief Internal Auditor advised that there was a need to give the Committee assurance that CRB checking was carried out correctly. The Assistant Chief Executive Legal and Democratic emphasised that it was important under the Comprehensive Area Assessment process that there was evidence that this particular area of audit work was being done as the safeguarding agenda important to the community.

RESOLVED: That the Audit Plan for 2009/10 be adopted.

147. AUDIT STRATEGY 2009/10

The Chief Internal Auditor presented a report which gave details of the 2009/10 Audit Strategy. He drew members' attention to the areas of audit opinion, paragraph four of the report refers, which fed into the Internal Control Audit Opinion Matrix, paragraph seventeen of the report refers.

RESOLVED: That the Audit Strategy for 2009/10 be approved.

148. FOURTH INTERIM AUDIT ASSURANCE REPORT 2008/09

The Chief Internal Auditor presented an update on progress in making the planned improvements to the internal control environment and progress with the Annual Audit Plan for 2008/09. He informed Members that he had not been able to update the current position and status in Appendices 1 and 2 but that this would be carried out and included in the report for the next meeting. He referred to the 'Status of Audits Started during 2008/09', Appendix 3 refers, and reminded the Committee that it was policy that all fundamentals must achieve a 'Satisfactory' opinion in line with Financial Regulations. Audit Opinions were reported to the Chairman of the Committee, Leader and Cabinet Members to ensure their awareness of the opinions. He referred the Committee to the ICT Protocols and Controls on page 83 and to three opinions which had been changed from 'Not Applicable' to 'Minor Non-

Compliance’.

Councillor RH Smith referred to the financial management training on page 68 and drew attention to Fraud Training being offered by Price Waterhouse Coopers. The Assistant Chief Executive Legal and Democratic informed members that he had been in discussion with the Director of Resources regarding this training.

Councillor AM Toon referred to Appendix 1 on page 78 and the ongoing status of items which did not show any timescale. The Director of Resources informed Members that the Status comments in the Appendix would be updated with timescales for the next meeting of the Committee.

RESOLVED: That the report be noted.

149. ANNUAL AUDIT AND INSPECTION LETTER

The Chairman informed the Committee that in his opinion this item was urgent in accordance with Standing Order No. 5.8.3, to enable recommendations to be made to Cabinet in April.

Councillors PJ Edwards and RH Smith declared a personal interest in waste management being a member of the Hereford and Worcester Joint Waste Disposal Forum.

Terry Tobin, representing the Audit Commission, presented the Annual Audit and Inspection letter and informed the Committee that the letter would be the last Annual Audit and Inspection letter but that something similar would be produced in the Comprehensive Area Assessment process. The letter before Members was a summary of the Audit Commission’s assessment of the Council and drew from the findings and conclusions from the audit of the Council for 2007/08 and from any inspections undertaken since the last Annual Audit Assessment letter. He made particular reference to the messages in the letter regarding Direction of Travel, Use of Resources, Waste Management and the Safer Roads Partnership. There were two issues regarding Direction of Travel. The first being the children’s protection issue where there was sensitivity and the performance management framework. The second issue related to the need for corporate plans to have SMART targets. Some of the plans did include such targets but others are vague. Therefore there was a need for improvements in that area. Use of Resources had improved from the previous year and had achieved a score of 3 out of 4. In this area, there had been improvements in Financial Standing, Internal Control and top marks for Financial reporting. In Waste Management he was aware of the work regarding the waste disposal issue with a solution not yet agreed. This was a No.1 audit risk so the Commission had planned a piece of work on waste disposal issues in the autumn. With regard to the Safer Roads Partnership (SRP), the Commission had carried out an assessment of the SRP and had found that the Partnership had not made the transition from the safety camera partnership to broader educational issues.

In answer to a Member’s question, the Director of Resources informed the Committee that with regard to the Edgar Street Grid, this had now been included in the Corporate Risk Register.

Councillor PJ Edwards requested that the Scutiny’s thanks and support for the report be recorded.

Councillor R Mills asked how comparisons were made between Councils on matters

such as waste disposal taking into account the disparity in money from central government to Councils. Terry Tobin informed Members that comparisons were made between similar Councils.

Councillor ACR Chappell, Chairman, on behalf of the Committee expressed thanks to all those officers involved in the improvements detailed in the letter and to Terry Tobin for his work and the report.

RESOLVED: That the Audit Commission's Annual Audit and Inspection letter for 2008/09 be noted.

The meeting ended at 12.07 pm

CHAIRMAN

DATA QUALITY – ANNUAL REPORT**Report By: Interim Deputy Chief Executive****Wards Affected**

County wide

Purpose

1. To report progress against the data quality action plan 2008 / 09 and the plan for the next 12 months.

Financial Implications

2. There are no financial implications. However, data quality is a key requirement underpinning grant claims and other financial returns to central government.

Background

The move from CPA to CAA places increased importance on locally generated data of a high quality. As a result, all Inspectorates have placed increased emphasis on examining local arrangements for securing data quality in recent years. For instance, the annual examination of the selected 'high risk' best value indicators reported by the Council has evolved into a significant audit based on key lines of enquiry and interviews with key staff and members.

RECOMMENDATION**THAT:**

- (a) **Progress against the 2008 / 09 data quality action plan is noted and the 2009 / 10 plan at Appendix 1 be supported.**

Reasons

3. The Council's data quality policy requires an annual report to Cabinet and this Committee. The current action plan has not been completed according to timetable and is being rolled forward and extended for 2009 / 10.

Considerations

4. Cabinet agreed the Council's action plan last April in recognition of the need to demonstrate the quality of local data, the forthcoming requirements of CAA and in response to the Audit Commission's latest audit. The 52 actions it contains were designed to address what were then the weakest areas of Council

Further information on the subject of this report is available from Tony Geeson, Head of Policy and Performance on tel: (01432) 261874

AuditandCorpGovDQreportApril20090.doc

- performance (as measured by the CPA key lines of enquiry) and the agreed recommendations of the audit.
5. The plan was ambitious and; as reported in November to JMT, Cabinet and this Committee, progress was slower than anticipated after six months. This remains the position after twelve months and the plan has still not been completed. At the end of March, 33 of the tasks were completed, 11 were underway (but either incomplete or by their very nature ongoing) and 8 remained to be started.
 6. The 19 incomplete tasks fall into five areas:
 - a. Data sharing partners: - although the main partners have been identified and contacted, not all of them have responded so it remains unclear if they are willing to follow the Council's data quality policy or have something better to offer. Responses are being sought and, if necessary, meetings will be held to clarify the requirements. (2 actions)
 - b. Identification of directorate / service specific policies and procedures and communicating these to staff: - The identification work has not been completed so the various communications initiatives have not yet started (6 actions)
 - c. Having a definitive list of staff who require training: - The 2009 appraisal process should complete the picture begun in 2008 (1 action)
 - d. Contracts where data quality is a potential issue: - it has not proved possible to identify any high-risk contracts, contact those responsible, insert data quality clauses, consult upon, establish or implement a monitoring system. The existing contracts register is being revised which will allow this work to begin in 2009/10 (6 actions)
 - e. A group of four unrelated actions that are essentially continuing processes: - identifying data quality champions, logging examples of data quality improvements, identifying residual (non Connects) processes where data quality assurance is a potential issue and continuing to rectify any data quality weaknesses identified by audits or inspections.
 7. Based on the above, two areas in particular require action; these are identifying directorate / service specific policies and procedures as well as concluding the work to improve the current contracts register.
 8. JMT considered the annual report on 29 April and in response the previous points resolved that directorate management teams should fully engage with the data quality action plan and that directors should confirm their nominated contract management officers to the Director of Resources by 8th May. Additional audit time will also be provided

Risk Management

9. Insufficient attention to data quality is currently a corporate risk (CR35). One of the key elements in the mitigation strategy is the completion and roll forward of

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the current action plan. Although the February 2009 Annual Audit and Inspection letter concludes that the authority has proper arrangements in place to ensure the accuracy of key performance data, this position will only be maintained, and improved, if the identified actions are completed and further attention is paid to data quality.

Background Papers

None

Appendices

Appendix 1 – Draft data quality action plan 2009 / 10

Further information on the subject of this report is available from Tony Geeson, Head of Policy and Performance
on tel: (01432) 261874

AuditandCorpGovDQreportApril20090.doc

APPENDIX 1 DATA QUALITY ACTION PLAN – MARCH 2009 UPDATE AND ROLL FORWARD TO 2009/10

REFERENCES IN [BRACKETS] RELATE TO AUDIT COMMISSION RECOMMENDATIONS IN THEIR DATA QUALITY AUDIT REPORT FEBRUARY 2008

KLOE Ref	Action	Detailed tasks (Those responsible)	Original date	Revised Plan Date (proposed new date)	Date completed (RAG rated)	Reasons
2.1	<p>2.1.3 Communicate policy to all external data sharing partners and partnerships and get them to sign up to the policy or provide higher standards</p> <p>[R7 Formal protocols with Council Partners need to be developed to ensure accuracy of data]</p>	<p>12 Replies returned by (Head of Policy and Performance)</p>	June 14 th 2008	February 2009 (May 2009)	Underway (Amber)	Not all replies have been received and are being chased
		<p>13 Identify and meet with partners who are unable to sign etc. (Relevant managers and improvement managers)</p>	End of June 2008	March 2009 (June 2009)	Not yet started (Red)	Depends on the results of task 12 above
2.1	<p>2.1.5 The four improvement managers to consolidate any existing and extra directorate and service specific procedures, guidelines and operational practices into one set of data quality guidelines and standards.</p> <p>[R9 Guidance for staff should be readily accessible for all involved in the compilation process & R10 Roles and responsibilities for all staff included within the DQ process need to be clearly defined]</p>	Task 42	End of April 2008	February 2009 (June 2009)	Underway (Amber)	A sizeable task being combined with other exercises e.g. quality assessments

Further information on the subject of this report is available from Tony Geeson, Head of Policy and Performance on tel: (01432) 261874

KLOE Ref	Action	Detailed tasks (Those responsible)	Original date	Revised Plan Date (proposed new date)	Date completed (RAG rated)	Reasons
2.1	<p>2.1.7 identify all staff with responsibilities for DQ [as a first step to amending job descriptions and person specifications]</p> <p>[R10 Roles and responsibilities of all staff included within the DQ process need to e clearly defined]</p>	18 Produce and quality assure staff list from each directorate (relevant managers / improvement managers)	End of April 2008	January 2009 (July 2009)	Underway (Amber)	SRD's in 2008 did not produce a complete list. SRD's in 2009 should rectify this
2.1	<p>2.1.8 Include DQ requirements in all contracts, service level agreements and similar documents where this is relevant and not currently explicit set up monitoring systems starting with the highest risks</p> <p>[R7 Formal protocols with Council partners need to be developed to ensure accuracy of data]</p>	<p>19 Consult contracts register; identify relevant entries, renegotiation dates / variation potential and risk levels (Head of Policy and Performance)</p>	End of April 2008	March 2009 (June 2009)	Underway (Amber)	The contracts register is being updated to include re-tendering dates and identify data quality in contracts
		<p>21 Contact all high risk organisations & those renewing during Financial Year 2008/09 (relevant managers)</p>	End of May 2008	March 2009 (July 2009)	Not yet started (Red)	Depends on completing task 19 above
		<p>23 Insert appropriate DQ text where it is currently not explicit in new and renewing contracts (DCX legal and democratic services & relevant managers)</p>	From March 31 2008	March 2009	Underway (Amber)	In part depends on completing task 19 above and 24-26 below

Further information on the subject of this report is available from Tony Geeson, Head of Policy and Performance on tel: (01432) 261874

KLOE Ref	Action	Detailed tasks (Those responsible)	Original date	Revised Plan Date (proposed new date)	Date completed (RAG rated)	Reasons
		24 Consider appropriate monitoring systems (relevant managers and improvement managers)	May 2008	March 2009 (July 2009)	Not yet started (Red)	Depends in part on task 19 above
		25 Consult and advise all contractors (as task 24)	May 2008	March 2009 (August 2009)	Not yet started (Red)	
		26 Implement monitoring systems (as task 24)	From June 2008	March 2009 (August 2009)	Not yet started (Red)	
2.2	2.2.1 Existing corporate and directorate policies, procedures and guidelines [and amendments in future] to be promulgated in a variety of ways such as 121's, Staff Review & Development sessions (SRD's), service planning, emails, news and views, notice boards, performance clinics, team meetings, computer based training (CBT), leaflets and wider training etc [R9 Guidance for staff should be readily accessible for all involved in the compilation process and R10 Roles and responsibilities of all staff included within the DQ process	27 Notify all e-mail users, cascade via key managers (Head of Policy and Performance)	June 2008	March 2009 (July 2009)	Underway (Amber)	Only corporate documents identified so far. Related to tasks 41
		28 Devise and include appropriate requirements in SRDs for staff identified in action 18 and get signatures fro receipt of documentation (Head of Policy and Performance, relevant mangers, DCX - HR)	April 2008 onwards	March 2009 (September 2009)	Underway (Amber)	Depends in part on task 18

Further information on the subject of this report is available from Tony Geeson, Head of Policy and Performance on tel: (01432) 261874

KLOE Ref	Action	Detailed tasks (Those responsible)	Original date	Revised Plan Date (proposed new date)	Date completed (RAG rated)	Reasons
	all staff included within the DQ process need to be clearly defined]	29 Set up CBT links / tests for all documents sent to action 18 staff (Head of Policy and Performance)	End of June 2008	March 2009 (October 2009)	Not yet started (Red)	Will follow task 28
		30 Poster campaign and N&V cascade (as task 29)	June 2008 onwards	March 2009 (July 2009)	Underway (Amber)	Should be coordinated with tasks 18 and 42
		31 Include in performance clinics, team meetings and training – the improvement managers to identify and log opportunities (relevant managers and improvement managers)	Ongoing	Ongoing	Underway (Amber)	A continuing process
2.2	2.2.2 Improvement managers to identify if / where additional data champions are required within the directorate and recommend to DMT's for approval	Task 43	End of April 2008	March 2009 (June 2009)	Underway (Amber)	A continuing process
2.2	2.2.3 Improvement managers to log examples of actions that improved DQ as they occur centrally and publicise these locally through N&V. Authority wide publicity periodically	34 Set up central log and monitor at each Improvement Network meeting (Head of Policy and Performance)	From April 2008 onwards	Ongoing	Underway (Amber)	A continuing process

Further information on the subject of this report is available from Tony Geeson, Head of Policy and Performance on tel: (01432) 261874

KLOE Ref	Action	Detailed tasks (Those responsible)	Original date	Revised Plan Date (proposed new date)	Date completed (RAG rated)	Reasons
4.2	4.2.4 Ultimately identify impacts of all residual systems on DQ staff skills and capacity and ensure training is provided where needed	36 Identify residual systems – Use the Hereford Connects audit as a starting place supplemented by paper systems which are out of the Connects scope (Hereford Connects Project manager & Improvement managers)	From April 2008?	From April 2008 (July 2009)	Underway (Amber)	A continuing process as the scope of Connects becomes clear
4.2	4.2.7 Ensure DQ weaknesses identified by external or internal reviews are addressed by training or appropriate de-briefing sessions	Task 52 (relevant managers, improvement managers and internal audit)	Ongoing	Ongoing	Underway (Amber)	A continuing process. No reviews have identified weaknesses to date

PROPOSED NEW TASKS FOR 2009/10 IN ADDITION TO COMPLETING THOSE ABOVE

KLOE Ref	Action	Detailed task (those responsible)	Original date	Revised date	Date completed	Reasons
	53	Training programme for at least 150 key staff (Head of Policy and Performance / Information management group)	March 2010			
	54	Data quality assessments of at least 24 performance indicators on a risk basis (Improvement managers / internal audit)	December 2009			
	55	Consider a common format for directorate and service data quality procedures (Improvement managers)	October 2009			
	56	Consider a rolling programme of systems audits potentially involving the mapping of data flows and controls (Internal audit)	December 2009			
	57	Implement PMR application as part of the Connects programme according to corporate priorities with appropriate data quality processes (Head of Policy and Performance)	March 2010			
	58	Review of information sharing protocols (Records manager)	January 2010			
	59	Revise data quality policy (Head of Policy and Performance)	April 2010			

Further information on the subject of this report is available from Tony Geeson, Head of Policy and Performance
on tel: (01432) 261874

SECTION 106 PLANNING OBLIGATIONS**Report By: Head of Planning & Transportation****Wards Affected**

1. County-wide

Purpose

2. The purpose of this report is to outline the Action Plan that the Planning Obligations Manager will undertake in the next six months in developing a monitoring system for section 106 Agreements.

