

Agenda

Audit and governance committee

Date: **Wednesday 24 January 2018**

Time: **2.00 pm**

Place: **Council Chamber, Shire Hall, St. Peter's Square,
Hereford, HR1 2HX**

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

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Agenda for the meeting of the Audit and governance committee

Membership

Chairman **Councillor PD Newman OBE**
Vice-Chairman **Councillor ACR Chappell**

Councillor CR Butler
Councillor EPJ Harvey
Councillor RJ Phillips
Councillor J Stone
Councillor LC Tawn

Agenda

		Pages
1.	<p>APOLOGIES FOR ABSENCE</p> <p>To receive apologies for absence.</p>	
2.	<p>NAMED SUBSTITUTES (IF ANY)</p> <p>To receive details any details of members nominated to attend the meeting in place of a member of the committee.</p>	
3.	<p>DECLARATIONS OF INTEREST</p> <p>To receive any declarations of interest by Members in respect of items on the agenda.</p>	
4.	<p>MINUTES</p> <p>To approve and sign the minutes of the meeting held on 29 November 2017.</p>	9 - 16
5.	<p>QUESTIONS FROM MEMBERS OF THE PUBLIC</p> <p>To receive questions from members of the public.</p> <p><i>Deadline for receipt of questions is 5.00 pm on 19 January 2018. Accepted questions will be published as a supplement prior to the meeting. Please submit questions to: councillorservices@herefordshire.gov.uk</i></p>	
6.	<p>QUESTIONS FROM COUNCILLORS</p> <p>To receive questions from members of the public.</p> <p><i>Deadline for receipt of questions is 5.00 pm on 19 January 2018. Accepted questions will be published as a supplement prior to the meeting. Please submit questions to: councillorservices@herefordshire.gov.uk</i></p>	
7.	<p>CAPITAL PROJECT MANAGEMENT AND CONTROL INTERNAL AUDIT PROGRESS UPDATE</p> <p>To update the committee on progress in implementing the recommendations relating to capital project management and control raised in the Internal Auditors audit findings report regarding the joint customer services hub (Blueschool House) capital project presented in September 2017.</p>	17 - 24
8.	<p>ANNUAL GOVERNANCE STATEMENT 2016/17</p> <p>To report progress made towards implementing the agreed action plan in response to issues identified in the 2016/17 annual governance statement; and to agree the process and timetable for undertaking the review to inform the development of the 2017/18 annual governance statement.</p>	25 - 32
9.	<p>UPDATE ON CLOSURE PROCESS FOR 2017/18 FINAL ACCOUNTS</p> <p>To update the committee on progress in the planning for the preparation of the 2017/18 final accounts and management responses to items raised in the External Auditors audit findings report presented in September.</p>	33 - 36

10. EXTERNAL AUDIT PLAN FOR 2017/18	37 - 58
To review and agree the external auditors audit plan for 2017/18.	
11. HOUSING BENEFIT GRANT CERTIFICATION 2016/17	59 - 66
To review the external auditors certification letter in relation to the housing benefit subsidy claim for 2016/17 as submitted by Herefordshire Council.	
12. WORK PROGRAMME UPDATE	67 - 70
To provide an update on the work programme for the committee.	

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- Inspect agenda and public reports at least five clear days before the date of the meeting.
- Inspect minutes of the council and all committees and sub-committees and written statements of decisions taken by the cabinet or individual cabinet members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. (A list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public register stating the names, addresses and wards of all councillors with details of the membership of cabinet and of all committees and sub-committees.
- Have a reasonable number of copies of agenda and reports (relating to items to be considered in public) made available to the public attending meetings of the council, cabinet, committees and sub-committees.
- Have access to a list specifying those powers on which the council have delegated decision making to their officers identifying the officers concerned by title.
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The chairman or an attendee at the meeting must take the signing in sheet so it can be checked when everyone is at the assembly point.

Guide to Audit and Governance Committee

The Audit and Governance Committee is a non executive committee of the council. The committee consists of 7 non executive councillors and may include an independent person who is not a councillor.

Councillor PD Newman OBE (Chairman)	Conservative
Councillor ACR Chappell (Vice Chairman)	Herefordshire Independents
Councillor CR Butler	Conservative
Councillor EJP Harvey	It's Our County
Councillor RJ Phillips	Conservative
Councillor J Stone	Conservative
Councillor LC Tawn	It's Our County

The purpose of the audit and governance committee is to provide independent assurance on the adequacy of the risk management framework together with the internal control of the financial reporting and annual governance processes. The committee do this by

- (a) ensuring the effective and fully compliant governance of the council and in particular to ensure that all aspects of the financial affairs of the council are properly and efficiently conducted;
- (b) reviewing and approve the council's annual governance statement, annual statements of account, the contract procedure rules and financial procedure rules;
- (c) scrutinise the effectiveness of, and management compliance with, the systems identified in the annual governance statement framework;
- (d) monitor the progress made by management in implementing improvements to elements of that framework identified by external or internal audit review;
- (e) reviewing the risk register; and.
- (f) reviewing the constitution and recommending any necessary amendments to Council as appropriate.

