

AGENDA

Audit and Governance Committee

Date: **Wednesday 23 March 2016**

Time: **10.00 am**

Place: **Committee Room 1, Shire Hall, St. Peter's Square,
Hereford, HR1 2HX**

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

For any further information please contact:

Clive Lloyd

Tel: 01432 260249

Email: clive.lloyd@herefordshire.gov.uk

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Agenda for the Meeting of the Audit and Governance Committee

Membership

Chairman

Vice-Chairman

Councillor BA Durkin

Councillor FM Norman

Councillor ACR Chappell

Councillor DG Harlow

Councillor EPJ Harvey

Councillor PD Newman OBE

Councillor RJ Phillips

Councillor J Stone

Councillor LC Tawn

AGENDA

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PUBLIC INFORMATION AND FIRE INFO		
1.	APOLOGIES FOR ABSENCE To receive apologies for absence.	
2.	NAMED SUBSTITUTES (IF ANY) To receive details any details of Members nominated to attend the meeting in place of a Member of the Committee.	
3.	DECLARATIONS OF INTEREST To receive any declarations of interest by Members in respect of items on the agenda.	
4.	CHAIRMAN'S ANNOUNCEMENTS	
5.	MINUTES To approve and sign the minutes of the meeting held on 26 January 2016	9 - 14
6.	EXTERNAL AUDIT UPDATE To provide the audit and governance committee with an update on the external audit plan, audit risk assessment for 2015/16 and progress.	15 - 78
7.	INTERNAL AUDIT CHARTER (SWAP) To seek the Committee's approval of the Internal Audit Charter for the period 1 April 2016 to 31 March 2017.	79 - 84
8.	INTERNAL AUDIT PLAN 2016/17 (SWAP) To seek the Committee's approval of the Internal Audit plan for the period 1 April 2016 to 31 March 2017.	85 - 98
9.	2015/16 BI-ANNUAL FORECAST OUTTURN To provide an update on the projected outturn for 2015/16 to enable the committee to consider the effectiveness of budgetary control.	99 - 102
10.	WORK PROGRAMME UPDATE To provide an update on the work programme for the committee for 2015/16	103 - 108

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HEREFORDSHIRE COUNCIL

SHIRE HALL, ST PETERS SQUARE, HEREFORD HR1 2HX.

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HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Audit and Governance Committee held at Committee Room 1, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Tuesday 26 January 2016 at 10.00 am

Present: Councillor BA Durkin (Chairman)
Councillor FM Norman (Vice Chairman)

Councillors: ACR Chappell, DG Harlow, EPJ Harvey, PD Newman OBE, RJ Phillips, J Stone and LC Tawn

In attendance:

Officers: Peter Robinson and Claire Ward, Mark Willimont, Kevin Singleton Jacqui Gooding (SWAP), Paula Gibson (SWAP) and Frances Wykes (SWAP)

99. APOLOGIES FOR ABSENCE

None

100. NAMED SUBSTITUTES (IF ANY)

None

101. DECLARATIONS OF INTEREST

None

102. CHAIRMAN'S ANNOUNCEMENTS

During chairman's announcements the vice-chairman raised concerns that a waste and mineral policy was not in place for the county meaning that, without a clear plan in place, there was a risk that phosphate levels would continue to be exceeded in the River Lugg which has a designation of a SAC.

She believed that the matter was not being taken seriously by the authority with the possibility of consequences in the future, particularly in relation to the Habitats Directive. A discussion took place regarding elevated phosphate levels arising from both point source (sewage treatment and intensive rearing units) and diffuse sources (manure application to fields).

There were concerns that this issue would have a detrimental effect on future housing development, tourism and natural habitats with possible legal implications if there was considered to be an infraction of the Habitats Regulations.

A member commented that this is not a new problem but has been neglected and believed that it should feature on the risk register.

The point was made that although Herefordshire was taking this matter seriously and were working on a nutrient management plan, the plan's benefit was reduced if the Welsh authorities upstream in the catchment are not addressing the issue

There was acceptance that a nutrient plan is in the planning stage, but at this time there is no date for completion.

In regard to manure spreading most sites benefit from environmental permits and are therefore tightly regulated. However, there were concerns raised about manure application outside permitted intensive rearing units where regulation could be more challenging. It was recognised that this is not an easy one to solve but it is something that both the Planning Service and the Environmental Agency take seriously.

RESOLVED

That: a joint report is presented to the committee by the Team Leader (Strategic Planning) and the Head of Regulation & Development Management on the understanding of phosphates in the River Lugg, the role of planning policy and development management on this and therefore where the authority is on the management of this risk.

103. MINUTES

In the course of the discussion the following points were raised.

A member drew attention to the corporate risk item and that the minutes show that the committee would reconvene in two weeks' time. The member expressed frustration that a meeting had not taken place and that fracking did not appear on the agenda for this meeting.

A discussion was had around issues regarding the risk register with members not feeling assured about the risk management process.

It was agreed that a working group be convened to consider the robustness and assure the committee on the risk management process. The members of the working group will be councillor's Chappell, Newman and Norman. A scoping document (template from task and finish) would be completed by the group for approval by the chairman.

104. INTERNAL AUDIT PLAN PROGRESS REPORT

The Committee considered the progress on internal audit work and key internal control issues arising from work recently completed.

The Internal Audit Manager presented the report and highlighted pages 3, 4, and 5 of the report.

The significant findings and risks were presented highlighting two areas where partial or no assurance was found, these being agency staff and modern records.

With regard to modern records, this area was assessed as a partial risk. It was found that a very professional service was in evidence. However, it was also noted that although detailed guidance and procedures were in place, it appeared that on occasion these were not followed.

The one significant service finding identified was that there is no future strategic plan for the Modern Records unit (MRU) in place. It was noted, as detailed in the report that a strategy is in the development stage.

In relation to Agency staff, this area was assessed as a partial risk. The report shows that there were six significant findings identified, these were.

- the contract underlying the use of agency workers does not demonstrate good governance.
- the Service Level Agreement with Hoople has not been varied to take account of the contract novation from the provider in March 2015.
- there is no mechanism to identify contract that have not been signed after the procurement process has ended.
- there is a back log of unapproved expense claims.
- the draft contract has a service standard that 100% of agency staff should have two independent references, however sampling evidence gaps in employment history with three workers not showing evidence of references. It was noted that robust pre-employment screening checks will be addressed in new contractual arrangements.
- leaver's forms are not detailed and discrepancies between different systems indicate data quality concerns.

In the ensuing discussion the principal points were raised;

A member, although pleased that issues had been highlighted and that the management updates contained in the report demonstrated recognition of the issues had some reservation as to whether improvements would be made.

Service level agreements (SLA) should be live documents and be periodically reviewed to ensure they are fit for purpose.

It was noted that the current contact with Hoople expires in March 2016 and that it would be prudent to review SLA's before the formulation of new contracts.

Legal and contract teams should be adequately resourced with the capabilities to manage responsibilities.

Concern was expressed regarding unexplained gaps in employment history and that relevant procedures should reviewed and addressed as necessary.

It was clarified that employment issues highlighted were pertaining to agency staff and it was noted that actions had been accepted with a target date for implementation given as 31 March 2016.

Concern was expressed by members that although it has been reported that this is an agency staff issue it does give not members confidence that other areas might have similar issues.

Concern was raised regarding the progress of scheduled audits with confirmation that extra resources had been secured in the last quarter of this financial year and the expectation is that 90% of scheduled audits to either have been completed or in progress by the end of this 2015/16.

RESOLVED

That: a progress report is given at the March meeting

Feedback is delivered at the March meeting on contract management and the delivery process on the audit plan.

That a report be presented on the management of contracts and procurement within the authority on completion of the six contract reviews.

Point five and six of the significant findings contained in the agency staff report to the committee be referred to the children's wellbeing performance review for comment and action with feedback to be delivered at the March Meeting.

105. SWAP TRAINING AND DEVELOPMENT UPDATE

A brief update on SWAP training was received with the following points made.

- Members are welcome to raise issues/topics that they wish to explore or receive training on.
- Slides/training material for training delivered in October 2015 to be sent to all members.
- SWAP will provide further training for members who were unable to attend. Further training will be arranged for members who were unable to attend training delivered in October 2015. The possibility is that this training will be delivered during October 2016.

106. ANNUAL GOVERNANCE STATEMENT ACTION PLAN UPDATE

Peter Robinson, Chief Financial Officer (CFO) introduced the report.

The purpose of the report was to give the committee confidence that agreed actions were being delivered to ensure that concerns identified in the statement were resolved and do not reappear next year.

A member made the point that no evidence had been presented that substantiates what is contained in the report and would like future reports to include evidence that would corroborate the narrative presented.

RESOLVED

THAT:

Progress is noted in delivering the annual governance statement action plan.

In future, appropriate evidence is provided to corroborate reports.

107. MEMBERS DEVELOPMENT PLANS

The Monitoring Officer presented the report and drew member's attention to the recommendations in the report and confirmed that Council agreed on the 22 May 2015, following recommendation from the independent remuneration panel, to develop a report on options for implementing a system of annual performance appraisal for members.

A discussion took place with the following points raised;

- Appraisals are not appropriate for members with the ultimate appraisal carried out by electors at the ballot box.
- There is merit for more focussed training e.g. child safeguarding training.

- The mandatory training in May should be reviewed and also advertised as a requirement before elections
- Training should be targeted to member requirements and that a member audit in respect of skills and expertise would be useful prior to developing a training programme.