Financial Implications

3. Without adequate co-ordination, contributions could be spent on inappropriate schemes and not on priorities identified within the Council's various plans and strategies or on other specific projects.
4. Without an adequate and co-ordinated system for monitoring Section 106 Agreements and any subsequent obligations, it is possible that should deadlines expire, secured sums would have to be returned (plus interest) to the developers and required community facilities/affordable housing would not be provided.

Background

5. At the Audit and Corporate Governance Committee held on 21st November 2008, the Head of Planning and Transportation presented a report on the current arrangements for Planning Obligation Agreements. Members requested that the Planning Monitoring Officer attend the May 2009 meeting of the Committee.

RECOMMENDATION

THAT: (a) Members note the contents of the Report.

Reasons

6. To enable further monitoring in the light of changing circumstances.

Considerations

7. From initial findings it has become clear that information flows between the various staff involved in this complicated process is not helped by the numerous differing systems currently used to monitor and administer section 106 Agreements. Sometimes staff responsible for using infrastructure

Further information on the subject of this report is available from Mrs Y Coleman on tel: (01432) 383083

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contributions are not always informed of the final sum agreed after negotiations with developers. Also they may not be aware that a sum has been paid. Responsibility for checking that the monies have been paid by the trigger date relies on various officers within different departments; there is no one central point of contact.

8. Improvements will be made by moving to an integrated computerised monitoring and reporting system. The system will be administered by the Planning Obligations Manager. This would enable everyone to see the current state of play of all agreements and the passing of 'triggers' will be flagged up automatically. A computerised accounting system of receipts and expenditure will be administered by Financial Services.
9. The Planning Obligations Manager expects that numerous benefits will result from the closer monitoring of Section 106 Agreements and these include:
 - Delivery of agreed community benefits on time, as timetabled in the agreement.
 - Improved service delivery planning and work programming in all departments as every department will be given advanced notice of impending planning gain being triggered at various stages within the life of the development.
 - Improved financial control and budgeting across the Council.
 - Improved enforcement of Section 106 Agreements. Close monitoring will result in early detection of missing gain and improved prospects for ensuring commitments are honoured – whether through reminders or Court action.
 - Limited chances for 'sunset' clauses to be triggered. A sunset clause requires developer contributions to be repaid, usually with any interest accrued, if not spent by the Council on the specified purpose within an agreed timescale
 - Improved accountability to developers for the expenditure of contributions. This is important as it will underpin and demonstrate the Council's reputation for excellent probity.
 - Improved public information on the delivery of 'gain' in their area and better communication of 'progress of delivery' with Ward Members and Parish/Town Councils
 - It will ensure that the Council delivers its obligations within such agreements on time. Clearly this is important as a Section 106 Agreement is a multilateral agreement that requires all parties to honour the commitments they have entered into if trust and understanding are to be developed and if the system and/or parties are brought into disrepute
 - Enhanced reputation. All of the above will help to reinforce the image of the Council as a businesslike organisation that is working with the development industry and local communities to deliver the key objectives contained within its policies and strategies.
10. The key priorities for the Planning Obligations Manager over the next six months will be to:

OBJECTIVE	TIMESCALE	OUTCOME
Establish contact with key officers within the Council who currently play a role in monitoring section 106 Agreements and establish the baseline	Monthly and ongoing	Assembly of full information base

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information held on all existing section 106 Agreements		
Establish contact with, and meet officers from Local Authorities who have been recommended by the IDEA and the PAS (Planning Advisory Service) as a model of good practice for their monitoring systems	End of May 2009	Establishment of system to best practice standard
Work closely with Civica to establish an integrated monitoring and reporting system on section 106 Agreements. The system will record monetary and non-monetary benefits generated by agreements and their expenditure	May – September 2009	Establishment of integrated monitoring and reporting system
Establish an audit trail and allocate funding to service departments to ensure that expenditure follows that originally agreed	May – September 2009	Transparent audit trail
Liaise with Development Management Team and Legal Services in reviewing systems and processes for trigger points within Section 106 Agreements and amend accordingly	June 2009	Effective monitoring triggers within Agreements
Organise and deliver Member and parish council training on the use of section 106 Agreements and the monitoring system	July 2009	Raise awareness of Section 106 Agreements and the monitoring system
Work with Service Departments/Members/ Town and Parish Councils to prepare a rolling programme of local projects/schemes which could reasonably be funded by Section 106 Agreements and against which developers could be advised of local needs	Monthly and ongoing	Appropriate allocation of obligations to benefit both Council strategies and the needs of local communities
Input data into the integrated system	Ongoing	All Officers, Members, Parish Councils and the community having access to information on Planning Agreements

Risk Management

- The risk associated with not monitoring legal agreements relating to planning applications is that the Council could be criticised for not operating a transparent and comprehensive framework for monitoring such financial and non-financial obligations.

Background Papers

ODPM Circular 05/2005, Planning Obligations, July 2005

CLG Planning Obligations: Practice Guide, July 2006

Further information on the subject of this report is available from Mrs Y Coleman on tel: (01432) 383083

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Planning Advisory Service: Online enforcement and s10/conditions monitoring system toolkit, December 2006

Audit Commission: Securing community benefits through the planning process – Improving performance on Section 106 agreements

Planning Advisory Service: Colchester – The creation of a Section 106 database

Planning Obligations: Supplementary Planning Document, Herefordshire Council, April 2008

Further information on the subject of this report is available from Mrs Y Coleman on tel: (01432) 383083

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2008/09 AUDIT OPINION PLAN**Report By: DIRECTOR OF RESOURCES****Wards Affected**

County-wide.

Purpose

1. To present the external auditor's Audit Opinion Plan to the Audit and Corporate Governance Committee.

Financial Implications

2. These are outlined in the attached Audit Commission report.

RECOMMENDATION

THAT the Audit and Corporate Governance Committee notes and comments on the content of the attached Audit Opinion Plan.

Reasons

3. The external auditor is required to meet the Audit Commission's code of practice and indicate how the proposed work will be addressed.

Considerations

4. The initial audit plan for 2008/09 was presented to the Audit and Corporate Governance Committee on 20 June 2008. It set out the Audit Commission's work it proposed to undertake in order to meet responsibilities and the Audit Commission's Code of Audit Practice.
5. The plan covers the identification of audit opinion risks; the identification of significant risks; the related testing strategy and associated audit fees.
6. The Audit Opinion Plan will be presented by the Audit Commission's Audit Manager.

Risk Management

7. The Audit Opinion Plan requires the Council's external auditors to meet professional auditing standards by specifying the detailed risks to be considered as part of the audit planning work. The plan brings these risks to the attention of the Audit Committee.

8. **BACKGROUND PAPERS**

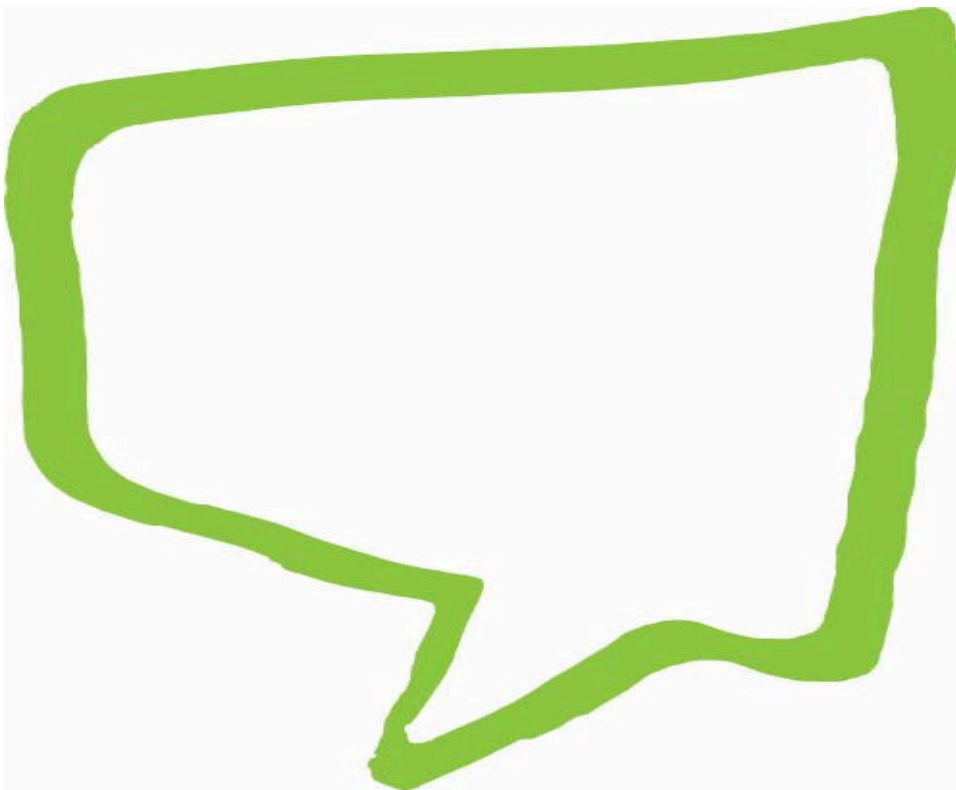
None

Opinion Plan

Herefordshire Council

Audit 2008/09

May 2009



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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 We issued our initial audit plan for 2008/09 to the Audit and Corporate Governance Committee on 20 June 2008, which set out the work that we proposed to undertake in order to satisfy our responsibilities under the Audit Commission's Code of Audit Practice. We are required by professional auditing standards to specify the detailed risks that we need to consider as part of our opinion planning work. As the initial audit plan was produced early in the financial year and for fee purposes, it was not possible to specify these risks. We are now in a position to do this as the opinion work is about to commence.
- 2 We are required to:
 - identify the risk of material misstatements in your accounts;
 - plan audit procedures to address these risks; and
 - ensure that the audit complies with all relevant auditing standards.
- 3 We have therefore set out below our approach to identifying opinion audit risks and have considered the additional risks that are appropriate to the current opinion audit.

Identifying opinion audit risks

Organisation level risks

- 4 As part of our audit risk identification process we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
- establishing the nature of the Council's activities;
 - identifying the business risks facing the Council, including assessing your own risk management arrangements;
 - considering the financial performance of the Council; and
 - assessing internal control - including reviewing the control environment, the IT control environment and internal audit.

Information system risks

- 5 To comply with ISA (UK&I) 315 we need to assess the risk of material misstatement arising from the activities and controls within the Council's information systems. To be able to assess these risks we need to identify and understand the material systems and document that understanding.
- 6 Material systems are those which produce material figures in the annual financial statements. We have identified that the Council has 16 material systems. For these systems we need to demonstrate our understanding by documenting the following.
- How transactions are initiated, recorded, processed and reported in the financial statements.
 - The accounting records relevant to the transactions.
- 7 We also need to understand how the Council identifies and captures events and conditions which are material to the financial statements, eg depreciation and the financial reporting process used to prepare the financial statements.

Assertions

- 8 When considering the risk of material misstatement we consider what the Director of Resources is stating when he signs the financial statements. An audited body's management is responsible for the preparation and presentation of financial statements which give a true and fair view of the nature and activity of the Council for the period. In doing so, management are making statements regarding the recognition, measurement, presentation and disclosures of various elements of the financial statements and related disclosures.

Identifying opinion audit risks

9 These representations from management are referred to as assertions about financial statements in ISA (UK&I) 500. The ISA states that we have to ascertain that the financial statements are free from material misstatement at the assertion level. The ISA splits out the assertions and considers their applicability in respect of:

- income and expenditure items;
- balance sheet items; and
- disclosures and presentational elements of the financial statements.

10 The following table details the relevant assertions for these three categorisations, showing which assertions we need to consider by area of the financial statements.

Table 1 Assertions

Assertions that will be considered by area of financial statements

Question	Income and expenditure	Balance sheet	Disclosure
Is it recorded at the right amount and are the details right?	ACCURACY		ACCURACY
Is it in the right place in the accounts?	CLASSIFICATION		CLASSIFICATION
Is it all there?	COMPLETENESS	COMPLETENESS	COMPLETENESS
Is it in the right year?	CUT-OFF		
Is it real, does it exist?		EXISTENCE	
Has it happened?	OCCURRENCE		OCCURRENCE
Does it belong to the body? Are they entitled to use it?		RIGHTS AND OBLIGATIONS	RIGHTS AND OBLIGATIONS
Is it worth it?		VALUATION AND ALLOCATION	VALUATION AND ALLOCATION

Identification of significant risks

11 We have now substantially completed our pre-statement risk assessment process and have identified a number of specific risks that are appropriate to the current opinion audit. We have set out below the most significant of these risks.

- The 2007/08 letter drew your attention to weaknesses in the ISIS nursing home payments system. Internal audit work in 2008/09 identified continuing weaknesses in the system for paying independent care providers and they reported an 'unsatisfactory level of control' opinion to the Audit and Corporate Governance Committee in January 2009.
- Property values have fallen significantly in 2008/09 in a number of sectors. This presents a risk that the brought forward balance of fixed assets on the Council's balance sheet might no longer materially accurately reflect their net realisable value.
- Weaknesses in the authorisation of some creditor payments have meant that we asked Internal Audit to carry out additional substantive testing in 2007/08. Internal Audit has identified further authorisation weaknesses in 2008/09. These present a risk of fraud.

12 Table 2 below identifies the assertions that are relevant to these risks and the work that we intend to do to address them.

Table 2 Significant risks

Significant opinion risks identified

Risk Area	Assertions	Audit response
Payments to independent care providers	Accuracy Completeness Cut-off Occurrence	Review internal audit work, re-evaluate the risks of material misstatement and design and carry out substantive tests to address any such risks identified.
Fall in property values	Valuation	Discuss and agree the valuation approach with finance and property services officers prior to the preparation of accounts.
Creditor Payments	Occurrence Accuracy	Internal Audit has agreed to carry out substantive testing of creditors.

Testing strategy

- 13** We will produce a detailed internal testing strategy that addresses the significant risks above, the other specific risks we have identified and the inherent risks for all material accounting entries. The strategy will consist of testing key controls, substantive tests of transaction streams and material account balances at year-end.
- 14** Our testing can be carried out both before and after the draft financial statements have been produced (pre and post-statement testing). Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit.
- 15** We have identified the following areas where substantive testing could be carried out early.
- Review of accounting policies.
 - Bank reconciliation.
 - Fixed Assets - tests of completeness, existence, rights and obligations and valuation.
 - Housing benefit awards.
 - Contingent liabilities.
 - Collection fund - discounts, exemptions and precepts.
 - Government general grants.
 - Minimum revenue provision.
 - FRS17 pension costs, assets and liabilities.
 - Related party transactions - tests of completeness.
- 16** Where other early testing is identified as being possible this will be discussed with officers.