Who attends audit and governance committee meetings?

Coloured nameplates are used which indicate their role at the committee:

Pale pink	Members of the committee, including the chairman and vice chairman.
Orange	Officers of the council – attend to present reports and give technical advice to the committee
Green	External advisors - attend to present reports and give technical advice to the committee
White	Other councillors may also attend as observers but are not only entitled to speak at the discretion of the chairman.

Minutes of the meeting of audit and governance committee held at Committee Room 1, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Wednesday 29 November 2017 at 2.00 pm

Present: Councillor PD Newman OBE (Chairman)
Councillor ACR Chappell (Vice-Chairman)

Councillors: CR Butler, EPJ Harvey, RJ Phillips, AJW Powers and J Stone

Officers: Lee Davis, Steve Hodges, Andrew Lovegrove, Anthony Sawyer and Claire Ward

239. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor LC Tawn.

240. NAMED SUBSTITUTES (IF ANY)

In accordance with paragraph 4.1.23 of the council's constitution, Cllr AJW Powers attended the meeting as a substitute member for Cllr LC Tawn.

241. DECLARATIONS OF INTEREST

There were no declarations of interest.

242. MINUTES

It was noted that an action in relation to when senior managers were aware of the issues in connection Blue School House was still outstanding. It was agreed that this would be included in the report about progress of the internal control improvement board due in January 2018.

RESOLVED:

That the minutes of the meeting held on 20 September 2017 be confirmed as a correct record and signed by the chairman.

243. QUESTIONS FROM MEMBERS OF THE PUBLIC (Pages 11 - 12)

One question had been received and the response given is attached as appendix 1 to the minutes.

244. QUESTIONS FROM COUNCILLORS

There were no questions from councillors.

245. EXTERNAL AUDIT PROGRESS REPORT

The chairman used his discretion to move the external audit progress report to the first item.

It was noted that the private session due to take place on the rising of the committee would be postponed until after the January meeting. Phil Jones, Grant Thornton, stated that Zoe Thomas, Jon Roberts and himself would be available for the session. A member noted that it was disappointing that the session needed to be postponed and hopefully that it would not be too late for any concerns to be raised.

It was noted that the plan for the 2017/18 audit was currently being developed and that it would hopefully be presented to the January meeting. The fee letter would be presented to the March committee. The signing of the statement of accounts was now scheduled for the committee meeting in July 2018.

Following a query from a member, issues which had occurred during the 2016/17 audit would be taken into account when the audit plan for 2017/18 was developed. It was noted that the chief finance and S151 officer would be presenting a report at the January 2018 meeting which outlined how the issues experienced during the 2016/17 audit would be managed during the 2017/18 audit. The audit plan would be more structured than previously which should assist both the council and Grant Thornton.

The new lead partner (Jon Roberts) would be having early conversations with the chief finance and S151 officer to ensure that all risks areas were reflected in the plan.

The chief finance and S151 officer confirmed that the publications mentioned in the progress update at appendix 1 were considered by officers, and where relevant contact was made with other councils to obtain details of their experiences. It was noted that the publications were there to prompt thoughts as it will depend on the local circumstances. It was agreed that the link to the publications would be forwarded to the cabinet members for their consideration.

RESOLVED

That the report be noted.

246. EXTERNAL AUDIT ANNUAL AUDIT LETTER - 2016/17

The chairman used his discretion to move the external audit progress report to the second item.

The external auditor presented the report. It was noted that the annual audit letter was a condensed version of the detailed audit findings discussed at the September meeting and was a statutory requirement. The audit opinion had been given via the delegated authority granted to the chief finance and S151 officer at the meeting held on 20 September in relation to the signing of the accounts.

Following a query from a member, the external auditor confirmed that all material amendments had been made to the statement of accounts and there was nothing in the accounts which would cause the committee concern. The external auditors would wish to discuss with the council about achieving exemplary / outstanding accounts in the future.

Following a query from a member, external auditor explained the following:

Materiality - they exercise judgement over materiality due to nature or systematic issues. Materiality was not a straightforward judgement and was used for different purposes and should not be used in a literal sense as they do not look at a set financial figure but look at a sample of figures.

Valuation – there were a range of different definitions in relation to valuation. Typically for a council, property valuations were difficult as they cannot be re-valued every year as would be too expensive. The valuation figures were discussed with officers.

Value for money – they used the guidance and legislation to determine this. Using Blue School House as an example, there were deficiencies in governance but there was no evidence of widespread and systematic deficiencies. Following a query from a member in connection with the small holdings being valued at £2m and then marketed at £25m, the external auditor commented that they were probably not reflecting their true valuation but that this would have been disclosed in a key decision in connection with the sale of the smallholdings.