RESOLVED

THAT:

- (a) The committee note the resolution of Council on 22 May 2015 for the consideration of a system on annual performance appraisal for elected members;**
- (b) The option and implementation of a system of assessed personal development be referred to a member development and training working group for recommendation to the audit and government committee for comment and recommendation then to Council.**

108. GOVERNANCE IMPROVEMENT WORKING GROUP UPDATE

The Monitoring Officer provided an update on the working group. This work commenced due to a motion from Council in December 2014. It was discussed whether to report back to council now before drafting but it was decided that the constitution gave the power to recommend amendments from this committee and so long as all members are aware of the work there would be no need to return to council before a redraft.

A member commented that improvements to the constitution were identified by the previous monitoring officer and that she was pleased to see that the current monitoring officer is eager to take improvements further. The member suggested that it would be good to see this before council in May 2016.

A member made the point that if other authorities have inclusions in their constitution that we do not, then why not? and conversely if others have omissions that we have included, again why? A reason for changing things is always necessary. A document showing the changes made and the reasons why will be compiled.

RESOLVED

THAT: the constitution is redrafted in consultation with the members of the working group in consultation with their group and that all members are informed via a ward update.

109. STANDARDS WORKING GROUP

The chairman provided an update on the working group.

It was confirmed that the group has had two meetings to date and has considered a number of case studies, produced a SWOT analysis and other local authority models. The monitoring officer is now redrafting a draft procedure.

It is planned to arrange one meeting towards the end of March 2016 to consider the Constitution and Standards reports.

The standards working group will meet next on the 22 February 2016.

110. WORK PROGRAMME UPDATE

It was noted that there are a large number of items on the audit and governance work programme for March 2016 and discussions are to be arranged with the Chairman to discuss the effective management of the March agenda.

No progress was made in relation to the development of the work programme for 2016/17

The meeting ended at 1.15 pm

CHAIRMAN



Meeting:	Audit and governance committee
Meeting date:	23 March 2016
Title of report:	External audit update
Report by:	Director of resources

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

Countywide

Purpose

To provide the audit and governance committee with an update on the external audit plan, audit risk assessment for 2015/16 and progress.

Recommendations

THAT:

- (a) the external audit plan at appendix A to this report be considered for any potential additional areas of focus;**
- (b) comments be provided on the external auditors assessment of risk at appendix B to this report and whether the management response to that assessment is consistent with the understanding of the committee; and**
- (c) the external auditors update on progress at appendix C to this report be reviewed and any areas of concern identified.**

Further information on the subject of this report is available from
 Josie Rushgrove, head of corporate finance on Tel (01432) 261867

Alternative options

- 1 There are no alternative options, this update is provided in accordance with auditing standards.

Reasons for recommendations

- 2 To support effective communication between the committee and the external auditor, and ensure the views of the committee inform future work by the external auditor.

Key considerations

External audit plan

- 3 Attached as appendix A is the external audit plan for the audit of the 2015/16 statement of accounts. The timeline for the audit has been compressed to prepare for the legal requirement to approve the 2017/18 accounts before 31 July. The 2015/16 external audit aims to complete by 31 July and interim audit work has already been completed.
- 4 The report shares the audit approach, the focus of external audit work and the preparation work that has already commenced. There are two presumed significant risks which are applicable to all audits being fraudulent transactions and management override of controls. Work completed to date has raised no areas of concern in addressing these risks.
- 5 The external audit plan confirms the approach to assessing if the council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the value for money conclusion. The report details the areas of risk identified and the work that will be completed to reach a conclusion that will be reported to the committee in September.

Informing the audit risk assessment

- 6 Appendix B includes a series of questions on informing the audit risk assessment and the responses received from the council's management team. The committee is asked to consider the responses and whether these are consistent with its understanding and to identify whether there are any further comments it would like to make.

Progress report

- 7 Appendix C provides a progress report, the corporate finance team are addressing the actions identified in the report.

Community impact

- 8 Effective audit helps ensure the council is transparent about the way in which it conducts business and that it does so efficiently and effectively in line with the values of the council and the corporate plan priority to secure better services, quality of life and value for money.

Further information on the subject of this report is available from
Josie Rushgrove, head of corporate finance on Tel (01432) 261867

Equality duty

9 None.

Financial implications

10 None, the external audit fee referred to in appendix A is as approved in previous reports. It is possible to adapt or add to the audit plan however the plan is designed and costed to allow for focus on major strategic risks. Therefore there has to be a distinction between delivery compliance and working on specific activity outside the plan.

Legal implications

11 External audit is a legal requirement; this report provides an update on the approach being taken in line with legislative requirements.

Risk management

12 This update informs of the risks present which the internal corporate finance team are preparing responses to. Future reports will disclose the external audit findings.

Consultees

13 None.

Appendices

Appendix A - 2015/16 external audit plan

Appendix B - Informing the audit risk assessment

Appendix C - Progress report

Background papers

None



The Audit Plan for Herefordshire Council.

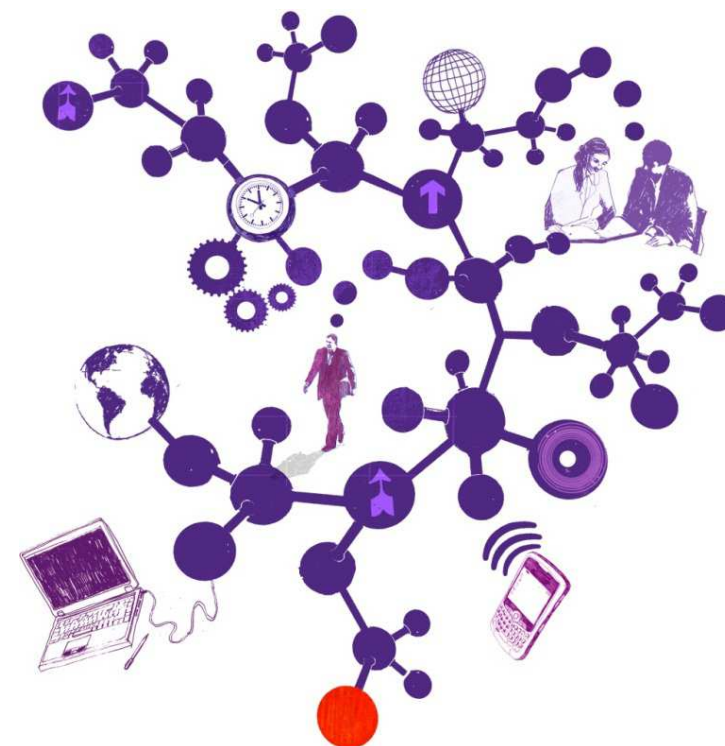
Year ending 31 March 2016

March 2016

Phil Jones
Director
T 0121 232 5232
E phil.w.jones@uk.gt.com

Zoe Thomas
Audit Manager
T 07880 456 119
E zoe.thomas@uk.gt.com

James McLarnon
Assistant Manager
T 0121 232 5219
E james.a.mclarnin@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Herefordshire Council
Plough Lane
Herefordshire
HR4 0LE

23rd March 2016

Dear Members of the Audit and Governance Committee

Audit Plan for Herefordshire Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Herefordshire Council, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Phil Jones
Engagement Lead

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

T +44 (0)121 212 4000
F +44 (0)121 212 4014
E @grant.thornton.co.uk
www.grantthornton.co.uk

Chartered Accountants

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.
- Herefordshire has faced financial pressures in recent years and has responded well, delivering large savings plans. Underlying monitoring and reporting arrangements are sound. The Council is therefore well placed to face the financial challenges ahead. The medium term financial plan up to 2019/20 was agreed in February 2016.

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2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- Herefordshire is working with the other 'Marches' Councils in developing devolution plans.

3. Integration with health sector

- Developments such as the increased scope of the Better Care Fund (BCF) and transfer of responsibility for public health to local government are intended to increase integration between health and social care.
- The council has been working with the other organisations within the local health and social care economy with the aim of transforming current arrangements to both improve services and manage costs.

4. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.

Our response

- We will consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.
- We will update our understanding

- We will update our understanding of your devolution 'status' and bid plans as part of the value for money conclusion work.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- On the 7th March 2016 we ran a workshop considering the accounting issues around the BCF and Pooled Budgets. We will review the Council's treatment of entries relating to the Better Care Fund in its financial statements.
- We will consider the progress the council is making through the better care fund. We will also consider progress in implementing improvements in local arrangements, particularly in the health and social care environment for adults and children.

- We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- We aim to complete all substantive work in our audit of your financial statements by 31 July 2016 as a 'dry run'

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16. This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years although there is further clarification as to what this means in relation to the assessment of fair value and this will need to be fully evidenced.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- The Council is currently updating its constitution.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.

4. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- The Council works closely with Hoople Ltd to provide financial and other services.