Audit fees

- 17** In my original audit plan, the fee for the opinion audit was based on my best estimate at the time and agreed at £169,575. Having considered the above risks I remain satisfied that the original estimate was appropriate and no adjustment is therefore required to the fee.

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, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

REVIEW OF PROCUREMENT

Report By: DIRECTOR OF RESOURCES

Wards Affected

County-wide.

Purpose

1. To report to the Audit and Corporate Governance Committee on the Review of Procurement undertaken by the Audit Commission.

Financial Implications

2. These are outlined in the report.

RECOMMENDATION

THAT the Audit and Corporate Governance Committee notes and comments on the Audit Commission's review of procurement.

Reasons

3. Procurement is an important activity with close links to the delivery of effective services and value for money. In 2008 the Audit Commission was requested to carry out a specific audit on procurement with an emphasis on the work that had already commenced to review the partnership arrangement with AMEY.

Considerations

4. The audit consisted of two parts;-
 - i) a management overview of the Council's approach to procurement, looking in particular at governance arrangements, the guidance provided to managers procuring goods and services, and the extent to which this is followed; and
 - ii) an overview of the process for developing the partnership arrangement with Amey Wye Valley and with Amey Owen Williams.
5. The audit was carried out during October and November 2008 and included;-
 - i) A review of strategic procurement documents;
 - ii) Interviews with procurement officers;
 - iii) Interviews with departmental procurement/commissioning officers; and
 - iv) Interviews with lead councillors and officers with responsibility for procurement
6. The timing of the audit work has helped assist the project to develop the partnership arrangements with Amey. At the time of the report the negotiations have not been

concluded and the Audit Commission recognizes that the Council's negotiations have moved forward significantly from the position in October and November. The report acknowledges that the Council immediately addressed four key issues to enable the service delivery review to progress. These details are included in the report's action plan.

7. The audit has helped further develop overall procurement improvements in the Council and the discussions gave rise to a series of recommendations that are included in the action plan contained in appendix 2 of the report.
8. The Audit Opinion Plan will be presented by the Audit Commission's Audit Manager.

Risk Management

9. Procurement is a significant and far reaching area of Council activity. The appropriate training and skill level of staff engaged in this activity is an important mitigation of any risk.

BACKGROUND PAPERS

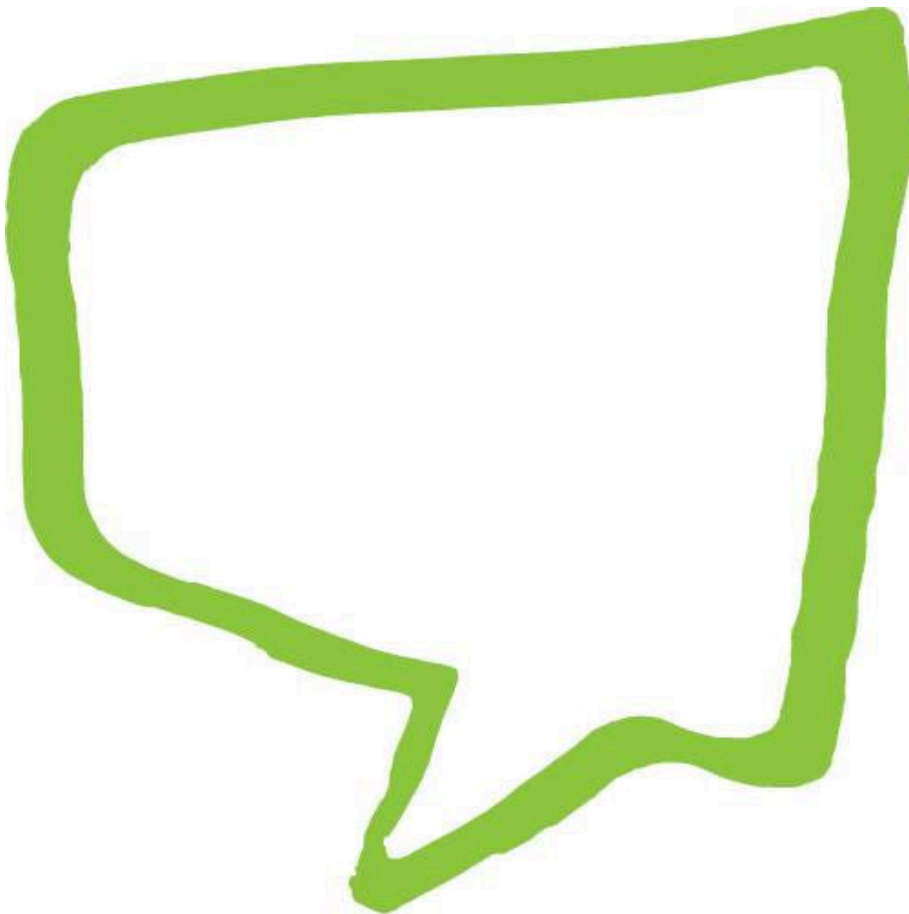
None

Review of Procurement

Herefordshire Council

Audit 2008/09

April 2009



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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.

Summary report

Introduction

- 1 Procurement generally means the acquisition of goods and services from third parties external to the organisation. It covers consultancy, one-off high value capital projects such as buildings and IT, as well as the range of high volume low value purchases, and all purchases in between. With high volume low value transactions, the transaction processing costs are considerable. Quality in procurement will be achieved when the organisation is capable of consistently delivering goods and services that take forward the organisation's core priorities and meet the needs of users and stakeholders, at the best possible price.
- 2 Procurement is an important activity because it accounts for a large proportion of a Council's expenditure. Consequently procurement, including the exploitation of new technologies to improve efficiency, is an area both of risk to the organisation and of opportunity to make savings. Good practice in the procurement of goods and services, including making better use of available technologies, is essential for ensuring the achievement of best use of resources. A council's corporate procurement strategy should set out its approach to: partnering in service delivery and in construction projects; and to collaboration such as through purchasing consortia, joint procurement / commissioning and shared services.
- 3 In recent years, there has been a trend towards partnership approaches for large scale procurements, such as through public-private partnerships. These are large-scale and long-term partnerships, typically for 10 to 15 years, and lead to significant parts of a council's services being outsourced. These service-based and partnership contracts are not a partnership of equals; although having formally agreed objectives the partners have differing motivations and this leads to particular risks. The potential benefits to authorities from strategic partnerships can be substantial but the risks to the council of an unsuccessful partnership can be very serious. The process of specifying the objectives of the partnership, selecting a partner and managing the partnership are critical to its success.

Background

- 4 Procurement activity within the Council is carried out within departments, although there is a small corporate procurement team providing expertise and advice when required. Council standing orders and corporate procurement rules have recently been reviewed. Training on these new arrangements has been provided to officers and to councillors involved in procurement. The organisational structure of the Council's procurement function is currently being reviewed.

- 5 The Council has reviewed its service delivery partnership with AMEY looking to improve service quality and reduce costs. There are currently two contracts with subsidiaries of AMEY (Amey Wye Valley and Amey Owen Williams); the first contract is a joint venture between the Council and Amey and covers delivery of highways maintenance and a range of other works; and the second contract covers engineering and architectural design. The contracts are in their fourth year and have another six years to run with an option to extend for a further ten years. The Council's preferred option is to renegotiate the contracts' management arrangements to enable services to be delivered at reduced cost.
- 6 The Audit Commission has previously looked at procurement arrangements. In autumn 2007 it concluded that the Council had effective arrangements to manage the early phase of the Herefordshire Connects programme, but it was still finalising the governance and performance management arrangements for subsequent phases. It is these areas that are the key to achieving benefits and the review highlighted areas where arrangements could be strengthened. The audit and inspection plan agreed with the Council in May 2008 identified that procurement is still a risk area.

Audit approach

- 7 The audit consisted of two key elements:
 - a management overview of the Council's approach to procurement, looking in particular at governance arrangements, the guidance provided to managers procuring goods and services, and the extent to which this is followed; and
 - an overview of the process for developing the partnership arrangement with Amey Wye Valley and with Amey Owen Williams.
- 8 The key audit objectives were to:
 - ensure that a best practice approach to procurement is being used;
 - evaluate the extent to which new arrangements are understood and becoming embedded;
 - assess whether the developing arrangements enable the Council to identify opportunities for savings through more effective procurement and more efficient processes; and
 - review the process for developing the Amey partnership to assess if they are in line with best practice.
- 9 Audit frameworks were developed from best practice and agreed with the Council before the work started. The detailed framework is given in Appendix 1, but in summary the frameworks looked at:
 - procurement overview: Good practice indicates that effective procurement frameworks should be underpinned by clear high level organisational commitment and a strategy linked to corporate priorities. Organisations should identify the outcomes required and ensure that contracts are monitored effectively. Effective procurement needs skilled staff and so training programmes and procurement guidance are needed; and

Summary report

- developing the partnership arrangement: For major contract negotiation, good practice indicates that clear objectives and effective management of the process is important. Good practice includes a formal project management process which ensures that the right tasks are included and that adequate resources, including time, are available to the project team to ensure effective completion. For effective partnership working, good practice indicates that there should be suitable governance and management arrangements in place to ensure that the partnership delivers the anticipated outcomes. Management arrangements should include the management of risk.

10 The audit included:

- a review of strategic procurement documents;
- interviews with procurement officers;
- interviews with departmental procurement / commissioning officers; and
- interviews with lead councillors and officers with responsibility for procurement.

11 The audit was carried out during October and November 2008, when the new procurement rules were in place but while the project to develop the partnership arrangements with Amey was being carried out. Thus the conclusions reflect a snapshot in time and the Audit Commission recognises that the Council's negotiations with Amey have moved forward significantly from that position. However, in comparing the project with best practice the Audit Commission has identified a number of recommendations to help the Council deliver more effective products. As the negotiation project has now advanced by several months, some of these recommendations have already been incorporated. Following the draft report, the Council agreed to address four key issues immediately to enable it to progress the service delivery review of the Amey partnership. The Council has responded to this and details are included in the attached action plan

Main conclusions

12 The new procurement management framework gives procurement high visibility within the Council. The framework provides clear guidance to staff in procuring goods and services. It includes guidance on preparing specifications and contracts; tendering and tender evaluation; and on managing the contract. But there are no formal contract monitoring processes or routine reports to managers to keep them informed about key procurement and contract issues. The new procurement framework is not yet embedded across the organisation but the cross-departmental procurement group should help with this. Training has been provided for key staff. Improvements in value for money (VFM) have begun to be secured through implementation of the new procedure and through joint procurement with partners. The Council has started to use some e-procurement, but its use is limited to a small area. The Council is not afraid of using innovative approaches but has mixed success with these.

- 13** The Council is taking a pragmatic approach to address the problems caused when the Amey contract failed to deliver the original vision of working in partnership. Although the problems with service delivery were not clearly established, the options appraisal has identified a way forward. Management of the renegotiation project was ill-defined; roles, responsibilities, and resources were not clearly identified and timescales have slipped. Many issues remain unresolved. These include identifying:
- what the new service will look like;
 - how it will be managed within the Council;
 - what the governance arrangements will look like; and
 - the impact of transferring risks to the contractor.

Recommendations

- 14** The Audit Commission recommends that the Council should consider the following recommendations which offer practical pointers for improvement.

Recommendations	
R1	Work to embed good procurement practice across the organisation and monitor adherence to the framework.
R2	Implement effective procedures to include: <ul style="list-style-type: none"> • a framework for contract monitoring; • reporting to members on performance of major contracts; • risk management of contracted services; • exit strategies for contracted services; and • e-procurement.
R3	Be clear about how highways service delivery will be judged and establish a Council contract management team to monitor delivery of the AMEY contract.
R4	Implement effective project management for the negotiation and mobilisation phase of the AMEY contract with clear roles, responsibilities, and resources.
R5	Identify and implement governance arrangements for the new AMEY partnership contract.
R6	Clarify the risks being transferred to AMEY and identify the cost implications of that transfer.
R7	Develop a strategy for the AMEY contract to ensure service continuity in the event of, for example, the contractor failing, the contract failing, or poor service delivery, etc.

Detailed report

The approach to procurement

Procurement framework

- 15** Procurement has high visibility within the Council. Senior managers are keen for procurement to be carried out professionally and have appointed a dedicated corporate procurement officer to lead procurement for the Council. They have given their support to ensure delivery of a range of initiatives such as the corporate requirement to use West Mercia Supplies (the partly owned local purchasing consortium) and by making procurement training central to financial management training.
- 16** Councillor involvement in procurement is limited. There is no dedicated councillor champion for procurement, although it does come under the resources portfolio. The resources portfolio holder wants to ensure procurement operates effectively, but this is difficult within a broad and important portfolio. Councillors are not involved in procurement processes but do receive reports on the outcome of major procurement exercises; the Audit Committee can act like a select committee and investigate why the decisions have been made.
- 17** The Council has responded effectively to concerns raised in earlier reviews. It put considerable effort into developing corporate processes to address the weaknesses identified in procurement activity. The corporate procurement policy has been updated, procurement guidelines and a mini-guide to procurement produced, and in-house training on procurement delivered.
- 18** There is a clear procurement management framework with explicit links to the Council's priorities. The procurement strategy demonstrates links to the corporate priorities, such as sustainability, and looks for each directorate to use procurement to ensure maximum savings in both capital and revenue spending. The framework is available to all staff together with guidance and a procurement mini-guide which is easy to understand. The corporate procurement unit is the key contact for advice and guidance for services carrying out procurement exercises.

- 19** It is too early to judge the effectiveness of the new procurement framework. There are no routine reports to senior managers on matters of procurement although major procurement projects are reported to senior managers and there is some informal reporting through line management. There are no measures to ensure quality standards are maintained although the Council intends to collect key information to manage the benefits delivered by major procurement projects. But there is some improvement. For example, the revised procurement arrangements have begun to secure some improvements in value for money including the learning disabilities accommodation review and the centralisation of personal computer purchases, which ensures the right equipment at a cost effective price. The new cross-departmental procurement group will enable lessons to be shared between services and provide support for procurement officers.

Contract design and management

Skills development

- 20** Training is being delivered to all key people to improve the effectiveness of procurement activity. Since 2007 procurement training is now an integral part of the Council's revised financial training with procurement being covered in the Council's internal training programme. This training is targeted at key staff and managers. More in-depth training is being developed with the intention that, once staff have completed this, they will be awarded certificates of 'licence to procure'. Councillors have received training on procurement, contract standing orders, and whole life costing. Although this was a brief overview, it aimed to encourage councillors to look for the best value bid not just the cheapest. The training was well received by councillors.
- 21** However, it is not clear what procurement expertise exists throughout the organisation or whether a training needs assessment has been carried out. The lack of a specific analysis of these issues means that the Council is not yet maximising the potential within the organisation and that it may be missing opportunities to fill gaps in skills and knowledge across the Council.
- 22** Internal awareness of the new guidance, and the importance of adhering to it, is high. Service managers are well aware of the corporate procurement guidance. The procurement officer's appointment and the work carried out to develop and publicise the revised guidance has meant that procurement has a high profile. The next stage for the Council will be to ensure that staff across the organisation are provided with sufficient training and support to reduce the need to refer to the centre for advice and guidance on more routine procurement.
- 23** It is not clear whether all procurement activity is effectively project managed. The project management team is available to manage major procurement projects but there is no requirement to use them and, if they are used, there is an additional cost to the project. This means that the Council's project management team is not involved in all procurement. In not using the professional project management expertise available, the Council is missing the opportunity to ensure efficient and effective procurement in the delivery of its corporate objectives.