5. Other requirements

- The Council is required to submit a Whole of Government account pack on which we provide an audit opinion.
- The Council completes grant claims and returns on which audit certification is required

Our response

- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

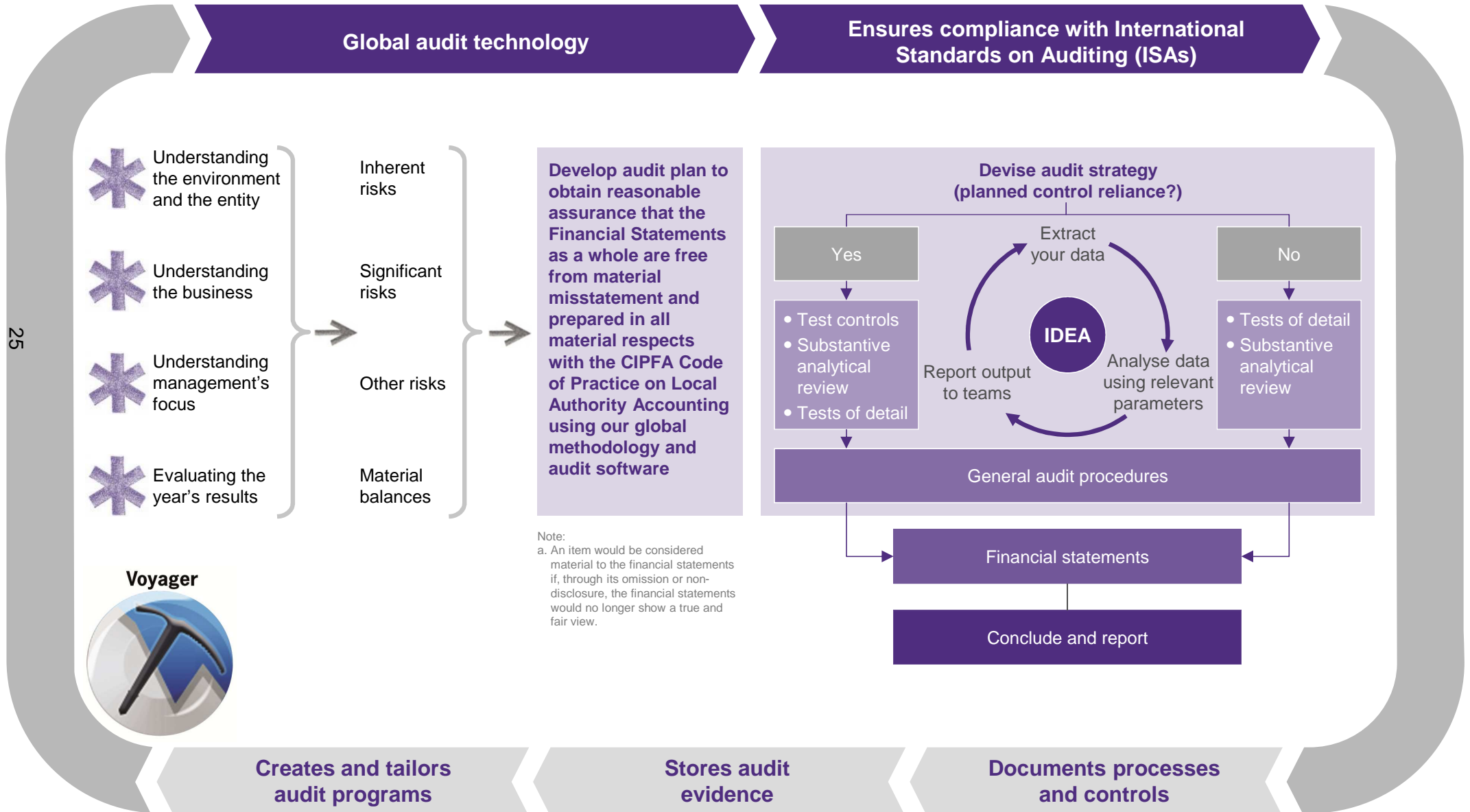
- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

- We will review your proposals for accounting for BCF arrangements against the requirements of the CIPFA Code of Practice.

- We will carry out work on the WGA pack in accordance with requirements.
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by the Public Sector Audit Appointments Ltd.
- we will agree with you audit fee in relation to other grant claims including skills funding agency and teacher's pension.

Our audit approach



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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £6,174k (being 1.8% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £308k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	This is treated as a sensitive item although no specific materiality value is set.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£25k
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£25k

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For this Council, we have concluded that the greatest risk of material misstatement relates to the occurrence/ existence of other income and receivables.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Herefordshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable.
2 Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions .

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
<p>Accounting for Better Care Fund (BCF)</p>	<p>The 2015/16 financial statements will include the disclosure of new, material pooled budgets in respect of the better care fund arrangements with Herefordshire CCG. The accounting treatment of the BCF is complex and brings in to contention the accounting standard IFRS11 – Joint Arrangements. Therefore, we have identified the following risks:</p> <ul style="list-style-type: none"> • There is a risk that the Council has not entered in to the correct legislative agreements (s75) to account for the BCF pooled budget • There is a risk that the Council do not have the appropriate processes in place to obtain the information it needs to reflect the correct transactions, balances and disclosures in the accounts • There is a risk that judgements made in assessing control over the budgets and therefore determining the appropriate accounting treatment are not reasonable 	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have obtained and reviewed the s75 agreement in place between the Council and Herefordshire CCG • We have held preliminary discussions with key personnel of the Council responsible for the monitoring and reporting of the BCF activity to the Joint Commissioning Board. Through these discussions, we have highlighted the relevant accounting concepts and documented our considerations of the pooled budget at the planning stage. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will review the Council's processes for obtaining the information it needs to reflect the correct transactions, balances and disclosures in its accounts • We will review the reasonableness of the Council's judgments in assessing the control over the funds, and hence the accounting treatment adopted as a result of this • We will agree BCF transactions, balances and disclosures in the accounts to the appropriate underlying evidence

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
<p>Operating expenses</p> <p>29</p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated).</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have documented the processes and controls in place around the accounting for operating expenses. • We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding and that these controls are operating effectively. • We have undertaken early substantive testing on a sample of operating expenses up to December 2015 to ensure they have been accurately accounted for and are in the correct period. <p>Further work planned:</p> <ul style="list-style-type: none"> • Testing of the completeness of the subsidiary system (purchase ledger) interfaces with the ledger. • Documentation of the processes in place for month and year end accruals. • Cut off testing of purchase orders and goods received notes. • Testing of a sample of goods received that have not yet been invoiced, to identify any items which have not been accrued correctly. • Completion of the remainder substantive testing of a sample of operating expenses to ensure they have been accurately accounted for and are in the correct period.

Other risks identified (continued)

Other risks	Description	Audit approach
30	Employee remuneration accruals understated (Remuneration expenses not correct).	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have documented the processes and controls in place around the accounting for Employee Remuneration. • We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding and that these controls are operating effectively. • We have undertaken early substantive testing on a sample of employees covering the period April 2015 to December 2015 for accuracy of payment and the agreement of employment remuneration disclosures to supporting documentation. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of monthly trend analysis of payments to identify any usual or irregular movements which would then be investigated. • Review of the monthly payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements. • Completion of our substantive testing of employees for accuracy of payment and the agreement of employment remuneration disclosures to supporting documentation.

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Value for Money

Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015 [here](#).

The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

3 *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of good governance Understanding and using appropriate cost and performance information to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

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Significant risk	Link to sub-criteria	Work proposed to address
<p>Health & Social Care Integration The Council is working in a challenged health and social care economy. The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services through its transformation agenda and through working with partners in health.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, commissioning services effectively to support the delivery of strategic priorities and managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will review the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.</p>
<p>Ofsted inspection of children's services In April 2014 Ofsted concluded that Herefordshire Children's looked after children services were no longer inadequate. The Council has made a commitment that these services will be assessed as 'good' by 2016. In our 2014/15 annual audit letter we reported that the Council was forecasting to overspend the Children and well being budget due to the additional safeguarding costs and placement costs.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will gain an understanding of where the council is against its improvement plan and how this is being reflected in financial planning.</p>
<p>PFI scheme – waste incinerator The council is a party to a significant PFI contract for a waste incinerator. This is a significant financial commitment and has been a high profile matter</p>	<p>This links with arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and to maintain statutory functions.</p>	<p>We will obtain an understanding of where the council are in this project and how the financial implications are being managed and factored into financial plans.</p>

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Results of interim audit work

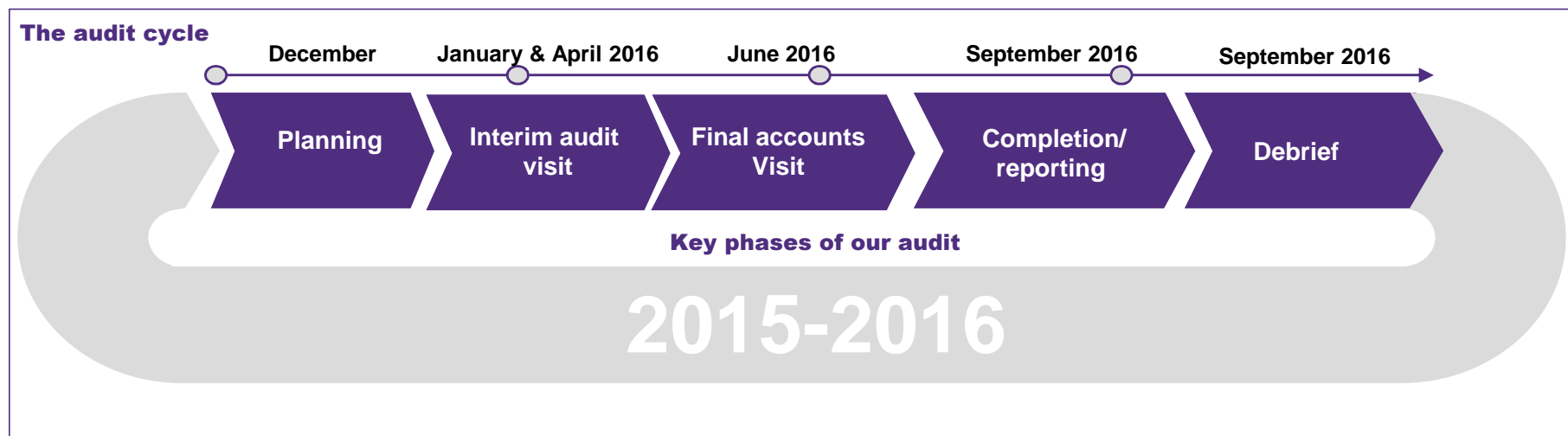
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit 35	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems produced to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach. We will review the remaining reports when they are available.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p> <p>.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>	<p>The control environment for journal postings was found to be sufficiently sound to not adversely impact on our planned approach or raise additional material risks for the financial statements.</p> <p>We are developing our journal testing approach and will undertake detailed testing on journal transactions for the year, by extracting 'unusual' entries for further review during our final audit.</p>
Early substantive testing	<p>We have undertaken early substantive testing for the period to December 2015 at the interim audit in the following areas:</p> <ul style="list-style-type: none"> • Operating expenditure • Employee remuneration • Grant revenues <p>We also agreed opening balances brought forward, and comparators forward into the current year's accounts as consistent with the previous year's accounts.</p>	<p>We will test the remaining months of the final year during our work on the financial statements.</p>

Key dates



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Date	Activity
December 2015	Planning
January and April 2016	Interim site visit
March 2016	Presentation of audit plan to Audit and Governance Committee
June 2016	Year end fieldwork
August 2016	Audit findings clearance meeting with Director of Resources
September 2016	Report audit findings to those charged with governance (Audit and Governance Committee)
September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	£124,405
Grant certification	*£4,571
Total audit fees (excluding VAT)	£128,976

*Fee remains indicative until work is agreed and completed.

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services: <ul style="list-style-type: none">• Grant certification – Teachers Pensions Return	*4,200

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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Informing the audit risk assessment for Herefordshire Council

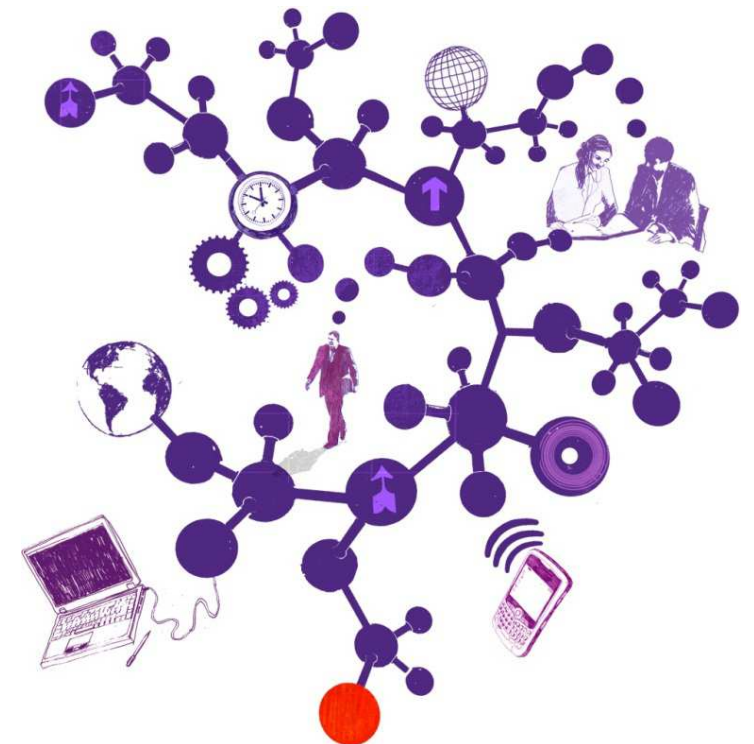
2015/16

March 2016

Phil Jones
Director
T 0121 232 5232
E phil.w.jones@uk.gt.com

Zoe Thomas
Audit Manager
T 0121 232 5277
E zoe.thomas@uk.gt.com

James McLarnon
Executive
T 0121 232 5219
E james.a.mclarnon@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p><i>The risk of material misstatement of the accounts due to undetected fraud is low. Although there is an ongoing risk of fraud being committed against the council, clear and effective arrangements are in place to both prevent and detect fraud.</i></p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p><i>There have been no specific or high risk areas of fraud identified since April 2014. Fraud is always considered as part of each internal audit. For the audits completed in 2015-16 fraud has not been identified.</i></p>
<p>Do you suspect fraud may be occurring, either within the council or within specific departments?</p> <ul style="list-style-type: none"> - Have you identified any specific fraud risks? - Do you have any concerns there are areas that are at risk of fraud? - Are there particular locations within the Council where fraud is more likely to occur? 	<p><i>We do not suspect fraud is occurring within the Council. However, evidence published by the National Fraud authority amongst others, suggests that fraud is committed in all organisations to varying degrees, so it is possible that some fraud is occurring at Hereford. In order to mitigate fraud occurring the Council has a number of processes in place.</i></p> <p><i>The internal audit plan incorporates consideration of potential fraud risks and how these are to be mitigated, for example through the reviews of the Council's key systems and the work it completes on the Councils Anti-Fraud processes to ensure that they are fit for purpose.</i></p> <p><i>In addition to this management is expected to identify and record fraud risks where necessary on the corporate risk register. There are some areas that are inherently at risk such as:</i></p> <ul style="list-style-type: none"> - <i>Council tax; and</i> - <i>Housing benefit</i> <p><i>However, there is a dedicated benefits team within the Corporate Finance division which investigates any potential fraud issues.</i></p>

Fraud risk assessment

Question	Management response
<p>Are you satisfied that the overall control environment, including:</p> <ul style="list-style-type: none"> - The process for reviewing the system of internal control; - Internal controls, including segregation duties; - Exist and work effectively <p>If not where are the risk areas? What other controls are in place to help prevent, deter or detect fraud?</p> <p>47</p>	<p>Yes</p> <p><i>In the Annual Assurance Statement issued in July 2015 for the internal audits carried out in the previous year the Head of Internal Audit concluded: In the opinion of the SWAP Director and having considered the balance of audit work, the assurance levels provided and outcomes together with the response from Senior Management and the Audit and Governance Committee the Director can offer 'Reasonable Assurance' in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives. However, as this is SWAP's first full annual report, the Director will keep this opinion under review as management's implementation of higher priority actions throughout the coming year are monitored</i></p>
<p>How do you communicate to employees about your views on business practices and ethical behaviour? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud?</p>	<p><i>The Council has an Anti-Fraud Strategy and a Whistleblowing procedure in place which explains the procedures to follow when staff need to raise any fraud concerns These policies and procedures are available to all staff via the Council's intranet.</i></p>
<p>From a fraud and corruption perspective, what are considered to be high-risk posts? - How are the risks relating to these posts identified, assessed and managed?</p>	<p><i>There are not any significantly high- risk posts identified</i></p>

Fraud risk assessment

Question	Management response
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p> <p>- How do you mitigate the risks associated with fraud related to related party relationships and transactions</p>	<p><i>We are not aware of any related party in 2015-16 which would give rise to a risk of fraud</i></p> <p><i>Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings</i></p>
<p>What arrangements are in place to report fraud issues to Audit Committee?</p> <p>48</p>	<p><i>Internal Audit provided the Audit and Governance Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken.</i></p>

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>50</p>	<p><i>The role of the Monitoring Officer is defined in the Constitution as 'responsible for reporting the actual or potential breach of a legal requirement to the Council meeting or Cabinet'.</i></p> <p><i>The monitoring Officer is supported by a team of Legal and Democratic Services Officers and the Resilience Team. Together they advise him of any matters of concern.</i></p> <p><i>The Monitoring Officer sees all reports to the Officer Leadership Team and all reports to Members.</i></p> <p><i>All reports to Members are required to have a legal implications section and a risk section.</i></p> <p><i>The section 151 officer is responsible for preparing the accounting statement in accordance with relevant legal and regulatory requirements.</i></p>
<p>How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p><i>The Monitoring Officer (or representative) attends Audit and Governance Committee Meetings when legal issues arise and advises members on any areas of concern.</i></p>

Impact of laws and regulations

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015, or earlier with an on-going impact on the 2015/16 financial statements?	<p><i>Of the 2015/16 audits completed to date, 3 have received “partial assurance” and none have received “no assurance”. Where the opinion has been assessed as ‘Partial’ this has not been with a ‘High’ corporate risk. The three audits were, home to school transport, modern records unit and use of agency staff.</i></p> <p><i>All the significant findings have been reported and recommendations have been accepted by management.</i></p>
Is there any actual or potential litigation or claims that would affect the financial statements?	<p><i>There is an ongoing case involving a claim from a care home . There is also a dispute with Amey Wye Valley around amounts due to and from them at the close of the contract. A reserve has been set aside to cover these.</i></p>

Going concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The Code of Practice on Local Authority Accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p><i>The financial plan considered the government changes in terms of grant settlement and the financial settlement. The plan is updated to reflect the financial settlement</i></p>
<p>Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control)</p>	<p>No</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?</p>	<p>No</p>
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills</p>	<p>Yes</p>

Accounting Estimates

Issue

Local authorities need to apply appropriate estimates in the preparation of their financial statements. Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard, we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate

We need to be aware of all estimates that the Council are using as part of their accounts preparation.