Modern procurement methods

- 24** The use of electronic systems to manage procurement is under-developed. There are no systems to manage procurement or monitor progress. The Council is looking at e-purchasing, but does not anticipate this being fully enabled until 2010. It is planning to move towards e-procurement through purchasing cards and an upgrade to the finance system which would allow e-processing. There is an e-procurement system operating for all ICT purchasing, but not for purchasing of other items.
- 25** The Council is not afraid of using innovative approaches to procuring services but success is mixed. Social services are developing processes to ensure procurement helps in effective service delivery. For example, it used a competitive dialogue route to provide a better result; and social care is procured in part through block contracts to ensure coverage in the rural areas. The highway department sought an innovative way of delivering highway services through a partnership arrangement, but this has had limited success. However, the Council is now looking to again develop a new 'partnership contract' for its highways work by renegotiating existing contracts.

Process to develop the Amey partnership arrangement

Is the partnership designed to deliver value for money?

- 26** The objectives and benefits of partnership working with Amey have not been clearly articulated and communicated at senior level. The aim to develop partnership working is consistent with the long-term corporate vision for the Council. The project plan includes the involvement of stakeholder groups in developing options, identifying councillors as one of these groups. Some stakeholder groups, such as staff and the contractor, are closely involved in the project. However, although the vision for the partnership was discussed in a number of councillor meetings, their involvement was limited to commenting on draft reports rather than contributing fully as a stakeholder group. Despite the work of the project group, this has not resulted in clear objectives and benefits being articulated.
- 27** The current partnership does not deliver the anticipated benefits. The current specification is input-based and it is not clear how the Council monitors delivery of the contract and its associated benefits. The Council intends to change the input-based contract through negotiation to an outcome-based specification with continuous improvement targets. This would be linked to a more appropriate payment mechanism. The renegotiation is intended to improve the partnership working which would lead to better management of service delivery

- 28 The Council has not re-evaluated whether a strategic partnership approach is appropriate. The strategic partnership contract agreed four years ago was not effective as a partnership and the contract operated in the normal client and contractor way. With the contractor in financial difficulty, the Council agreed to the contract being passed to another contractor for the remaining six years. The Council carried out an options appraisal to identify the best way forward within the current contract, making 'soft market soundings' by looking at similar models elsewhere, for example in Gloucestershire. During the reporting phase, Councillors raised a number of queries which were reported to committees, but it is not clear how these comments were addressed. The lack of formal evaluation of the appropriateness of a partnership contract for this service will lead to a lack of clarity throughout the organisation of realistic expectations of the new service delivery.
- 29 However, the Council has made a pragmatic decision in seeking to renegotiate the contract. Although the original contract did not realise the desired benefits of a partnership arrangement, the Council transferred the contract without any changes to a second contractor when the first contractor experienced financial difficulties. Thus, with a second contractor in place and in the middle of a long-term contractual agreement, the Council had limited options when it sought to deliver improved value for money

Is the renegotiation process managed effectively?

- 30 Responsibility for the management of the renegotiation process is not clear. The Council is using project management methodology based on PRINCE2 but, although there is senior level commitment and support for the process, in practice the lines of responsibility are not clear and several people appear to be involved in managing the project. The Council is clear that the project will be delivered but there is less clarity over whether adequate resources (both time and funding) have been identified up front.
- 31 The project identifies the desired key benefits from renegotiation but not the key issues. The project initiation document (PID) and the business case together identify participants and the three key deliverables for the project up to the renegotiation. But neither document identifies what the problems or key issues are and so it is not clear whether all practical options have been considered or whether the proposed approach will solve the current problems.
- 32 This lack of clarity is reflected in other key documents. Councillors were not given a clear outline of the key issues or of the options to address them when being asked to approve the way forward. The report to councillors seeking approval for the selected option lacked clear examples of how the new arrangements may work and lacked validation to support the selection of the preferred option. The report was very long; it repeated the original concept several times but did not clarify the issues or how the proposed solution would address these; it suggested that the benefits (of £1m savings and improved quality) would be achieved but did not explain in detail how this would be achieved in detail.

Detailed report

- 33** The Council's timescale is optimistic. The PID contains the project programme showing a start date of November 2007 leading to negotiation starting in March 2008 for project completion in June 2008. These tight timescales show a desired programme profile which assumes that all activity, including that done by people outside the project team, will start and finish at the specified time. The PID does not include resource allocation and the programme makes no allowance for slippages, resulting in the project being currently approximately six months behind the published programme. The Council intends that the new arrangements will be in place for the next financial year, but it has not yet started the negotiation process and it is not clear if the new arrangements can be mobilised in the five months remaining.
- 34** The Council's internal legal advice shows that it complies with EU procurement legislation. This is based on new arrangements covering the same service elements that were included in the original contracts. The renegotiation is intending to complete the service specification which was agreed in the original contracts. These envisaged the Council and its two contractors working together in partnership to move from input-based contracts to outcome-based working.

Arrangements to manage and monitor performance

- 35** The Council has not identified how it will assess the performance of the contract or how it will verify that service delivery is satisfactory. Performance standards have not yet been agreed but the Council is looking for monitoring to be based on outcomes and is seeking top quartile performance on national performance indicators. It intends that the contractor should develop a system to demonstrate that the contract and services are delivering value for money. The Council is planning to develop its management of the contract and the monitoring of service delivery during the negotiation phase.
- 36** There is no explicit provision for addressing failure or ad-hoc requests. The Council is seeking to encourage the contractor to deliver a quality service through the incentive of the opportunity to extend the contract beyond ten years. It is not clear whether this incentive will be accompanied by penalties if the contractor fails to deliver an adequate service. The Council is looking to negotiate an agreed approach to manage ad-hoc requests from officers and from Councillors, which should include timescales and costs. The lack of explicit provision for addressing these issues will compromise the effectiveness of service delivery and the value for money of the contract.
- 37** There is no explicit provision to update or refresh the contract to deal with changing requirements. The current contract makes no reference to refreshing the specification and there is no agreed change control process. The first break point in the contract is at the end of the ten year contract period; unless a contract extension has previously been agreed in reward for good performance. However, the Council's options appraisal indicated that it was in its best interests to renegotiate the contract and the contractor is willing to enter negotiations. If this is concluded satisfactorily, the Council will have demonstrated that the contract can be refreshed to deal with changing requirements. The lack of explicit provision to manage changes to service delivery caused by external or internal changing requirements exposes the Council to risk of contract price inflation.

- 38** Current joint governance arrangements are not effective and proposals for future arrangements are not developed yet. The original contracts provided for tri-party joint governance arrangements involving the two contractors and the Council. As there was no genuine partnership working between the partners, the joint governance arrangements did not work and fell into disuse. It is envisaged that the renegotiated partnership arrangement will include governance arrangements, but these have yet to be agreed. At this stage, Councillors are not involved in the governance of the partnership or in negotiating the new governance arrangements. It is too early to assess whether the renewed governance arrangements will work. Without working governance arrangements, the Council cannot be sure that its highway responsibilities will be met nor can it be sure that public money is being spent wisely.
- 39** The Council's contract management arrangements are unclear. The Council recognises that its current management arrangements are unwieldy and inappropriate. It intends to change these by transferring its supervisors to the contractor and implementing a much reduced client team. But it has not yet identified how this will operate, so client roles are not clearly defined and it is not clear if there are staff with the right skills. It is not clear how senior managers and councillors will have oversight of the contract management process. Lack of appropriate contract management arrangements compromises the Council's ability to ensure its highways responsibilities are discharged effectively.

Management of risk

- 40** The Council is using its risk management framework for the project but is not using it effectively to manage the risks. The Council has a well defined corporate risk management process and the project has extensive risk registers for phases two and three. The risk registers identify a significant number of risks, but it is not clear how the project team intend to mitigate these. It is not clear how the risk register is used or whether it is updated routinely to reflect changing risks and the impact of any mitigating actions. By not managing the risks of contract renegotiation effectively, the Council cannot be sure that it will achieve the overall aim of the renegotiation - an improved service at a reduced cost.
- 41** The Council is not using its risk management framework to prepare for managing the risks inherent in service delivery by a third party. It has not identified issues of risk transfer within the contract and so cannot calculate the cost implication. The Council wants the contractor to manage the entire delivery of the service and hence to manage all risks associated with delivery, but it has not yet assessed the costs of this risk transfer or whether this is a practical way forward. By not evaluating the costs of transferring significant risks to the contractor, the Council cannot be sure that it is spending public money wisely or achieving value for money.

Detailed report

- 42 There is no exit strategy. The contract allows for termination by either party but the Council does not envisage terminating the contract as it has no wish to retender the service. In line with this, it is not making any preparation for exiting the contract. But this means that it is also not preparing for the possibility of the contractor pulling out of the contract and the lack of an exit strategy left the Council in a difficult position when the initial contractor experienced financial difficulties and was unable to continue with the contract. In that case, the Council felt it had little option other than to agree to the contract being transferred without change to a new contractor, despite the fact that the partnership output-based contract envisaged at the start had not been delivered and the contract was not working well. The preparation of an exit strategy, defining actions when the contract is terminated, either prematurely or on time would allow the Council to manage this situation better.
- 43 It is not clear how the Council will ensure that there is no unexpected increase in costs of transferred services. There is no clear model of current and future (post negotiation) costs although the Council used the Gloucestershire and Bedfordshire models as comparators. There are no plans to include a provision to control costs in the future. The basis of the renegotiation is to reduce costs and the Council is confident that the contractor can deliver significant savings as it has already delivered efficiencies within the contract, turning a significant contract loss into a profit. The Council hopes to have access to the contractor's accounts for this work and will use the opportunity for peer review of any additional project costs to ensure that charges for additional work are reasonable.
- 44 The Council is not planning to manage risks associated with changing circumstances. There are no plans to include a change control process to allow for changes to service delivery to reflect changing external or internal requirements. It intends to control costs of new work by seeking peer review of additional costs, but it is not clear how willing thirds parties will be to provide this information. Although the Council is planning to retain a small client function, it is not clear how it intends to retain and attract people with technical expertise to manage the contract and audit the contractor's performance. The lack of formal risk management of service delivery exposes the Council to the possibility of poor service delivery at increasing costs.

Appendix 1 – Audit frameworks

Table 1 Procurement overview

Procurement management framework	Governance arrangements Organisational commitment Link of the procurement strategy with corporate priorities Corporate framework and co-ordination
Procurement design	Corporate vs local
Contract preparation	Specification
Contract processes	Documented procedures Tendering principles Tendering procedures Contract development
Contract management	Monitoring compliance Contract monitoring and review process Payment process
Knowledge and skills development	Strategic training development Staff awareness and training Project management
E-procurement and modern methods	Systems Process development
Service level agreements	Monitoring agreements Governance issues

Source: Audit Commission

Table 2 Developing the partnership / contract negotiation

<p>1 Has the partnership been designed to deliver value for money?</p>	<p>1.1 Whether objectives and benefits to be achieved are clear. 1.2 Is the use of a strategic partnership approach appropriate? 1.3 Whether plans are in place to ensure the partnership is managed in order to ensure it delivers the expected benefits</p>
<p>2 Is the Council managing the procurement process effectively?</p>	<p>2.1 Is the processes project managed effectively 2.2 How the right partner was selected 2.3 Does the time-scale allow sufficient time for the procurement 2.4 Whether the Council complies with EU procurement regulations</p>
<p>3 Is the Council making adequate arrangements to manage and monitor performance of the partnership</p>	<p>3.1 Is there a clear framework to assess the performance of the strategic partner, to verify that the service is satisfactory 3.2 Whether provision is made to address failure to deliver and for ad-hoc requests 3.3 Ability to update / refresh the contract to deal with changing requirements 3.4 Joint governance arrangements 3.5 Client-side management arrangements</p>
<p>4 Is the Council preparing to manage risks</p>	<p>4.1 Clarity about risks and risk transfer 4.2 Preparation of an exit strategy, defining actions when the contract is terminated, either prematurely or on time 4.3 How the council will ensure that the partnership does not lead to an unexpected increase in costs of transferred services 4.4 Whether there is provision to ensure that the Council does not incur excessive charges for additional work</p>

Source: Audit Commission

Appendix 2 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Work to embed good procurement practice across the organisation and monitor adherence to the framework.	3	Procurement	Yes	Training course on Procurement skills, knowledge and procedures started April, runs for 6 sessions for c. 20 staff with Procurement/contracts responsibility. Procurement Strategy being updated and a Forward Plan drawn up including actions on upgrading documents and assistance on Tendering, Contract Management, and Sustainable Procurement. Audit of Procurement staffing and processes in Service Areas also planned.	October 2009
6	R2 Implement effective procedures to include: <ul style="list-style-type: none"> a framework for contract monitoring; reporting to members on performance of major contracts; risk management of contracted services; exit strategies for contracted services; and e-procurement. 	3	Procurement	Yes	The Contracts Register has been expanded and refreshed and will be kept up to date via monitoring by Procurement. Will aid Procurement identify what contracts are in place at any one time and who is responsible, and so to spot check on contract monitoring/management in the Directorates. (Also help monitor item 4, when renewals are due). Implementing of Aggresso e-Procurement module due end this year. Procurement to have member on the team to cover processes and training, ensure best practise inbuilt.	December 2009

Appendix 2 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R3 Be clear about how highways service delivery will be judged and establish a Council contract management team to monitor delivery of the AMEY contract.	3	John Eades, Performance Manager Performance Indicators and Performance Management workgroup	Yes	The Service Delivery Review Performance Management workgroup will define and agree a performance management regime that: <ul style="list-style-type: none"> links partnership performance management to the Council's; performance management framework; enables the Partnership Board to provide strategic leadership to the partnership; allows Amey and the Council to monitor operational performance; drives operational performance and efficiency; and demonstrates the contribution of the partnership to the Council's wider strategic aims. 	End of April 2009
6	R4 Implement effective project management for the negotiation and mobilisation phase of the AMEY contract with clear roles, responsibilities, and resources.	3	Richard Ball	Yes	Completed and in place.	
6	R5 Identify and implement governance arrangements for the new AMEY partnership contract.	3	Richard Ball	Yes	To be implemented once new arrangements are in place. Current anticipated completion date August 2009	August 2009

Appendix 2 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R6 Clarify the risks being transferred to AMEY and identify the cost implications of that transfer.	3	Rob Ewing, Business Change Manager	Yes	As part of concluding the detailed negotiations with Amey, Detailed Service Definitions are being prepared to cover all services proposed for transfer. A working group reporting to the project team is leading the preparation of the service definitions in discussion and negotiation with Amey. Each service definition will be required to identify the key risks and define which partner is responsible for managing the risk. These service definitions will form part of the overall contractual documentation required to establish the new arrangements. Strategic partnership level partnership risks will also be documented and incorporated in to the service planning and performance management requirements for the new arrangements.	End of April 2009
6	R7 Develop a strategy for the AMEY contract to ensure service continuity in the event of, for example, the contractor failing, the contract failing, poor service delivery, etc.	3	Richard Ball, Project Lead, Acting Head of Highways	Yes	A draft Service Continuity Plan outlining what action would be taken in the event of the contract failing will be submitted to the Project Board for consideration by the end of March 2009. Any comments or amendments from the Board will be incorporated into a final version.	End of March 2009

Appendix 2 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Additional Council action					
	Clarify the expected source and level of savings to be achieved by the proposal		Cathy Stokes, Principal Accountant Environment and Culture and Regeneration, Resources Directorate		<p>The Finance working group will:</p> <ul style="list-style-type: none"> validate the assumptions made to date regarding the source, level and proposed timetable for delivery of savings; identify relevant information in relation to savings for incorporation into contract and supplementary agreements; and consider and report on any implications that may be of relevance to the development of the performance management regime to inform the Performance Management workgroup's considerations. 	End of April 2009

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Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

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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 project plan for implementing International Financial Reporting Standards (IFRS).