The audit procedures we conduct on the accounting estimate will demonstrate that:

- The estimate is reasonable
- Estimates have been calculated consistently with other accounting estimates within the financial statements.

Accounting Estimates

Estimate	Method/model used to make estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions; -Assessment of degree of uncertainty -consideration of alternative estimate	Has there been a change in accounting estimates in the year?
55 Property Plant and Equipment Estimate	Valuations will be made by an external valuer in line with RICS guidance on the basis of 5 year valuations with interim reviews. Internal Property Services will complete the impairment review at the year end as their local knowledge is needed.	There is a rolling program of valuations and the finance team issues terms of engagement covering specific issues for the year	The external and internal valuers are members of RICS.	Valuations are made in line with RICS guidance- reliance on expert	No
Measurement of financial instruments	Council values financial instruments at fair value based on the advice of their external treasury consultants	Take advice from professionals	Yes	Take advice from treasury management professionals	No
Overhead allocation	The finance team apportion central support costs to services based on SERCOP principles	All support service cost centres are allocated according to the SERCOP principles.	No	Apportionment bases are reviewed each year to ensure they are equitable	No

Accounting Estimates

Estimate	Method/model used to make estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions; -Assessment of degree of uncertainty -consideration of alternative estimate	Has there been a change in accounting estimates in the year?
56 Provisions for liability	Provisions are made where an event has taken place that gives the Council legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the council becomes aware of the obligation, taking into account relevant risks and uncertainties	Charged in the year that the council becomes aware of the obligation	The most significant provision is provided for independently assessed business rate appeals	Estimated settlements are reviewed at the end of each financial year. The insurance provision is periodically reviewed by the council's insurance broker	No
Accruals	Activity is accounted for in the financial year that it takes place, not when money is paid or received	Procedures for identifying accruals are included in the closedown instructions	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used	No

Accounting Estimates

Estimate	Method/model used to make estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions; -Assessment of degree of uncertainty -consideration of alternative estimate	Has there been a change in accounting estimates in the year?
57 PFI	<p>PFI and similar schemes contracts are agreements to receive services, where the responsibility for making available or improving the asset to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, it carries the assets used under the contracts on its balance sheet as part of the property, plant and equipment.</p> <p>The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment</p>	<p>The models for the PFI contracts are used to produce the accounts. Assets are valued in line with other PPE assets.</p>	<p>Use of model for calculating PFI payment elements</p>	<p>Valuations are made in line with RICS guidance- reliance on experts</p>	No
Defined benefit pension amounts and disclosures	<p>Non-teaching staff are members of the Local Government Pensions Scheme, administered by Worcestershire County Council</p>	<p>Rely on the calculations made by the actuary</p>	<p>The actuary of the pensions scheme</p>	<p>Reliance on the expertise of the actuaries of the pension scheme</p>	No

Related Parties

Issue

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the code) requires compliance with IAS24: Related party disclosures. The Code identifies the following as related parties to local government bodies:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e subsidiaries)
- Associates
- Joint ventures in which the Council is a venturer
- An entity that has an interest in the Council that gives it significant influence over the Council
- Key officers, and close members of the family of key officers
- Post-employment benefit plan (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the Council and the related party.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties Consideration

Question	Management response
<p>Who are the Council's related parties?</p>	<p><i>The Council has a number of related parties in which there is a material impact to the financial statements via virtue of- whether the Council might have the potential either to be controlled or influenced by the party or the potential to exert control or influence over the party.</i></p> <p><i>The Council discloses its related parties under the following headings:</i></p> <ol style="list-style-type: none"> <i>1) Central Government</i> <i>2) Members</i> <i>3) Officers</i> <i>4) Other public bodies (Including Worcestershire County Council, Wye Valley Trust, 2Gether and the Clinical Commissioning Group)</i> <i>5) Significant long-term contracts (Including Balfour Beatty and FOSCA UK)</i> <i>6) Other organisations (including Hoople, HALO Leisure Trust, Herefordshire Housing Ltd and West Mercia Energy)</i>
<p>What are the controls in place to identify, account for, and disclose, related party transactions and relationships?</p>	<p><i>A number of arrangements are in place for identifying the nature of a related party and reported value including:</i></p> <ul style="list-style-type: none"> <i>- Maintenance of a Register of Interests for Members</i> <i>- Annual return from senior managers/officers</i> <i>- Review of in-year income and expenditure transactions with known identified related parties from prior year or known history</i> <p><i>Review of year end debtors and creditors analysing systems and manual accruals records.</i></p>

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Audit and Governance Committee
Herefordshire Council
Progress Report and Update
Year ended 31 March 2016

March 2016

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Phil Jones

Director

T 0121 232 5232

E phil.jones@uk.gt.com

Zoe Thomas

Audit Manager

T 0121 232 5277

E zoe.thomas1@uk.gt.com

James McLarnon

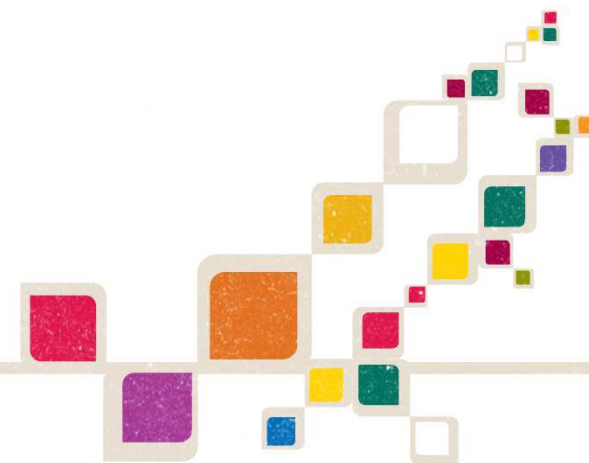
Assistant Manager

T 0121 232 5219

E james.a.mclarnon@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



Introduction

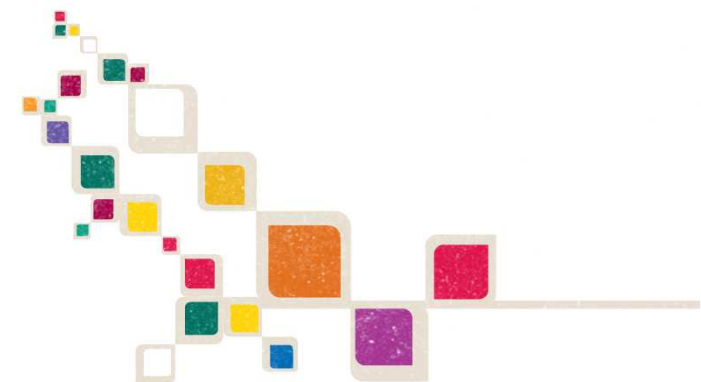
This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit and Assurance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

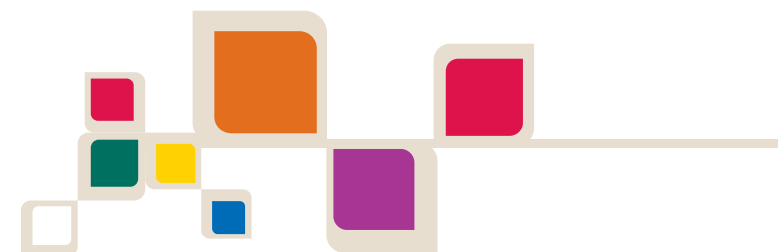
63

- Innovation in public financial management (December 2015); www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015) www.grantthornton.co.uk/en/insights/making-devolution-work/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



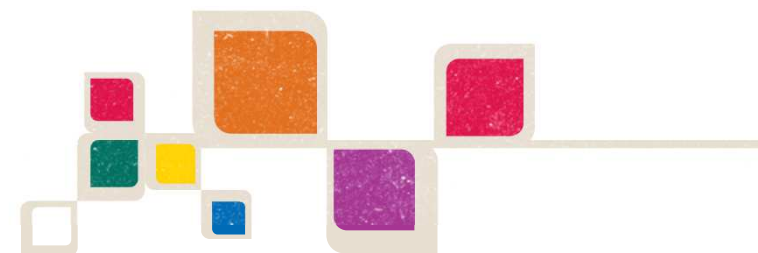
Progress at March 2016



2015/16 work	Planned Date	Complete?	Comments
<p>Fee Letter</p> <p>We are required to issue a 'Planned fee letter for 2015/16' by the end of April 2015</p>		Yes	The 2015/16 fee letter was issued in April 2015
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.</p>	March	In progress	Our audit plan has been drafted and is included as a separate agenda item for the Audit Committee to consider.
<p>Interim accounts audit</p> <p>Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	January - February and April	In progress	Our interim audit work is in progress. This includes early audit testing where practical to support a more efficient final accounts audit. We are having routine meetings with the Financial Accounts Team to ensure that we are briefed on emerging accounting issues and that the team is aware of the progress we are making.
<p>Final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	June - August	Not started	We are planning to complete our audit fieldwork by the end of July 2016 as part of the transition to the earlier closedown and audit cycle from 2018. We are working with the Financial Accounts Team to support improvements in accounts production efficiency and the project management of the audit visit.

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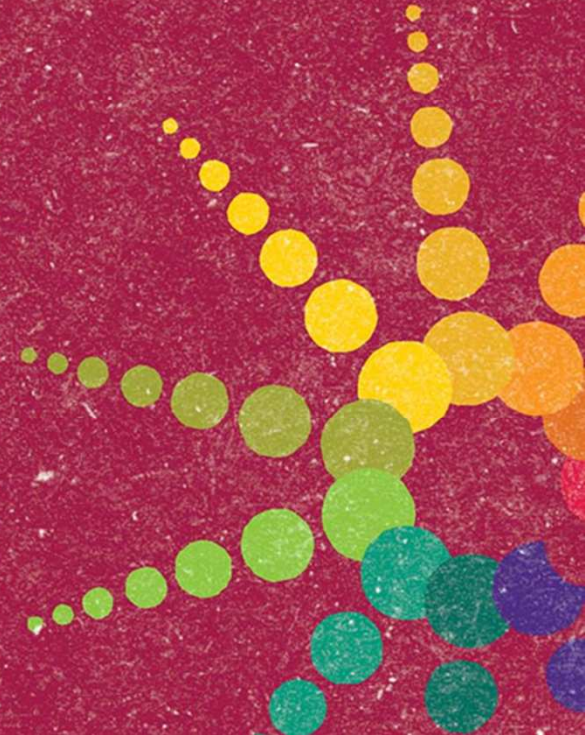
Progress at March 2016



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2015/16 work	Planned Date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	<p>March - July</p>	<p>In progress</p>	<p>We have considered the potential significant risks for our VfM conclusion and these are referred to in the audit plan.</p> <p>We will carry out key document reviews and interviews to inform our conclusion.</p>
<p>Other areas of work</p> <p>Meetings with Members, Officers and others</p>	<p>On-going</p>		<p>We are continuing to hold regular meetings with key officers of the council.</p> <p>We have run a Better Care Fund Seminar in our Birmingham office which was attended by both the Council and the CCG</p> <p>We have recently certified the Skills Funding Agency return</p>

Local Government Accounting and other issues



IFRS 13 'Fair value measurement

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

67 However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local Authorities need to:

- review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.



Highways Network Asset

CIPFA announced at the recent Local Government Accounting Conferences some key messages with regards to changes in accounting for the Highways Network Asset from 2016/17. These included:

- Transport Infrastructure Assets will now be referred to as single asset, the Highways Network Asset (HNA)
- this will be measured at Depreciated Replacement Cost (DRC) using the Modern Equivalent Asset (MEA) basis of valuation from 1 April 2016 and will be applied prospectively rather than requiring a full retrospective restatement
- the new requirements only apply to authorities with assets meeting the definition of a single HNA asset

CIPFA's expects that the transport infrastructure assets held by district councils/ non-highways authorities will be scoped out of the new requirements as assets are unlikely to form a single interconnected network. However, district councils will need to consider the nature of their transport infrastructure assets to assure themselves and evidence that their transport infrastructure assets are not part of an interconnected network.

The 2016/17 Accounting Code which will include further details on these announcements is expected to be published in Spring 2016. Grant Thornton has produced a short briefing on these announcements which is available from your Engagement Lead and Engagement Manager and will provide further briefings as further details become available requirements.



Local Authorities need to:

- determine what components should be included
- update implementation plans for the revised timetable
- ensure the HNA inventory has been established and documented
- Consider a dry run on the opening position a 1 April 2016 to ensure that issues can be identified and addressed prior to the preparation of the 2016/17 accounts
- Discuss the reporting and assurance implications with your auditors

Better Care Fund

The Better Care Fund was launched on 1 April 2015 to ‘...drive closer integration and improve outcomes for patients and service users and carers’. The intention was to set up the fund as a pooled budget with NHS organisations and local authorities contributing into a single pot that is used to commission or deliver health and social care services.

In practice, different Better Care Fund agreements have different and sometimes complex arrangements. As a result determining the correct accounting can be difficult and there is no one size fits all approach. NHS and local government partners need to agree on accounting for such arrangements to ensure that not only are there no material errors in their own accounts but also that there are no material errors on consolidation into Whole of Government Accounts.

NHS and local government partners therefore need to consider the specific terms of their agreements and considering where the control and risks lie in line with the definition of control in IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. Individual authorities also need to consider whether they are acting as a principal or an agent. Judgement may be required, and may therefore need to be disclosed as a critical judgement in the accounts.

Although the local government timetable is moving forward, the NHS timetable is still significantly earlier so local authorities will need to include dates in their closedown plan to give NHS colleagues the information they need to prepare their accounts in good time for these deadlines.



Local Authorities need to:

- agree with the partner organisations the proposed accounting approach for each of the pools including those within the 'Better Care Fund'.
- Ensure that the proposed approach has been agreed with the auditors of the partner organisations.

Unlodged non-domestic rate appeals

Last year, there were primarily no provisions for unlodged non-domestic rates appeals as appeals received on or after 1 April 2015 were only backdated to 1 April 2015. The effect of last years announcement was supposed to put authorities in the position as if the revaluation had been done in 2015 as initially intended before the extension to 2017. This was only a one year reprieve and so any unlodged appeals at 31 March 2016 will only be backdated to 1 April 2015 and therefore may not be material.

However, this year, local authorities will need to estimate a provision for unlodged appeals but as above it may not be material.

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the Code it is in only extremely rare cases that a reliable estimate cannot be made. Therefore, if your local authority does have such an instance, the rationale needs backing up: both in terms of disclosures (as a contingent liability) and in providing evidence to those charged with governance as to why a reliable estimate for the provision cannot be made.

Local Authorities need to:

take steps to identify any unlodged appeals and consider the requirements of IAS37 in making disclosures in the 2015/16 accounts.

Auditor Appointment

In December 2015 CPFA published guidance that considers the various options available to principal and smaller authorities for setting up an auditor panel.

The Local Audit & Accountability Act 2014 (the Act) abolished the Audit Commission, paving the way for local authorities to appoint their own external (local) auditors. Principal authorities must have their local auditors appointed by 31 December 2017 in order for them to begin their engagement on 1 April 2018.

There are three options available to local public bodies for appointing an auditor. These are to:

1. undertake an individual auditor procurement and appointment exercise;
2. undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example; or
3. join a 'sector led body' arrangement where specified appointing person status has been achieved under the relevant Regulations

The PSAA website provides further details:

<http://www.psaa.co.uk/supporting-the-transition/procurement-and-appointment-of-auditors>

For options 1 and 2 the legislation requires an auditor panel to be established.



<http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>

Grant Thornton Publications



Reforging local government: Summary findings of financial health checks and governance reviews

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

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Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

Our report is available at <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>, or in hard copy from your Engagement Lead or Engagement Manager.

CFO Insights – driving performance improvement

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.

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We are happy to organise a demonstration of the tool if you want to know more.

Innovation in public financial management

In December 2015 we issued a report, which drew on a survey of almost 300 practitioners worldwide, also includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

Changing practices. Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

The right PPP formula. 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of

their application have been mixed. There has been little improvement since our 2011 survey, which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

Transparency with technology. Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets than data insights.

The new normal. Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons one major financial crisis, but with how governments can live with less over the long term.

Our report, Innovation in public financial management, can be downloaded from our website: <http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/>

Grant Thornton reports



2016 Transparency Report

Grant Thornton's commitment to quality underpins all that we do and this is reflected in our 2016 Transparency Report.

We have more than 42,000 people in over 130 countries and this report is a public statement of our commitment to provide high-quality services to businesses and organisations operating throughout the world.

It is designed to help clients, audit committees, regulators and the public, who make up our many stakeholders, understand us better.

The report covers the three key aspects of our business, namely:

- Audit and assurance;
- Taxation; and
- Advisory services.

The report provides information on our audit methodology and sets out how we monitor the quality of our work and engage with external regulators.

It also covers our arrangements for governance and management and sets our most recent financial information.

The report can be downloaded from our website:

www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf

Alternatively, hard copies can be provided by your Engagement Lead or Audit Manager.

Grant Thornton reports



Transparency report 2016
Our commitment to brighter futures





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GRT102468



MEETING:	AUDIT AND GOVERNANCE COMMITTEE
MEETING DATE:	23 MARCH 2016
TITLE OF REPORT:	INTERNAL AUDIT CHARTER
REPORT BY:	INTERNAL AUDIT – SOUTH WEST AUDIT PARTNERSHIP

Classification

Open

Wards Affected

County-wide

Key Decision

This is not an executive decision.

Purpose

To seek the Committee's approval of the Internal Audit Charter for the period 1 April 2016 to 31 March 2017.

Recommendation

That subject to any comments the Internal Audit Charter be approved.

Alternative Options

- 1 There are no alternative options as this charter is a requirement of the arrangements between Herefordshire Council and the South West Audit Partnership.

Reasons for Recommendations

- 2 To ensure compliance with good practice as set out in the International Professional Practices Framework of the Institute of Internal Auditors and the Public Sector Internal Audit Standards (PSIAS).

Further information on the subject of this report is available from
Jacqui Gooding – Assistant Director (SWAP) on Tel: 01432 260294 or 07872 500675

Key Considerations

- 3 The Internal Audit Charter is set out in Appendix A.
- 4 The charter sets out the nature, role, responsibility, status and authority of internal auditing within Herefordshire Council, and to outline the scope of internal audit work.

Community Impact

- 5 This report does not impact on this area.