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 on the project plan for implementing IFRS.

Considerations

Timescale

4. The council will be required to produce IFRS compliant accounts from 2010/11, with restated comparative data for 2009/10.

Project Plan

5. In March 2009 CIPFA published a Local Authority Accounting Panel (LAAP) Bulletin providing an outline project plan for councils to use as a starting point for their own project plans. This plan is guidance rather than a formal requirement.
6. The Hereford and Worcester IFRS implementation group, who are working jointly on IFRS issues, have agreed to use the CIPFA template for their individual councils' project plans.
7. The plan for Herefordshire Council is attached as Appendix A, including key steps, milestone dates and progress achieved to date.
8. The LAAP Bulletin advises authorities to discuss their plans with external audit and sets out the following benefits to early external audit involvement:

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

- a. Early identification of any difficulties or problems with the restatement of the opening IFRS balance sheet may result in less time being required to resolve these issues. This in turn may help to avoid errors occurring and prevent abortive work being undertaken.
 - b. Early identification of any difficulties or problems with the restatement of the opening IFRS balance sheet may also avoid these issues impacting on the 2010/11 budget.
 - c. Early engagement with auditors may provide authorities with reassurance that their project plan is appropriate, or alternatively may allow for the plan to be amended in a timely manner.
9. The council's plan has been forwarded to the Audit Commission for comment.

Risk Management

10. 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. The management of this identified risk has commenced as evidence by attendance of staff on relevant training courses.
11. The successful delivery of unqualified accounts will require greater involvement from non-financial services staff than has previously been the case. IFRS will form part of the council's financial training programme implemented as part of the Crookhall action plan.
12. 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. This may require additional resources and the Director of Resources will ensure this important project has the appropriate level of resource to meet requirements.

BACKGROUND PAPERS

CIPFA LAAP Bulletin 80 March 2009 – Implementation of IFRS – Outline Project Plan

Appendix A

IFRS Project Plan

	Step	Dependency	Dates	Progress to date	Areas for Discussion with External Audit
1	Carry out high level impact assessment using information on CIPFA website (and other resources where available) PFI Leases Tangible Assets Employee Benefits (e.g. Holiday Pay) Other Areas		March 2009	Impact assessment was carried out with Hereford and Worcester Financial Managers Group on 6 th March. Sub groups were set up to review key changes.	
2	Identify changes to accounting policies	In parallel with step 1	March 2009	Key Changes identified at meeting on 6 th March.	
3	Identify key staff (finance, legal, property, HR, other) Assess whether resources adequate Allocate responsibilities Develop detailed project plan	Based on impact analysis in step 1	June 2009	Key finance, property and HR staff have been identified.	Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues/difficulties etc.
4	Key staff trained on IFRS transition		Ongoing from September 2008	Key finance staff attended CIPFA/PWC training.	
5	Identify systems and procedural changes (including Chart of Accounts changes) required		July 2009	To be incorporated in Agresso design.	
6	Identify information (e.g. leases and holiday pay) required to restate 1 April 2009 balance sheet and 2009/10 accounts		March – September 2009	Leases and holiday pay identified so far as required changes to 1 April 2009.	
7	Develop skeleton Statement of Accounts under IFRS (including Notes and Policies)	Accounting policies in step 2	June 2009 – October 2009		
8	Obtain information required to restate 1 April 2009 balance sheet	Identified during step 6	March-October 2009	Work on leases is being progressed.	
9	Identify likely impact on budgets (if any)		March –	Some potential areas identified e.g.	

Appendix A

IFRS Project Plan

				October 2009	holiday pay.	
10	Implement systems and procedural changes	Identified in step 5		July 2009- Feb 2010		
11	Training for all relevant staff and members			Ongoing from December 2008.	CIPFA in house training for finance and property held in December.	
12	Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS).	Obtained in steps 7 & 8		October – December 2009		Auditors will wish to consider the implications for reviewing balance sheet and/or processes and arrangements
13	Compile 2010/11 and later budgets on IFRS basis, building on restatement of balance sheet, taking into account changes to the final version of the Code and any regulations proposed by government to mitigate the impact on General Fund.	Impact from step 9		October 2009 – January 2010		No direct input, but previous discussions and results of any audit work in step 12 may inform budget decisions where auditors involved at early date
14	Testing of systems and procedural changes	Follows on from step 10		July 2009 – March 2010		Auditors will wish to consider the implications for relevant work on systems
15	Restate 2009/10 accounts in parallel with main 2009/10 accounts process (including reconciliations between UK GAAP and IFRS)	See steps 6,7,8, 12		April 2010 – December 2010		Auditors will wish to consider the implications for their work
16	Produce 2010/11 accounts on IFRS basis			April 2011 – June 2011		Normal audit procedures – accounts signed by 30 September 2011 (31 October 2011 in Northern Ireland)

ANNUAL GOVERNANCE STATEMENT 2008/09**Report By: Chief Internal Auditor****Wards Affected**

County-wide.

Purpose

1. To seek the Audit and Corporate Governance Committee's approval of the draft Annual Governance Statement for 2008/09.

Financial Implications

2. There are no direct financial implications relevant to this report.

RECOMMENDATIONS

THAT: (a) the Audit and Corporate Governance Committee reviews the draft Annual Governance Statement attached as Appendix 1 to this report; and

(b) the Audit and Corporate Governance Committee approves the Annual Governance Statement for inclusion in the statement of final accounts for 2008/09.

Reasons

3. The Audit and Accounts Regulations include requirements for all local authorities to produce an Annual Governance Statement and carry out a review of the statement at least annually. This statement must be incorporated into the 2008/09 statement of final accounts. A draft Annual Governance Statement for 2008/09 is attached at Appendix 1 for the Committee's consideration.

Considerations

4. The key lines of enquiry for the Use of Resources assessment for 2008 highlight the need for the Council to have arrangements in place to maintain a sound system of internal control. The criteria are as follows:
 - (a) An appropriate member group has responsibility for review and approval of the governance statement, and considers it separately from the accounts statement (Level 2 – only at minimum requirement, adequate performance).
 - (b) The Council has conducted an annual review of the effectiveness of its governance framework, including the system of internal control, and reported

on this in the governance statement (Level 2 – only at minimum requirement, adequate performance).

- (c) The sources to support the governance statement have been identified and are reviewed by senior officers and members (Level 2 – only at minimum requirement, adequate performance).
 - (d) There are action plans in place to address any significant governance issues reported in the governance statement (Level 2 – only at minimum requirement, adequate performance).
 - (e) The Council has put in place an assurance framework that maps the Council's strategic objectives to risks, controls and assurances (Level 3 – consistently above minimum requirements, performing well).
 - (f) The assurance framework provides members with information to support the governance statement (Level 3 – consistently above minimum requirements, performing well).
 - (g) The assurance framework is fully embedded in the Council's business process (Level 4 – well above the minimum requirement, performing strongly).
 - (h) The Council can demonstrate corporate involvement in/ownership of the process for preparing the governance statement (Level 4 – well above the minimum requirement, performing strongly).
5. Regulation 4 of the Accounts and Audit Regulations 2006 requires the Council to conduct a review, at least once a year, of the effectiveness of its system of internal control and publish a Statement on Internal Control with its annual Statement of Accounts.
 6. The Audit & Corporate Governance Committee considered and approved an updated framework for 2008/09 on 21st November 2008.
 7. The five principles outlined in the Council's Code of Governance have in turn been linked to the six principles of good governance outlined in the SOLACE / CIPFA publication 'Delivering Good Governance in Local Government'. The Council's Code of Governance contains five principles because it has chosen to combine separate principles in the SOLACE / CIPFA guidance relating to the roles of councillors and officers and their capacity to be effective.
 8. For ease of reference, the following table matches the Council's set of principles with those contained in the SOLACE / CIPFA guidance.

SOLACE / CIPFA Guidance - Principle 1	Focusing on the purpose of the authority, on outcomes for the community and creating and implementing a vision for the local area.
Council - Principle 1	Provide the best possible service to the people of Herefordshire.
SOLACE / CIPFA Guidance - Principle 2	Members and officers working together to achieve a common purpose with clearly defined functions and roles.

Council - Principle 2	Define the roles of members and officers, ensure that they work together constructively, and improve their effectiveness.
SOLACE / CIPFA Guidance - Principle 3	Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
Council - Principle 3	Require high standards of conduct.
SOLACE / CIPFA Guidance - Principle 4	Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
Council - Principle 4	Take sound decisions on the basis of good information.
SOLACE / CIPFA Guidance - Principle 5	Developing the capacity and the capability of members and officers to be effective.
Council - Principle 2	Define the roles of members and officers, ensure that they work together constructively, and improve their effectiveness.
SOLACE / CIPFA Guidance - Principle 6	Engaging with local people and other stakeholders to ensure robust public accountability.
Council - Principle 5	Be transparent and open: responsive to Herefordshire's needs and accountable to its people.

9. In addition to the Corporate Plan, corporate objectives and priorities are set out in a number of key plans and strategies including the following:-
- a. The Community Strategy for Herefordshire.
 - b. The Youth Justice Plan 2008/09.
 - c. Herefordshire Homeless Strategy 2008 – 2013.
 - d. Highway Network Management Plan 2008 – 2017.
 - e. Herefordshire Community Safety and Drugs Partnership – Partnership Plan 2008 – 2011.
 - f. Children and Young Peoples Plan 2008 – 2011.
 - g. Council Asset Management Plan 2008/09.
 - h. Local Development Plan/Local Development Framework.
 - i. Local Transport Plan.
 - j. Community Care plan.
 - k. Crime and Disorder Reduction Strategy.

10. The main independent sources of assurance on the operation of the corporate governance framework are the Council's Audit Services team, its external auditors and other external review bodies and the Audit and Corporate Governance Committee.

Risk Management

11. The Chief Internal Auditor provides the Audit and Corporate Governance Committee with regular assurance reports highlighting progress with addressing identified internal control issues as the year progresses.

Appendices

Appendix 1 – Draft Annual Governance Statement 2008/09

Appendix 2 – Annual Governance Statement Framework 2008/09

Background Papers

- Key Lines of Enquiry for Use of Resources 2008 assessments.
- Audit and Corporate Governance Committee reports (various dates) – assurance reports from the Chief Internal Auditor.

Draft Annual Governance Statement 2008/09**1. SCOPE OF RESPONSIBILITY**

- 1.1 Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this duty, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. These include arrangements for the management of risk.
- 1.3 The Council has adopted a code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) framework for delivering good governance in local government. A copy of the code can be obtained from the Assistant Chief Executive (Legal & Democratic Services).
- 1.4 The Annual Governance Statement for 2008/09 explains how the Council has complied with its code of corporate governance. It also explains how the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement have been met.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems, processes, culture and values by which the Council is managed and controlled. The framework also sets out how the Council accounts to, engages with and leads the community.
- 2.2 The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost effective services.
- 2.3 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives as an individual's failure to comply with policies and procedures, even when provided with comprehensive training on them can never, be entirely eliminated.
- 2.4 The system of internal control is based on an ongoing process designed to:
 - a. Identify the risks to the achievement of the Council's policies, aims and objectives.

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- b. Evaluate the likelihood and impact of the risks should they be realised.
- c. Identify and implement measures to reduce the likelihood of the risks being realised and to negate or at least mitigate their potential impact.

3. THE GOVERNANCE FRAMEWORK

- 3.1 The Council's corporate governance framework was approved by the Audit and Corporate Governance Committee on 21st November 2008. It seeks to ensure that the principles of good governance are embedded into all aspects of the Council's work. The five principles agreed by the Audit and Corporate Governance Committee have been linked to the six principles of good governance outlined in the SOLACE/CIPFA publication 'Delivering Good Governance in Local Government.'
- 3.2 For ease of reference, the following table matches the Council's set of principles with those contained in the SOLACE/CIPFA guidance.

SOLACE / CIPFA* Guidance - Principle 1	Focusing on the purpose of the authority, on outcomes for the community and creating and implementing a vision for the local area.
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SOLACE / CIPFA* Guidance - Principle 3	Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
Council - Principle 3	Require high standards of conduct.
SOLACE / CIPFA* Guidance - Principle 4	Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
Council - Principle 4	Take sound decisions on the basis of good information.
SOLACE / CIPFA* Guidance -	Developing the capacity and the capability of

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Principle 5	members and officers to be effective.
Council - Principle 2	Define the roles of members and officers, ensure that they work together constructively, and improve their effectiveness.
SOLACE / CIPFA* Guidance - Principle 6	Engaging with local people and other stakeholders to ensure robust public accountability.
Council - Principle 5	Be transparent and open: responsive to Herefordshire's needs and accountable to its people.

3.3 To comply with the Code of Governance the Council has carried out the following.

Principle 1 Provide the best possible service to the people of Herefordshire

3.4 On 16th May 2008 Council approved the 2008/11 Corporate Plan, which sets out the Council's priorities and how they would be achieved.

3.5 The 2008 Herefordshire quality of life survey (also known as the Place Survey) has been completed and the results are being collated.

3.6 The Council has a combined risk management strategy, policy and toolkit previously agreed by Cabinet on 1st May 2008.

3.9 On 10th April 2008 Cabinet approved the Data Quality Policy.

3.7 The Council continues to meet the requirements of British Standard 14001.

3.8 The Council continues to develop the deep partnership with Herefordshire Primary Care Trust, with work being done on the best approach to shared service delivery.

Principle 2- Define the roles of members and officers, ensure that they work together constructively, and improve their effectiveness

3.9 The Council's Constitution sets out the respective roles and responsibilities of the Executive and the Executive Members.

3.10 Also within the Council's Constitution are the respective roles and responsibilities of members and senior officers.

3.11 The scheme of delegation forms part of the Constitution.

3.12 The Chief Executive is the Head of Paid Service, the Director of Resources is designated the Section 151 Officer and the Assistant Chief Executive is designated the Council's Monitoring Officer.

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- 3.13 There is a Members Development Policy Group who has helped develop a member training programme; in addition there is a formal staff review and development requirement for all officers.

Principle 3 – Require High Standards of Conduct

- 3.14 There are Codes of Conduct for Members and Officers
- 3.15 The Council has an established Standards Committee, which is chaired by an Independent Member.
- 3.16 The Council continues to develop its shared values, which act as a guide for decision making and a basis for developing positive and trusting relationships within the Council.
- 3.18 There are procedures and policies in place to ensure that Members and Officers are not influenced by prejudice, bias or conflicts of interests when making decisions and when dealing with stakeholders.
- 3.19 A register of member's interest is maintained and updated on a regular basis.
- 3.20 A Whistle blowing Policy is in place, which forms part of the Council's Constitution.
- 3.21 There is an annual Monitoring Officer's report presented to the Audit and Corporate Governance Committee.
- 3.22 Written assurances are received from key managers. These assurances highlight areas of concern and confirm that the service area has effective controls in operation.

Principle 4 - Take sound decisions on the basis of good information

- 3.23 There is an effective scrutiny function that encourages constructive challenge.
- 3.24 The Council has an Audit and Corporate Governance Committee, which is independent of the executive and scrutiny functions.
- 3.25 Decisions made by Cabinet and Committees are based upon written reports as presented.

Principle 5 - Be transparent and open: responsive to Herefordshire's needs and accountable to its people

- 3.26 All meetings are held in public unless there are good reasons for confidentiality.
- 3.27 There is an established complaints procedure, and the Ombudsman has indicated that it is well publicised in comparison with other councils. It is accessible and working well as the proportion of complaints treated as premature was below the national average of 27%.The Ombudsman

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report was presented to Cabinet on 20th November 2008, and its contents noted.