Equality and Human Rights

- 6 The report does not impact on this area.

Financial Implications

- 7 There are no financial implications.

Legal Implications

- 8 There are no legal implications.

Risk Management

- 9 Without an approved Charter there is a risk that the South West Audit Partnership will not have:
 - the support of management and the Council
 - direct access and freedom to support to senior management including the Chief Executive and the Audit and Governance Committee
 - access to any records, personnel or physical property of the Council for audit work

Consultees

- 10 The Director of Resources (section 151 officer) was consulted in the drafting of this report.

Appendices

Appendix A – Internal Audit Charter

Background Papers

- None identified.

Delivering Audit Excellence



Internal Audit Charter

Forest of Dean District Council

South West Audit Partnership Ltd

South West Audit Partnership Ltd

Yeovil Innovation Centre
Barracks Close
Cope Road
Yeovil
Somerset
BA22 8RN

Direct Line: 01935 385906
E-mail: enquiries@southwestaudit.co.uk
www.southwestaudit.co.uk

Version	1.0
Date of last revision	3 March 2016
Last revision author	J M Gooding
Date for next review	March 2017

INTERNAL AUDIT CHARTER

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Herefordshire Council, and to outline the scope of internal audit work.

Approval

This Charter was approved by the Audit and Governance Committee¹ on 23rd June 2014 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the Audit and Governance on 23rd March 2016.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the Director of Resources in consultation with the Chief Executive of SWAP.

Role of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management and of Internal Audit

Management²

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Chief Executive and the Audit and Governance Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

¹ The Standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit Committee in this instance represents the Board.

² In this instance Management refers to the Management Team

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS); SWAP has been independently assessed and found to be in Conformance with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for Herefordshire Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. The Chief Executive of SWAP and the SWAP Director also report to the Director of Resources as Section 151 Officer, and reports to the Audit and Governance Committee as set out below.

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Herefordshire Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether Herefordshire Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;

- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned;
- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy;
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditors independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Audit and Governance Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least four times a year to the Audit and Governance Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit and Governance Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Director of Resources and to other relevant line management.

The Chief Executive of SWAP will submit an annual report to the Audit and Governance Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and the SWAP Director have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the Council's Chief Executive or the External Audit Manager.



MEETING:	AUDIT AND GOVERNANCE COMMITTEE
MEETING DATE:	23 MARCH 2016
TITLE OF REPORT:	INTERNAL AUDIT PLAN 2016-17
REPORT BY:	INTERNAL AUDIT – SOUTH WEST AUDIT PARTNERSHIP

Classification

Open

Wards Affected

County-wide

Key Decision

This is not an executive decision.

Purpose

To seek the Committee's approval of the Internal Audit plan for the period 1 April 2016 to 31 March 2017.

Recommendation

That subject to any comments the Internal Audit Plan 2015-16 be approved.

Alternative Options

- 1 There are no alternative options as this plan is a requirement of the Public Sector Internal Audit Standards (PSIAS).

Reasons for Recommendations

- 2 To ensure the Council complies with recommended best practice as set out in the Public Sector Internal Audit Standards (PSIAS).

Further information on the subject of this report is available from
Jacqui Gooding – Assistant Director (SWAP) on Tel: 01432 260294 or 07872 500675

Key Considerations

- 3 The Internal Audit Plan report is set out in Appendix A.
- 4 The Internal Audit Plan 2016-17 is set out in Appendix B.
- 5 The plan sets out the work required for Internal Audit to give an opinion on the adequacy and effectiveness of the Council's risk management, governance and internal control arrangements.

Community Impact

- 6 This report does not impact on this area.

Equality and Human Rights

- 7 The report does not impact on this area.

Financial Implications

- 8 There are no financial implications.

Legal Implications

- 9 There are no legal implications.

Risk Management

- 10 There is the risk that the Annual Internal Audit Plan does not take into account the key issues and risks facing the Council and does not provide adequate coverage of the Council's key systems for the Head of Internal Audit to form an opinion on the Council's control environment. The process by which the plan has been compiled mitigates this risk.
- 11 There is also a risk that there may be insufficient resources available to deliver the planned programme of audit work. To mitigate this, the plan has been based on an assessment of the resources available from the South West Audit Partnership. Regular meetings will held between the SWAP Internal Audit Manager and the Chief Financial Officer which allows regular monitoring of resource availability. :

Consultees

- 12 Meetings have been held with the Directors, Chief Financial Officer and other key officers to develop the Internal Audit Plan.

Appendices

Appendix A – Internal Audit Plan Report 2016-17

Appendix B – Internal Audit Plan 2016-17

Background Papers

- None identified.



Herefordshire Council

Internal Audit Plan 2016/17

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox

Chief Executive - SWAP

Tel: 01935 462371

gerry.cox@southwestaudit.co.uk

Ian Baker

Director of Quality

Tel: 07917 628774

ian.baker@southwestaudit.co.uk

Jacqui Gooding

Assistant Director

Tel: 07872500675

jacqui.gooding@southwestaudit.co.uk

Role of Internal Audit Background Page 1

The Annual Plan Page 2

The Annual Plan – Continued Page 3

Our audit activity is split between:

- **Key Control Audit**
- **Fraud/Governance Audit**
- **IT Audit**
- **Operational Audit**
- **Follow Up Audit**
- **Urgent Work/Special Projects**

Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors and is also guided by interpretation provided by the Public Sector Internal Audit Standards. The work of the Partnership is also guided by the 'Internal Audit Charter' which was last reviewed and approved by the Audit Committee on 19 March 2015 and is presented to the Audit Committee today for approval for 2016-17.

Internal Audit provides an independent and objective opinion on the Authority's governance, risk and control environment by evaluating its effectiveness. In order to achieve this, the audit activity is split across the review categories listed to the left.

Background

It is recommended by the Public Sector Internal Audit Standards that organisations nominate a 'Board' to oversee (monitor and scrutinise) the work of Internal Audit. As such, in addition to senior management oversight, this Council has determined that, the Audit and Governance Committee will undertake this function. The plan is presented in Appendix B to this report and represents the internal audit activity planned for the 2016/17 financial year.

It should be noted that plan days are only indicative for planning our resources. At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review. Any changes to individual plan items, in terms of days, are managed within the annual payment made by the Council. The plan is produced with a view to providing assurance to both Officers and Members that current and imminent risks faced by the Authority are adequately controlled and managed. As with previous years the plan will have to remain flexible as new and emerging risks are identified. Any changes to the agreed plan will only be made through a formal process involving the Director of Resources (Section 151 Officer).

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The Annual Plan

The Annual Plan

To ensure that to the best of our ability we have covered the necessary risks, the annual internal audit plan has been developed with the co-operation and approval of the Director of Resources following meetings between Internal Audit and members of the Senior Management Team. The audit plan is notionally broken down across various audit categories; the following summarises each:

Key Control Audit – focus primarily on key risks relating to the Council’s major financial and IT systems. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance. To this end we have liaised with the Council’s External Auditors and included any requirements they have in providing them with necessary assurance, in line with the Auditing Standards, against which they are required to audit.

Fraud/Governance Audit – SWAP operate a specialised Fraud Team who will undertake proactive fraud reviews and also provide a reactive service to Partners should the need arise. Governance reviews focus primarily on the key risks relating to cross cutting areas that are controlled and/or impact at a corporate rather than service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will, in some cases, enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting most of these reviews at all our Partner Sites.

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The Annual Plan - Continued

The Annual Plan - Continued

IT Audits – are completed to provide the Authority with assurance with regards to their compliance with industry best practice. Some of these audits have come from previous year assessments and our awareness of current IT risks. As referred to above IT system Key Control work is also undertaken in accordance with the External Auditors requirements.

Operational Audits - are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

Urgent Work/Special Projects – SWAP also undertake urgent work, special investigations and projects on a responsive basis at the request of the Director of Resources (Section 151 Officer).

The schedule provided at Appendix B details the Annual Internal Audit Plan for 2016/17.

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Herefordshire Council Annual Audit Plan 2016-17		
Audit Type and Area	Number of days	Cost £
Key Financial Control Audits		
Main Accounting	15	3,750
Account Payable	20	5,000
Accounts Receivable	20	5,000
Council Tax	20	5,000
NNDR – follow up	8	2,000
Housing and Council Tax Benefits	20	5,000
Payroll	20	5,000
Treasury Management – follow up	5	1,250
Capital Accounting	10	2,500
TOTAL	138	34,500
Operational Audits		
Economy, Communities & Corporate		
Use of Agency Staff	15	3,750
Nottingham Rehab Contract Review	15	3,750
Recruitment Contracts	15	3,750
Concessionary Fares	15	3,750
Food Safety	15	3,750
Car Parking Income and Enforcement	20	5,000
S106 Agreements	15	3,750
TOTAL	110	27,500
Adults Wellbeing Service		
Client Finances	20	5,000
Complex Care (LD)	20	5,000
Brokerage	20	5,000
Contract Management	20	5,000
Pre-Paid Cards (Direct Payments)	15	3,750
Public Health Contracts	20	5,000
Telecare – Living Aids and Equipment	15	3,750
Transitions – Corporate	20	5,000
Hospital Discharges	15	3,750
Deferred Payments	20	5,000
Better Care Fund	15	3,750
Residential and Nursing care	20	5,000
TOTAL	220	55,000