- 3.28 Arrangements are in place for the Council to engage with the public, and these include the publication of the Herefordshire Matters Magazine and public meetings as part of Partners and Communities Together (PACTs).

4. REVIEW OF EFFECTIVENESS

- 4.1 Herefordshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's reports on the audits conducted throughout the year, and also by comments made by the external auditor and other review agencies and inspectorates.
- 4.2 The process of review is continuous and results in the Chief Internal Auditor's assurance reports presented at each meeting of the Audit & Corporate Governance Committee. These reports are used to inform the Annual Governance Statement. The Annual Governance Statement is signed by the Leader of the Council, the Chief Executive, Director of Resources and Assistant Chief Executive (Legal & Democratic Services).
- 4.3 The main independent sources of assurance on the operation of the corporate governance framework are the Council's Audit Services team, its external auditors and other external review bodies and the Audit and Corporate Governance Committee.
- 4.4 The review of effectiveness for the current financial year identified that the following work had been undertaken in 2008/09 in relation to the key aspects of the Council's governance framework outlined in paragraph 4.5 to 4.59.

a. Constitution

- 4.5 The Constitution was last reviewed and updated in July 2008. The Assistant Chief Executive Legal and Democratic is leading on the current review of the Constitution with a planned revised Constitution being presented to Council for consideration and approval by July 2009.
- 4.6 The Council approved a new Budget & Policy Framework, Financial Procedure Rules and Contract Procedure Rules in July 2008, along with 'mini guides' for members and officers on the asset management, financial management and procurement issues covered in these documents.
- 4.7 The financial management training programme for officers has been updated. The officer training programme was implemented in April 2008 and continued throughout the year, feedback from attendees is positive. Training for members commenced in April 2008 including an externally facilitated event designed to promote understanding of the annual statement of final accounts and the corporate governance framework.

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Feedback on this was also positive. There has been a wide range of training ranging from the Members Code of Conduct to Managing Risks.

- 4.8 On 25th July 2008 Council approved the revised Scheme of Delegation. Both the Audit and Corporate Governance Committee and the Standards Committee took part in the consultation.
- 4.9 The revised protocols for Councillor /Officer Relations and Members Code on Gifts and Hospitality were approved by Council in February 2009.
- 4.10 The role of the Monitoring Officer is a statutory office whose duties are set out in the Local Government and Housing Act 1989 and the Local Government Act 2000. The main responsibilities of the Monitoring Officer are to ensure that the Council acts with probity in accordance with the law and its Constitution.
- 4.11 The Monitoring Officer is also responsible to the Standards Committee of the Council and is required to report any breaches of the Code of Conduct by members to the Committee. The Monitoring Officer, if required by the Committee or the Standards Board for England, will appoint an investigator to carry out any appropriate investigation into an alleged breach of the Code of Conduct of Members.
- 4.12 The Monitoring Officer Report 2007/08 was presented to the Audit and Corporate Governance Committee on 20th March 2009. There were no issues identified for action.
- 4.13 Two decisions made by Cabinet were called in during 2008/09 as follows:
- a. Swimming provision for primary schools in Hereford City.
 - b. Hereford Open Retail Market
- 4.14 Cabinet responded formally to the comments made by the Strategic Monitoring Committee / relevant scrutiny committee on the above two issues.
- 4.15 The Scrutiny Committees Report 2007 – 2009 is due for publication by the end of May 2009.

b. Corporate objectives & priorities

- 4.16 The Council revised its Corporate Plan for 2008 – 2011. The Corporate Plan 2008 – 2011 demonstrates clear links to the Community Strategy for Herefordshire. All directorate and service plans demonstrate how they support the corporate objectives and priorities set out in the Corporate Plan for 2008 – 2011. The Council's Policy & Performance team provides the assurance that the service planning arrangements within each directorate complies with agreed policies and procedures.

c. Medium Term Financial Strategy

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- 4.17 The draft Corporate Plan 2008 – 2011 informed the development of the Medium Term Financial Strategy for 2008 – 2011 and the budget setting process for 2008/09. The Medium Term Financial Strategy was developed in line with the Council's approved financial procedures. There was an integrated approach to corporate, service and financial planning processes.
- 4.18 In their Annual Audit & Inspection Letter dated February 2009, the Audit Commission noted that *'the Council has a good Medium Term Financial Management Strategy (MTFMS) and this is linked to the key strategic objectives and is updated regularly. Budget Management and monitoring of both capital and revenue budgets are robust. There are good links between the Corporate Plan and MTFMS. The Corporate Plan takes account of stakeholder consultation.'* However it did highlight the need to consider including all revenue implications of significant projects within the Corporate Plan.
- 4.19 The updated Medium Term Financial Management Strategy for 2009–12 was presented to Cabinet and it was reviewed and adopted at its meeting of 19th February 2009.

d. Code of Governance

- 4.20 On 21st October 2008 Council reviewed and approved the revised Code of Governance. Both the Audit and Corporate Governance Committee and the Standards Committee took part in the consultation process.
- 4.21 The Audit & Corporate Governance Committee approved the Annual Governance Statement for 2007/08 at its June 2008 meeting. The significant internal control issues identified in the year were as follows:
- a. 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 Services) and Assistant Chief Executive (HR)).
 - b. Produce the Corporate Plan for 2010 – 2013 in accordance with the agreed timetable (Deputy Chief Executive).
 - c. Review and update the Medium Term Financial Strategy regularly in line with the agreed approach to integrating corporate, service and financial planning (Director of Resources).
 - d. Review the Code of Governance in line with the approved governance framework (Assistant Chief Executive (Legal & Democratic Services)).
 - e. 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 (Director of Resources and other Joint Management Team members with Council responsibilities).
 - f. 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).

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- g. 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 Services)).
- h. Continue to promote the Council's anti fraud, anti corruption and whistle-blowing policies, keeping them under regular review (Assistant Chief Executive (Legal & Democratic Services) and Director of Resources).
- i. Continue to promote the Council's adopted approach to managing major programmes and projects (Deputy Chief Executive and other members of the Joint Management Team with Council responsibilities).
- j. Continue to develop the Council's community engagement arrangements including strategic consultation on corporate objectives, priorities and budget allocations (Deputy Chief Executive and Director of Resources).

4.22 The four Interim Assurance Reports by the Chief Internal Auditor informed the Audit and Corporate Governance Committee of progress on key issues identified in 2007/08.

4.23 The significant internal control issues identified in the Annual Governance Statement for 2007/08 are being addressed, with the current status outlined in the current Chief Internal Auditors Annual Assurance Report.

4.24 The Audit & Corporate Governance Committee considered the Audit Commission's Annual Governance Report at their September 2008 meeting. The Audit Commission made two recommendations, one related to the system for paying nursing homes and the other to Pooled Budgets. The recommendations made by the Audit Commission in their Annual Governance Report for 2008 have been acted upon by management.

e. Financial management arrangements

4.25 The Audit Commission's Annual Audit and Inspection Letter dated February 2009 has highlighted that the Council's financial management arrangements has been assessed as performing well, an improvement over the last year. The Audit Commission assessed that the Council produces accounts to a very good standard, on time, and in accordance with agreed protocols.

4.26 The Council responded to the Audit Commission's Use of Resources Report dated December 2008. A detailed action plan was presented to The Audit and Corporate Governance Committee at its March 2009 meeting in response to the opportunities for improvement that were identified.

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4.27 The Council delivered services just under budget for 2008/9.

f. Performance management arrangements

4.28 The Audit Commission has concluded that performance has improved in most priority areas. The Council's ranking in its benchmarking group has improved from 29th previously to 16th.

4.29 The Council reviewed and updated its performance improvement framework and cycle for 2008/09 as it was identified that there was a need to take account of emerging arrangements for public service arrangements between the Council and the PCT. The framework and cycle will be refreshed to take account of the Council's deep partnership with the PCT.

4.30 The performance management framework encompasses the Council's arrangements for preparing directorate and service plans in support of corporate priorities.

4.31 The arrangements for monitoring performance within directorates and reporting progress to members is established and culminated in regular Integrated Performance Reports (IPR) to Cabinet in 2008/09. The IPR details performance against key corporate targets and the revenue and capital budget. Each IPR is subject to rigorous challenge by the Strategic Monitoring Committee and relevant scrutiny committees.

4.32 Each directorate has a designated Performance Improvement Manager who works alongside the directorate management team and senior managers to ensure that performance management is embedded into directorate and service activities.

g. Risk management arrangements

4.33 The Cabinet Member Resources has responsibility for Risk Management, however, there needs to be clarity regarding his role. The Deputy Chief Executive - Legal and Democratic is responsible for risk management at officer level. In May 2008 Cabinet approved an Integrated Risk Management Strategy, Policy and Toolkit, which gave a clear description of accountability, training expectations and process. The Council adopted the mandatory Assurance Framework used by all NHS Trust Boards, which has enabled corporate risks for both the Council and PCT to be reported, managed and monitored in a consistent way, this is operating successfully.

4.34 Following the Internal Audit review of the council's risk management system a marginal audit opinion was given. There is a need to embed risk management at service level.

4.35 Formal officer reports to members include an assessment of the risk management issues.

h. Anti fraud, anti corruption and whistle-blowing policies

4.36 As part the Council's review of the Constitution Council approved the revised Whistle-blowing policy in July 2008, which was distributed to

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members and officers. Officers are also made aware of these policies through reminders on payslips and other corporate communication channels. This has been supported by training for employees that also covered the officer code of conduct, the Anti Fraud Policy and the Whistle-blowing Policy.

i. Project management arrangements

- 4.37 The Council has adopted the Prince 2 project management methodology for all major programmes and projects. The key principles of the Prince 2 methodology are applied to the management of less major projects. There is a Corporate Programmes team with project management responsibilities.

j. Community engagement

- 4.38 The Council undertook a wide range of community engagement activities in 2008/09 including strategic consultations such as 'The Core Strategy' and 'The Herefordshire Voice Survey, and a customer satisfaction survey. Within the Herefordshire Partnership the Council participates in PACT (Partners and Communities Together) where local people can bring forward issues that affect their quality of life with a promise of detailed feedback and action. During 2008/09 there were 60 PACT meetings. The feedback has informed corporate objectives and priorities and service improvements. In Partnership with the Primary Care Trust the newsletter 'Herefordshire Matters' was published regularly during the year.

k. Independent review

- 4.39 The Audit & Corporate Governance Committee met seven times during the year. The Council's statutory officers with responsibility for governance issues attend Audit & Corporate Governance meetings. The Audit Commission's Annual Audit and Inspection Letter dated February 2009 states that *'the Council has a robust and challenging Audit & Corporate Governance Committee which has continued to improve'*.
- 4.40 Herefordshire's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2003. This responsibility is delegated to the Director of Resources, the officer with responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.
- 4.41 The Audit Services team operates in accordance with best practice, professional standards and guidelines. The team independently and objectively reviews, on a continuous basis, the extent to which reliance can be placed on the internal control environment. This is evidenced by the opinion given on the Council's overall system of control by the Chief Internal Auditor which is given as satisfactory for 2008/09.
- 4.42 The Audit & Corporate Governance Committee receives interim and annual reports on internal audit activity and approves the annual audit plan and Audit Strategy.
- 4.43 The Audit Commission's Use of Resources Report dated December 2008 informed the Council that *'The status and effectiveness of Internal Audit*

Draft Annual Governance Statement 2008/09

has continued to improve from a good base and all material systems are reviewed by Internal Audit annually.'

- 4.44 The Audit & Corporate Governance Committee has been advised of the implications of the result of the review of the effectiveness of the governance framework. The Committee will monitor progress with plans to address the areas identified for improvement in order to ensure that systems are continually improved.
- 4.45 Following the review of the Council's fundamental systems three systems did not meet the Council's minimum standard of a satisfactory audit opinion, the first being the Council's creditor system where the main area for improvement related to the authorisation of invoices, the second related to the ISIS system used to pay independent providers for social care services this related to the need for improved reconciliation procedures, and the Waste Management Contract where there was a need for improved procedures regarding payment of invoices. Agreed action plans are in place.

I. External Inspections**Ofsted Annual Performance Assessment for Children and Young People**

- 4.45 The report was present to Cabinet on 22nd January 2009 and noted that *'Herefordshire Council delivers services for children and young people that meet minimum requirements. Its good capacity to improve is reflected in further improvements in educational standards and achievement, particularly for young people aged 14 to 19. Health outcomes for children and young people continue to be good, particularly for those who are looked after Children and Young people make a positive contribution to their community. There have been improvements since the previous APA.'*
- 4.45 The report also noted that some aspects of staying safe had deteriorated, in the main as a consequence of shortages of social workers, and that service managers had identified weakness in the administration of Criminal Records Bureau (CRB) checks and that they have taken swift and effective action to ensure compliance with requirements.

Planning Services Review

- 4.46 The Audit Commission completed its report on the Council's Planning Procedures and concluded that their work focused upon a narrow range of issues, which had been previously identified as potential areas of risk for the Council. Their findings did not identify any individual significant actions that had resulted in the Council acting illegally or that required an urgent review of governance arrangements. Areas for improvement that required addressing as a matter of urgency have been identified. Recommendations have been made, which are being considered by the Council.

Delivering VFM in older People Services

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- 4.47 The Audit Commission is in the process of finalising their review, once received, members will be informed of the outcome.

Review of Procurement

- 4.48 The Audit Commission's report dated April 2009 concluded that '*The new procurement management framework gives procurement high viability within the Council. The framework provides clear guidance to staff in procuring goods and services. It includes guidance on preparing specifications and contracts; tendering and tender evaluation; and on managing the contract. But there are no formal contract monitoring processes or routine reports to managers to keep them informed about key procurement and contract issues*'. The Audit Commission has identified a number of areas for improvement, which the Council is taking action on.

Safeguarding Action Plan

- 4.49 The Director of Children's Services commissioned an independent consultant to examine the directorates safeguarding arrangements and the interdependencies with the Herefordshire Children's Safeguarding Board (HSCB).
- 4.50 The report identified areas for improvement within the Children and Young People Directorate at, casework, management, ICT and performance management levels in addition to the role of the Children's Trust and Safeguarding Board.
- 4.52 There is an action plan which will be monitored by the Herefordshire Children's Safeguarding Board and the directorate leadership team.

Comprehensive Performance Assessment

- 4.53 In their Annual Audit and Inspection Letter dated February 2009 the Audit Commission has concluded in its' Direction of Travel judgement that the council is improving well, with a corporate assessment/capacity to improve assessed as 2 out 4. With the overall Use of Resources score improving from 2 to 3.

Information Technology Security Techniques (ISO 27001)

- 4.54 The external assessor SGS completed their last certification audit in November 2008 and concluded that Herefordshire Council has established and maintained its management system in line with the requirements of the standard and demonstrated the ability of the system to systematically achieve agreed requirements for products and services within the scope and the Council's policy and objectives. There were no major issues identified.

Environmental Management System (ISO 14001)

- 4.55 The external assessor SGS completed their last certification audit in February 2009 and concluded that Herefordshire Council has established and maintained its management system in line with the requirements of

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the standard and demonstrated the ability of the system to systematically achieve agreed requirements for products and services within the scope and the Council's policy and objectives. There were no major issues identified.