Herefordshire Council Annual Audit Plan 2016-17		
Audit Type and Area	Number of days	Cost £
Operational Audits contd.		
Children's Wellbeing Service		
Schools Financial Value Standard Governance	24	6,000
Early years Funding	20	5,000
Children Missing Education	25	6,250
Looked after Children	20	5,000
Direct Payments/Personal Budgets	20	5,000
TOTAL	109	27,250
Fraud/Governance Audits		
National Fraud Initiative	5	1,250
Performance Management Framework – PIs – Corporate	30	7,500
Cash Handling and Collection – Corporate	15	3,750
TOTAL	50	12,500
Grant Work		
Heat Network Delivery Units	5	1,250
Local Transport Block Funding	5	1,250
Redundant Building Grant Scheme – Round 4	7	1,750
Troubled Families – 3 claims 2016-17	15	3,750
TOTAL	32	8,000
IT Audits		
Framework-i Mosaic Upgrade – Implementation and Assurance	25	6,250
Public Services Network (PSN) Submission	10	2,500
Protection from Malicious Code	10	2,500
Business Continuity/Disaster Recovery	30	7,500
ICT Access – Change to role and leavers	10	2,500
TOTAL	85	21,250
Follow Up Audits		
Licensing	7	1,750
Auto Pension Enrolment follow up and new rule change.	10	2,500
Modern records	4	1,000
Home to School Transport	7	1,750
Financial Assessments	8	2,000
TOTAL	36	9,000
Contingency		
Contingency for additional audit work	30	7,500
TOTAL	30	7,500

Herefordshire Council Annual Audit Plan 2016-17		
Audit Type and Area	Number of days	Cost £
Management		
Corporate/ General Advice	15	3,750
Committee Reporting and attendance	25	6,250
Planning /Client Liaison	45	11,250
External Audit liaison	5	1,250
TOTAL	90	22,500
PLAN TOTAL	900	225,000



Meeting:	Audit and governance committee
Meeting date:	23 March 2016
Title of report:	2015/16 bi-annual forecast outturn
Report by:	Director of resources

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

Countywide

Purpose

To provide an update on the projected outturn for 2015/16 to enable the committee to consider the effectiveness of budgetary control.

Recommendation(s)

THAT the committee:

- (a) notes the council is projected to spend within its budget for this financial year;**
- (b) confirms that appropriate and timely budgetary and control measures are in place; and**
- (c) identifies any further control measures deemed necessary.**

Alternative options

- 1 There are no alternative options.

Further information on the subject of this report is available from
Josie Rushgrove, head of corporate finance on Tel (01432) 261867

Reasons for recommendations

- 2 To enable the committee to fulfil its responsibilities as set out in the audit and governance code of the council's constitution.

Key considerations

- 3 The council is currently projected to spend within its overall budget in 2015/16. Some areas are projecting to overspend and others to underspend with a corporate contingency budget of £700k not currently allocated, summary below.

Directorate Net Budget	Net Budget (£000)	December Outturn (£000)	December Variance Over / (Under)spend (£000)
Adults' wellbeing	54,114	54,202	88
Children's wellbeing	23,199	25,107	1,908
Economy, communities and corporate	53,634	52,671	(963)
Directorates Total	130,947	131,980	1,033
Other budgets and reserves	11,046	10,346	(700)
Total	141,993	142,326	333
Unallocated corporate contingency			(700)

Adults and wellbeing

- 4 The directorate continues to face challenging financial targets; and has plans for the delivery of savings for 2016/17. Whilst the targets are challenging, there is a degree of confidence over delivery, however, planning for savings in 2017/18 will require more fundamental changes to service models and reviewing all non-statutory services. Consultation on these plans is now underway.

Children's wellbeing

- 5 Of continuing concern has been the increase in the number of strategy discussions/meetings leading to S47 child protection (CP) investigations reported in June and July, reflecting the higher than usual number of CP referrals from the police in relation to an ongoing child protection investigation. However, whilst having reduced, there were still 97 during December, of which 29.9% did not progress to S47, which may be indicative of a too low threshold being applied to convening such meetings. Audit activity to test this hypothesis is due to commence.

Economy, communities and corporate

- 6 Digital Strategy: although considerable activity is taking place for services to be delivered digitally as a way of meeting customer trends and creating efficiencies, there is much more that can be achieved. This includes an overhaul of the website as a key tool of engagement with the citizens of the county, with an increased functionality and improved navigation. Investment is needed to carry out this overhaul and a specification produced that meets the different aspirations of the services and can be future proofed in terms of customer use and expectations. The new website is due to be commissioned by March 2016 for implementation later in the year.

Further information on the subject of this report is available from Josie Rushgrove, head of corporate finance on Tel (01432) 261867

Community impact

- 7 Providing assurance that budgetary control is effective supports the council in demonstrating it is open, transparent and accountable about its performance in spending within the overall budget available.

Equality duty

- 8 None.

Financial implications

- 9 None associated with this report.

Legal implications

- 10 The audit and governance committee reviews the outturn forecast biannually in compliance with the council's audit and governance code to satisfy themselves that appropriate and timely measures are in place to ensure compliance with the financial procedure rules.

Risk management

- 11 Monthly reporting gives the director of resources assurance on the robustness of budget control and monitoring, highlighting key risks and identifying any mitigation to reduce the impact of pressures on the council's overall position.

Consultees

- 12 None.

Appendices

None.

Background papers

Cabinet papers 11 February 2016

<http://councillors.herefordshire.gov.uk/ieListDocuments.aspx?CId=251&MId=5478&Ver=4>



Meeting:	AUDIT AND GOVERNANCE COMMITTEE
Meeting date:	23 MARCH 2016
Title of report:	AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME UPDATE
Report by:	GOVERNANCE MANAGER

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

Countywide

Purpose

To provide an update on the Committee's work programme for 2015-16.

Recommendation

THAT:

subject to any updates made by the committee, the updated work programme for 2015-16 for the Audit and Governance Committee be agreed.

Alternative options

There are no alternative options as regards whether or not to have a work programme as the committee will require such a programme in order to set out its objectives for the coming year.

The programme was discussed and finalised by the committee in March 2015. However, following discussion, adjustments to timescales and content may be required.

Reasons for recommendations

- 1 The work programme is recommended as the committee is required to define and make known its work for the coming year. This will ensure that matters pertaining to audit and governance are tracked and progressed in order to provide sound

Further information on the subject of this report is available from
Annie Brookes, Governance Manager on Tel (01432) 260605

governance for the council.

- 2 The Committee is asked to note the updates to its work programme, subject to any adjustments, and to note progress on current work.

Key Considerations

- 3 The Committee is asked to note that the revision to financial procedure rules has been moved from March to April 2016 and will be included as part of the constitution review.
- 4 A further addition for April is a report on the staff survey for 2015. This has been moved from March to April 2016. This report was scheduled to be on the agenda for March; however, due to the busy agenda set for March, it has been necessary to move the item to April.
- 5 The Committee is asked to consider any changes or additions to the work programme and to consider the preparation and development of the programme for 2016/17.
- 6 A number of items considered by the committee will be ongoing and updates are programmed in to the year.
- 7 The routine business of the committee has been reflected as far as is known including the regular reporting from internal and external auditors.

Community impact

- 8 The work of the committee supports the council in demonstrating its values, and in particular the commitment to being open, transparent and accountable.

Equality duty

- 9 This report does not impact on this area.

Financial implications

- 10 There are no financial implications.

Legal implications

- 11 There are no legal implications.

Risk management

- 12 The programme can be adjusted in year to respond as necessary to risks as they are identified; the committee also provides assurance that risk management processes are robust and effective.

Consultees

- 13 Internal and external auditors.

Further information on the subject of this report is available from
Annie Brookes, Governance Manager on Tel (01432) 260605

Appendices

Appendix A – A&G Updated Work Programme 2015-16

Background papers

- None identified.

Further information on the subject of this report is available from
Annie Brookes, Governance Manager on Tel (01432) 260605

Audit & Governance Work Programme 2015-16		
Meeting	Items	Comment
January 2016	<ul style="list-style-type: none"> • Staff Survey Report (TJP/PR) • Internal Audit Plan Progress Report (JG/PR) • Update on Annual Governance Statement (PR/AB) • Performance Appraisals for Elected Members (CW/RG) • Update from Governance Improvement Working Group – constitution (CW) • Update from Standards Working Group (CW) • Work plan update (CL) 	
March 2016	<ul style="list-style-type: none"> • External Audit update (ZT/PR) • Internal Audit Charter (JG/PR) • Internal Audit Plan 2016-17 (JG/PR) • Biannual forecast of revenue and capital outturn (JR/AH) • Update from Governance Improvement Working Group – constitution (CL) • Update from Risk Register Working Group (CL) 	
April 2016	<ul style="list-style-type: none"> • Internal Audit Plan Progress Report (JG/PR) • Staff Survey Report (TJP/PR) • Constitution review – to include revision to financial procedure rules (CW/AB) • Standards procedure review (CW) • Community governance review (AB) • Update from Risk Register Working Group (CL) 	
Audit & Governance Work Programme 2016-17 (carry to new sheet)		
May 2016	<ul style="list-style-type: none"> • 	
July 2016	<ul style="list-style-type: none"> • AGS final outturn 2015-16 (AB/PR) • AGS action plan 2016-17 (AB/PR) 	
September 2016	<ul style="list-style-type: none"> • Signing of Accounts (JR/PR) 	
November 2016	<ul style="list-style-type: none"> • 	