J. Assurances by Key Managers

- 4.56 Written assurances have been received from key managers. These assurances highlight areas of concern and confirm that:
- (a) Action is being taken on recommendations from audit reviews.
 - (b) Council money is being banked promptly and that reconciliations to the Council's corporate finance systems are up to date.
 - (c) Gifts and hospitality have been declared in line with Council policy.
 - (d) Effective controls are operational in each service area.
- 4.57 Written assurances have also been received from directors and heads of service giving assurance that there are no incidents of suspected fraud or corruption within their service area.

k. Value for Money

- 4.58 The Audit Commission in their Annual Audit and Inspection Letter dated February 2009 has identified that the Council remains a generally low cost authority. It also states that *'the Council is in the process of making improvements to its arrangements to define and secure value for money and to manage costs but these are not yet resulting in consistently improved outcomes'*.
- 4.59 The Audit Commission also highlighted that *'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'*.

5. SIGNIFICANT GOVERNANCE ISSUES

- 5.1 The significant governance issues identified as a result of the annual review of the Council's governance arrangements are as follows:
- 5.2 Review the Code of Governance in line with the approved governance framework. (Assistant Chief Executive – Legal and Democratic).
- 5.3 Complete actions on the areas for improvement identified by the Audit Commission in their Use of Resources Report. (Director of Resources).
- 5.4 Improve the embedding of risk management across the Council (Assistant Chief Executive- Legal and Democratic).

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- 5.5 Action is taken on the recommendations made by Audit Services regarding the Creditors and Payment to independent systems providers (Director of Resources).
- 5.6 Ensure that the areas identified as areas for improvement in the Audit Commission's report on Planning Services are actioned. (Director of Regeneration)
- 5.7 Ensure that the areas identified for improvement in the Audit Commissions report 'Review of Procurement' are actioned. (Deputy Chief Executive, Director of Resources, Director of Environment and Culture),
- 5.8 The Herefordshire Children's Safeguarding Board continue to monitor the agreed action plan. (Director of Children Services).
- 5.9 Continue to promote the Council's antifraud and whistle-blowing policies, keeping them under review. (Assistant Chief Executive - Legal and Democratic, Director of Resources)
- 5.10 Plans are already in place to address the above matters in order to further enhance the Council's governance arrangements. Progress with these plans will be monitored by Cabinet and the Audit & Corporate Governance Committee through established reporting procedures during the coming year.

Cllr Roger Phillips
Leader of the Council

Signed:
Date:

Chris Bull
Chief Executive & Head of Paid Services

Signed:
Date:

David Powell
Director of Resources & Section 151 Officer

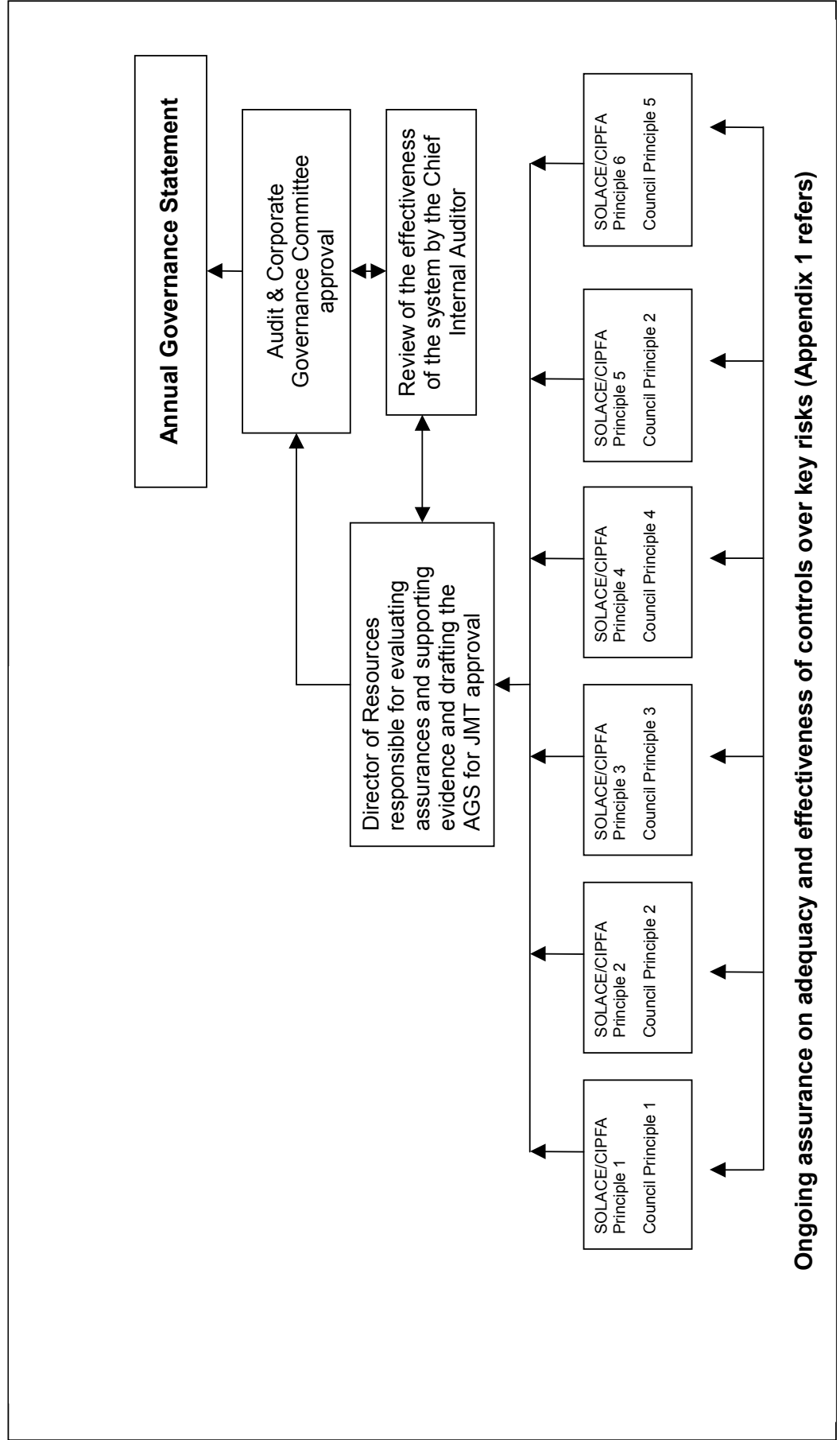
Signed:
Date:

Alan McLaughlin
Assistant Chief Executive & Monitoring Officer

Signed:
Date:

ANNUAL GOVERNANCE STATEMENT FRAMEWORK 2008/09

Decision Making Process



Decision Making Process

AUDIT SERVICES ASSURANCE REPORT 2008/09
Report By: Chief Internal Auditor

Wards affected

1. County-wide.

Purpose

2. To provide the Audit and Corporate Governance Committee with the Chief Internal Auditor's final audit assurance report for 2008/09.

Financial Implications

3. None as a direct result of this report.

Recommendation

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

Reasons

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

Considerations

Key Issues Identified in 2007/08

5. The Audit & Corporate Governance Committee reviewed and approved the Annual Governance Statement (AGS) 2007/08 on 20 June 2008. The AGS identified the key governance and internal control issues that needed addressing in 2008/09. These issues are set out in the table that follows with commentary provided by the responsible officer on progress to date.

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress	Planned date for Completion
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. 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.	The final report was made in the integrated corporate performance report covering the period to the end of December 2008. Most actions were completed and the rest were in hand. It has been agreed that they would now be monitored through inclusion in service plans and associated performance

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress	Planned date for Completion
		Progress implementing the remaining actions from the Director of Resources' special report and the Crookall review are reported to Cabinet as part of the bi-monthly Integrated Corporate Performance Report.	management. The Audit Commission reported favourably on progress in its 2008 Direction of Travel assessment of the Council
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.	The timing and nature of the next corporate plan is under review and being considered by the interim Deputy CX with the Leader. The production of the next Plan has not been included in the CAA action plan, neither is it necessary that it should be. We already have a Council-approved corporate plan for 2008-11, which has been updated in the approved Annual Operating Statement for 2009-10. The priorities set out in the current corporate plan have been confirmed by the public to be the right ones in its response to the Autumn 2008 strategic options consultation. Similar public support is evident from the yet to be published results for Herefordshire from the 2008 national Place Survey.
Review and update the Medium Term Financial Strategy regularly in line with the agreed approach to integrating corporate, service and financial planning.	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.	The Medium Term Financial Management Strategy (MTFMS) was reviewed for the 2009 budget. Next plan sees movement to a joint MTFMS with the PCT. To be completed by October 2009.
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,	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	This is on going and has been strengthened by a separate procurement training scheme comprising six modules.

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress	Planned date for Completion
audit reviews and the newly updated Constitution.		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.	These have been implemented. They are being further improved through the development of a simplified suite of performance reports (the reports for JMT and Cabinet should be live, following testing and approval, by June) and the implementation of the ICT-based Performance + performance management system All this will be linked to the management of risk.
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 being presented to Cabinet and Strategic Monitoring Committee in November 2008. This report incorporates 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.	The Audit Services Risk Management Audit has highlighted further areas for improvement. Progress on the Action Plan will be reported in future Interim Assurance Reports.
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.	This is ongoing
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	Ongoing

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress	Planned date for Completion
		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 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 is due in early December and will be used to inform decisions on budget setting for 2009/10 and following years. A Member seminar will be held in early 2009.	The consultation results were presented to members at a seminar on 16 February 2009. They showed strong support for the Council's existing top priorities. The feedback informed the 2009 budget.

6. The Audit Commission made two recommendations in their Annual Governance Report for 2007/08 that the Committee considered on 25 September 2008.
7. 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.
8. 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 also invited the council and PCT to take part in a national study of joint financing arrangements. This invitation was accepted by the Director of Integrated Commissioning.

Audit & Corporate Governance Resolutions & Recommendations

9. 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. Currently there are 7 open and ongoing items (Appendix 1 refers).
10. Appendix 2 to this report identifies the resolutions and recommendations made by the Committee at its last five meetings (3rd July 2008, 25th September 2008, 21st November 2008, 23 January 2009 and 20th March 2009), the progress made by the relevant officer and the current status – i.e. closed or open and ongoing. Currently there are 8 open and ongoing.

Progress with the Internal Audit Plan 2008/09

11. The annual Internal Audit Plan for 2008/09 was approved by the Audit & Corporate Governance Committee on 4 April 2008. The current status of work is set out in Appendix 3.

12. Following the restructure of the Audit Services team, appointments have now been made to all vacant posts, and all appointed staff are now in post. Agency staff are being used to ensure that past vacancies do not impact adversely on the delivery of the annual Internal Audit Plan for 2008/09.

Fundamental systems

13. The Council's target is that all fundamental systems achieve at least a satisfactory audit opinion. Work in this area shows that 15 reviews have been undertaken. In summary two were given a good audit opinion, eleven a satisfactory opinion and two a marginal opinion. There were no unsatisfactory or unsound audit opinions.

Non Fundamental Systems

14. There were five reviews that were given an audit opinion; three were given a satisfactory audit opinion and two given an unsatisfactory audit opinion.

Governance and Anti-fraud.

15. Reviews of various aspects of the Council's governance arrangements have been completed. The reviews relating to staff Gift and Hospitality Registers and the National Fraud Initiative were given satisfactory audit opinions. The Scheme of Delegation was part of the Chief Executives review, with findings informing the on going review of the Constitution.

Other Key Systems

16. The Annual Governance Statement has been reported as a separate agenda item to the Audit and Corporate Governance Committee. Risk Management was given a marginal audit opinion due to a need to embed risk management at Service level. It should be noted that risk management at corporate and directorate levels were operating efficiently.

ICT Protocols and Controls

17. Work on 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, however non – conformances were raised that would further improve physical security arrangements.
 - **Team Compliance-** Controls are in place and security is formally considered during all upgrades and system replacements. There is a good level of monitoring, with monthly checks being carried out; with formal investigations into incidents. However, improvements were needed in the review and update to existing Business Impact Assessment, Business Continuity Plans and Change Control.

18. The Committee will be kept informed on progress.

19. The governance arrangements for the Integrated Social Care System (ISCS) – the Corelogic Frameworkki 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.
20. The review covering Computer systems, data, applications and skills in Children’s Services and ICT Services is complete; audit recommendations have been made to help facilitate discussions between both parties.
21. Access controls were found to be satisfactory.

Performance Management

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

Establishment Audits

23. 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 fourteen 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.

Verification and Probity

24. A number of grant claims were signed off on behalf of services areas across the Council. Good Environmental Management (GEM) identified a number of minor non-conformances. In addition work relating to the letting of the Refuse Collection and the Shared Service contracts were satisfactory.

Recommendations follow up

25. Audit Services continues to monitor recommendations previously made.
26. Recommendation follow up work can be summarised as follows:

Recommendations made	93
Completed	56
Started open and ongoing	27
Outstanding	10

27. Further follow up work is planned for the ten recommendations found to be outstanding.

Audit Opinions

28. Paragraph 4.18 of the Council’s states ‘*The Chief Internal Auditor shall provide the Leader , Chair of Audit and Corporate Governance Committee and the relevant Cabinet Member(s) with a copy of audit review reports with an unsound,*

unsatisfactory or marginal opinion. The Council's procedures for maintaining confidentiality shall apply.'

29. Regarding paragraph 27 above the current status can be summarised as follows:

Report	Audit Opinion	Status	Report sent to relevant Members
Creditors	Marginal	Final Draft	Once in final report will be sent to relevant members.
Payment to Independent Providers	Unsatisfactory	Final	Sent to relevant Members.
Instrumental Music	Unsatisfactory	Final Draft	Once in final report will be sent to relevant members
Risk Management	Marginal	Final Draft	Once in final report will be sent to relevant members

30. In addition, paragraph 4.19 of the Council's Financial Procedure Rules requires the Chief Internal Auditor to provide 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.

31. 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

32. 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.

33. 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 management arrangements for complying with the Council's Financial Procedure Rules for maintaining inventories will be carried out. This approach closes this particular item.

34. 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 the relevant officer said was available 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.

35. 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 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, not just those elements relating to tender invitation panels, providing documentation requested by the Chief Internal Auditor to support planned audit review activity and maintaining appropriate records. 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

36. The following table summaries 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	18	18	89	89	107	107
Non Fundamental	13	13	13	13	26	26
Governance and anti fraud	4	4	3	3	7	7
Other key systems	9	9	9	9	18	18
ICT protocols and Controls	0	0	49	49	49	49
Establishment Audits	22	22	104	102	126	124
Recommendation Follow up	0	0	4	4	4	4
Performance Management	0	0	8	8	8	8
TOTAL	66	66	279	277	345	343

37. Management has accepted 99% of recommendations which compares favourably with the target of 95%.

38. 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.
39. Under current reporting protocols, the Chief Internal Auditor has to bring to the attention of the Audit & Corporate Governance Committee 'Critical 1' recommendations. These are recommendations where non-compliance will be a high risk to the Council and where action is required urgently or within an agreed timescale.
40. At the present time there has been one 'Critical 1' recommendation made, this related to the Payment to Independent Providers Review in relation to assurances regarding receipt of income from client contributions.
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.
41. The reconciliation is in progress and the Chief Internal Auditor met with relevant managers and agreed the approach following completion of the initial reconciliation work. Further work has been carried out in relation to the reconciliation requirements, an audit visit is planned to review the work carried out by officers. The Audit and Corporate Governance Committee will be informed of the outcome.

Areas of concern

42. There are no areas of concern.

Overall Audit Opinion

43. I have used the Internal Control Audit Opinion Matrix agreed by the Audit and Corporate Governance Committee to form an objective opinion on the effectiveness of the Council's internal control environment for 2008/09. The application of the internal control Audit Opinion Matrix is informed by the matters I have brought to the Committees attention in Audit Services Assurance Report for 2008/09.
44. I am of the opinion that the Council's overall level of internal control was satisfactory for 2008/09.
45. The following table summarises the overall position for 2007/08.

Internal Control Audit Opinion	Range	Score 2008/09
Good	85-100	
Satisfactory	65 - 84	73
Marginal	51 -64	
Unsatisfactory	31 -50	
Unsound	0 - 30	

Risk Management

46. 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	PLANNED COMPLETION DATE	STATUS
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.		Now forms part of reporting within Integrated Comprehensive performance report to Cabinet.
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	<i>The ISO 27001 audits have been completed and forms part of the Annual assurance Report.</i>	Remains open and ongoing until the Chief Internal Auditor has completed his review of the Council's ISO 27001 arrangements and reported findings in line with agreed

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	PLANNED COMPLETION DATE	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.		reporting protocols. Closed
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.		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.

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	PLANNED COMPLETION DATE	STATUS
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. <i>The Assistant Chief Executive has been requested to add words to the revised Standing Orders for Contracts</i>		Open and ongoing until the next annual review of the Financial Procedure Rules and Contract Procedure Rules has been completed.
42	51 (ii)	30/11/07	Update of Action in the Special Report – Governance Improvement	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		Open and ongoing until confirmation has been provided that a new

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	PLANNED COMPLETION DATE	STATUS
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.	<i>Paul Nicholas</i> (Natalia Silver)	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>	April 2009	arrangement for recovering elections expenses from the parish councils is in place. Closed

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	PLANNED COMPLETION DATE	STATUS
47	56(i)	21/12/07	Update on Community Network Upgrade and Critical recommendations 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)	Drugs Partnership Manager. Copies sent to Member Services 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 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	PLANNED COMPLETION DATE	STATUS

APPENDIX 2

**Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 20th March 2009**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	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.
78	115 (f)	25/09/08	First Interim Assurance Report	A report be submitted to the next meeting regarding the current position with regard to the handover of assets to Wyebridge Academy.	Tony Ford	In addition the Acting Director of 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.	Planned Audit Project Due for completion July 2009	Open and on going
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	Completed	Circulated in December 2008	Closed
80	123	21/11/08	Planning Obligations Agreement	The Planning Monitoring officer attends the May 2009 meeting of the Committee.	Peter Yates	Officer appointed (Yvonne Coleman)	September 2009 (for updated monitoring system- part of the	Open and ongoing

APPENDIX 2

**Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 20th March 2009**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
82	131	23/01/09	Audit and Corporate Governance Committee Progress report	The Assistant Chief Executive Legal and Democratic to bring to the attention of the Strategic Monitoring Committee the Council's proposed new duty of greater responsibility for crime and disorder in line with the Policing Green Paper.	Alan McLaughlin		Civica/IERS project	Open and ongoing
83	132	23/01/09	Use of Resources	The Acting Director of Resources submit a report to the next meeting of the Committee which details the recommendations contained in the Audit Commission's report together with the progress to date and the future actions to be taken on the recommendations. Note: Reference value for money processes report.	David Powell	Report presented to the Audit and Corporate Governance Committee on 20 th March 2009.	Completed	Closed
84	142	20/03/09	Use of Resources	A report indicating the position statement on major projects to be included as a standard item on the agenda	Tony Ford	Within the 2009/10 Audit Plan approved by the Audit and Corporate Governance Committee there is a planned audit on Project Management, which will give a base line for moving forward.	30 th September 2009	Open and ongoing
85	143	20/03/09	International	A standing report be made on the	Heather Foster	Report to Audit and	Ongoing	Open and ongoing

APPENDIX 2

**Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 20th March 2009**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
		09	Financial reporting Standards.	current position with regard to the implementation of IFRS		Corporate Governance Committee on 26 th May 2009.		
86	145	20/03/09	Updated Draft Terms of Reference	Council be recommended to approve the quorum of the committee being amended to four Members, three of which must be Members of the Council should the committee appoint an independent Member.	Alan McLaughlin			Open and ongoing
87	145	20/03/09	Updated Draft Terms of Reference	The Audit Commission's Action Plan response with regard procurement be submitted to the next meeting	David Powell	Report to Audit and Corporate Governance Committee on 26 th May 2009.	Completed	Closed
88	145	20/03/09	Updated Draft Terms of Reference	The Environment Directorate be invited to report to the Committee on how the Amey contract with the Council will work and that the Chairman of the appropriate Scrutiny Committee be invited to attend the meeting.	Director of Environment and Culture			Open and ongoing

STATUS OF AUDITS STARTED DURING 2008/09

Audit	Status	Audit Opinion
Fundamental Systems		
Payroll	Final	Satisfactory
Financial Management System - Education	Final	Satisfactory
Council Tax and NDR	Final	Satisfactory
Creditors	Final Draft	Marginal
Bank Reconciliation	Final	Good
Asset Register	Final	Satisfactory
Financial Management System – General Ledger	Final	Satisfactory
ICT Financial Management System	Final	Satisfactory
Cash and Deposits and Post	Final	Satisfactory
Treasury Management	Final	Good
Supporting People	Final	Satisfactory
Debtors	Final	Satisfactory
Housing Benefit - Processing	Work in Progress	
Housing Benefit – Quality and Performance	Final	Satisfactory
Housing Benefit - Investigations	Final	Satisfactory
Non Fundamental Systems		
Payments to Independent Providers	Final	Unsatisfactory
Cash Office/Post Opening	Final	Satisfactory
Instrumental Music	Final draft	Unsatisfactory
Anti Money Laundering	Final	Satisfactory
Income from Trade Waste/Domestic waste	Draft with Manager	
Value Added Tax	Final Draft	Satisfactory
Governance and Anti Fraud		
Brockington Ramp	Final	n/a
Travel and Subsistence	Draft with Manager	
Scheme of Delegation - Corporate	Final Draft	n/a
Staff Gift and Hospitality Register	Final	Satisfactory
National Fraud Initiative	Final	Satisfactory
Other Key Systems		
Members Register of Interests and Gifts	Final	Satisfactory
Risk Management	Final draft	Marginal
Section 75 Agreements	Work In progress	
Annual Governance Statement	Draft	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 9001 Top level ICT Operation Procedures (QMS)	Final	Minor Non-compliance
ISO 27001 Risk Treatment (3358)	Final	Minor Non-compliance
ISO 27001 Team Compliance (3360)	Final	Minor Non-compliance

STATUS OF AUDITS STARTED DURING 2008/09

Audit	Status	Audit Opinion
ISO 27001 Physical Security (3359)	Final	Minor Non-compliance
ISO 27001 Third Party Management (3357)	Final	Full Compliance
ISIS system	Final	N/a
Access Controls Cedar	Final	Satisfactory
Access Controls Payroll	Final	Satisfactory
Access Controls Council Tax, Housing Benefit and Non Domestic Rates	Final	Satisfactory
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)	Final	Good
Housing Waste Management (Composting) (BVPI 82b)	Final	Good
Pedestrian crossings with facilities for disabled people (BVPI 165)	Final	Satisfactory
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
Preventing Homelessness (BVPI 213)	Final	Good
Schools Establishment Audits (DCSF Standard)		
Trinity Primary School	Final	FMSiS Met
Riverside Primary School	Draft with Client	
St. Thomas Cantilupe C.E Primary School	Final	FMSiS Met
Blackmarston Special School	Final	FMSiS Met
Ledbury Primary School	Final	FMSiS Met
St Mary's C.E Primary School	Final	FMSiS Met
Holmer C E. Primary School	Draft with Client	
Marlbrook Primary	Final	FMSiS Met
St. Paul's C.E. Primary School	Final	FMSiS Met
Lugwardine Primary School	Final	FMSiS Met
Weobley Primary School	Audit deferred	
St. Francis Xavier R.C. School	Final	FMSiS Met
Kingstone & Thruxton Primary School	Audit deferred	
Barrs Court Special School	Final	FMSiS Met
Hampton Dene Primary	Final	FMSiS Met
Madley Primary School	Final	FMSiS Met
Much Birch C. E. Primary School	Final	FMSiS Met
Orleton C. E. Primary School	Draft with Client	
Dilwyn Primary School	Final	FMSiS Met
Broadlands Primary School	Work In progress	

STATUS OF AUDITS STARTED DURING 2008/09

Audit	Status	Audit Opinion
The Minster - follow up	Final	FMSiS Met
Verification and Probity		
Local Area Agreement Grant	Final	n/a
Flood Grant Claim	Final	n/a
Leominster Industrial Estate Access Road	Final	n/a
Whitecross High –School and Sports Co-ordinator Grant	Final	n/a
Minster College- School and Sports Co-ordinator Grant	Final	n/a
Local Public Service Agreement LPSA	Final	n/a
GEM - ISO 14001 – General Requirements, Environmental Policy and Planning	Final	Minor Non-compliance
GEM - ISO 14001 – Implementation and Operation	Final	Minor Non-compliance
GEM – ISO 14001 - Checking	Final	Minor Non-compliance
Refuse Collection Contract	Final	Satisfactory
Shared Services Contract	Final	Satisfactory
Property Services -Contract	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
Pedestrian Crossing Performance Indicator	Final	n/a
Street Cleanliness Performance Indicator	Final	n/a
Education Transport	Final Draft	n/a
Section 106	Final	n/a

Quantification and Classification of Internal Control Levels

System and Establishment Audits

Opinion	Definition
Good	A few minor recommendations (if any). No material risk identified.
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 higher weighting for budgetary control. It is expected that larger systems and establishments will receive higher numbers of recommendations and allowance is made for this.

STATUS OF AUDITS STARTED DURING 2008/09

Compliance Audits

Opinion	Definition
Full-Compliance	Areas reviewed met requirements
Minor Non-Compliance	Areas reviewed failed to meet requirements in some non-critical areas or opportunities for improvement were identified.
Major Non-Compliance	Areas reviewed failed to meet requirements in some critical areas

Many audits are tests of whether a standard or part of a standard has been met. Examples are GEM audits and ISO27001. Majority of compliance audits will find minor compliance.

DCSF FMSiS Standard - Toolkit Assessments

Opinion	Definition
FMSiS Met	The Standard has been met
FMSiS Awaiting SIC	The Standard will be met when the Statement of Internal Control has been signed by the Head Teacher and Chair of Governors.
FMSiS Conditional	The Standard is expected to be met in the short term
FMSiS Not Met	The Standard is not expected to be met in the short term

Schools are expected to reach a standard of financial management (FMSiS - Financial Management in Schools). The assessment reaches a conclusion of meeting the standard or not. In addition, the DCFs allow a conditional pass that means a small number of issues need addressing before a pass is issued. This is the normal status before a full pass is confirmed. "Awaiting SIC" - Some schools wait until the assessment is finished before signing the SIC. This is sensible and any schools in this status will be given a pass shortly.

ANNUAL AUDIT FEE 2009/10**Report By: DIRECTOR OF RESOURCES****Wards Affected**

County-wide.

Purpose

1. To inform the Audit and Corporate Governance Committee of the work to be undertaken for 2009/10 financial year by the Audit Commission. The report also provides a total indicative fee.

Financial Implications

2. These are outlined in the report.

RECOMMENDATION

THAT the Audit and Corporate Governance Committee notes the content of the Annual Audit Fee Letter and agrees the proposed fee.

Reasons

3. The Audit Commission is the Council's appointed external auditor. It is important the Audit and Corporate Governance Committee is informed of the total planned fee and the planned outputs of the work programme.

Considerations

4. The Annual Audit Fee letter (attached) contains details of the amount to be paid to the Audit Commission. This is reflected in the Council's budget and the proposed £287,916 is fully funded.
5. An important underlying assumption used in setting the fee is that the general level of risk in relation to the audit of financial statements is not significantly different from that identified in 2008/09.
6. The programme to be undertaken is covered by two headings. The financial statement work covers the review and audit of the Council's statutory statements. Use of Resources and VFM conclusion work covers the assessment forming part of the new Comprehensive Area Assessment and in addition the statutory requirement to indicate if the Council provides value for money.
7. The value for money audit work requires a risk assessment to be carried out that leads to the planned work. The detail of the risks is contained on page 2 of the attached letter. In summary these cover:

- a) The waste disposal contract's potential impact on the Council's future financial position.
 - b) Benefit realisation from significant projects.
 - c) The effectiveness of managing the workforce as part of the new 'Use of Resources'.
 - d) Following up issues such as performance management around the Amey highways renegotiation.
8. The letter's Appendix 1 contains planned outputs and indicative dates that will help plan committee agendas in 2009/10.

Risk Management

9. The fees indicated in the letter may be affected by a variation in risk levels and these will be monitored as the year progresses.

BACKGROUND PAPERS

None

24 April 2009

Mr Chris Bull
Chief Executive
Herefordshire Council

Direct line 0844 798 7562

Dear Chris

Annual audit fee 2009/10

Further to our discussions, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at Herefordshire Council. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Comprehensive Area Assessment Lead will be writing to you separately on inspection fees.

As I have not yet completed my audit for 2008/09 the audit planning process for 2009/10, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2009/10 is for £287,916 (exclusive of VAT) which compares to the planned fee of £284,361

for 2008/09. A summary of this is shown in the table below.

Audit fee

Audit area	Planned fee 2009/10	Planned fee 2008/09
Financial statements	141,826	140,075
Use of Resources/VFM Conclusion [including risk based work]	146,090	144,286
Total audit fee	287,916	284,361

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2008/09. A separate plan for the audit of the financial statements will be issued later. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Director of Resources and then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2009/10. My work on use of resources informs my 2009/10 value for money conclusion. However, I have identified a number of significant risks in relation to my value for money conclusion. For each risk, I consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly. My initial risk assessment for value for money audit work is shown in the table below:

Risk	Planned work
<p>There are comparatively high costs for waste disposal and unless action is taken to amend existing contracts, the risks to the Council's future financial position will further increase. Although significant efforts have been made to move this forward in the last year, a variation to the existing contractual arrangement has not been agreed.</p>	<p>Review the strategy for the disposal of waste across Herefordshire and Worcestershire. This will include looking at the relationship with waste collection arrangements and progress towards an alteration to the existing PFI contract.</p>
<p>The Council has been making significant investment in ICT (through Connects) and also in innovative joint working with the PCT. There is a risk that the expected benefits from these are not fully realised. The Council is developing systems to monitor the realisation of benefits from these projects</p>	<p>We will undertake a joint review to track the Council's progress in managing the associated risks and ensuring expected benefits are delivered.</p>

<p>Managing workforce is a new element of the Use of Resources assessment starting in 2009/10. We need to gain an understanding of the effectiveness of these arrangements.</p>	<p>Review how the Council plans, organises and develops its workforce effectively to support the achievement of its strategic priorities.</p>
<p>Amey highways renegotiation of contract-we need to follow up the risk issues (e.g. performance review) identified at an earlier stage of the project to ensure they have since been addressed.</p>	<p>Follow up the recommendations from our 2008/09 report.</p>

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2009/10 are:

Terry Tobin – Audit Manager 0844 798 7562

Martin Bell – Team Leader 0844 798 8789

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the West Midlands Head of Operations, P-Jones ([@audit-commission.gov.uk](mailto:P-Jones@audit-commission.gov.uk)).

Yours sincerely

Elizabeth Cave
District Auditor

cc David Powell Director of Resources

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the audit and governance committee.

Table 1

Planned output	Indicative date
Audit plan	30 January 2010
Annual governance report	30 September 2010
Auditor's report giving the opinion on the financial statements and value for money conclusion	30 September 2010
Use of resources report	30 September 2010
Annual audit letter	November 2010
Waste management	March 2010
Review of implementation of Connects and joint working with the PCT.	March 2010
Review of workforce management and planning	March 2010