RESOLVED

That the report be noted

247. POTENTIAL DATA BREACH - RECORD OF OFFICER DECISION

The solicitor to the council presented the report.

It was noted that the report which had the potential to breach data protection had not been disclosed outside of council systems and had not affected the criminal prosecution as that was in the public domain. It was confirmed that there was a requirement to notify the information governance team of any potential data breach, which had occurred in this case. It was noted that the relevant date for any data breach was when the knowledge of the data breach started (not when the breach occurred) so historical data breaches should be reported. If the data breach was significant then there was a requirement to report to the Information Commissioners' Office. In this case it was not considered that a data breach had occurred and further training has been provided on redaction in published records in accordance with the access to information rules in the constitution.

RESOLVED

That the report be noted.

248. INFORMATION ACCESS

The information access and records manager presented the report and highlighted the following:

- The team deal with freedom of information, subject access, and environmental information regulation requests, together with complaints and various requests from police. The team do not operate in isolation and rely on other teams for information.
- The council receives approximately 90-100 requests per month and the response rate compares well with other councils. The request trend tends to be either local issues or what is in the media.
- The number of subject access requests which are requests for sight of personal information held by the council on an individual have grown significantly. The fee for making a request will be removed in most cases and the time limit will be reduced down to 30 days from 40 days from April 2018. It was indicated that this may cause a resource implication.
- Overall of the 600-700 complaints received approximately 20% are upheld by the council.
- The Local Government Ombudsman had recently provided training to social care staff on how to conduct complaint investigations.

It was confirmed that learning from LGO complaints was captured and that the LGO did check that their recommendations had been actioned.

It was noted that a significant theme was poor communication. A member of the committee suggested that how the information is structured on the website is looked at so that it is more easily searchable.

The information access and records manager confirmed that when requests are not accepted on commercially confidential grounds a full explanation is given to the requester as there was an internal review process or the requester could go to the Information Commissioners' Officer.

RESOLVED

That the report be noted.

249. PROGRESS REPORT ON 2017/18 INTERNAL AUDIT PLAN

Members were presented with an update on the progress of the internal audit work.

It was noted that since the last report 12 audits and 4 follow up audits had been completed. Within the 12 audits there had been 2 partial assurance audits:

- Data Sharing Protocols
- Online choice based letting scheme – Home Point

SWAP were on target to complete the internal audit plan by the end of the financial year.

Following a query from a member, it was confirmed that the pie chart summary of control assurance (page 45 of the agenda pack) was reasonable at the moment. SWAP would expect to see the reasonable section to grow. It was noted that SWAP were auditing areas of more concern earlier in the year which explained why the partials were at 40%.

Data sharing protocols

Following a query from a member of the committee, it was noted that the information governance team were carrying out audits to ensure that data sharing protocols were in place or being updated. The information access and records manager indicated that there were issues with the ability to share information easily. The information access and records manager agreed to feed into the refresh of the digital strategy the opportunity to learn from the defence / military sector as they had systems in place to share information.

Online choice based letting scheme

The head of prevention and support indicated that a revised allocations policy would be presented to cabinet for approval early in 2018. It was anticipated that this would introduce a better system for reporting on the access and state of social housing within Herefordshire. The progress of the individual recommendations within the audit would be reported through the bi-annual report on internal audit recommendation tracking.

The chief finance and S151 officer agreed to find out the reasons for the delay in providing the management response in relation to the phase 1 small holdings audit report as the phase 2 audit was currently underway.

A member expressed concern that the audit on the new communications strategy had been dropped, especially as poor communication was a dominant thread in complaints

received by the council. The chief finance and S151 officer agreed to discuss whether there was capacity within the current audit plan to undertake this audit.

RESOLVED

That the report be noted.

250. TRACKING OF INTERNAL AUDIT RECOMMENDATIONS

The directorate service team leader presented the report and highlighted:

- We had previously reported to committee in May that there were 25 overdue recommendations up to the end of March. 20 of these are now being reported as completed with 5 still outstanding.
- For those 86 recommendations first due between 1 April and 30 September 2017, 65 have been completed. Of the 21 recommendations still In progress, 4 are priority 4.

A member noted that most of actions due to be completed by March 2018 had slipped more than once. If a date has been revised, it should be marked overdue. It was further noted that with regard to the priority 4 Deprivation of Liberties actions, the committee had been assured that actions were being progress and there were still actions outstanding from January 2017. The directorate services team leader agreed to raise this with colleagues within the adults and wellbeing directorate.

The committee were pleased with the progress being made but noted that the management responses needed to ensure that the dates were realistic.

The directorate services team leader agreed to ascertain whether further detail about S106 funding by ward could be provided.

Councillor RJ Phillips left the meeting at 15:58

RESOLVED

That the report be noted.

The meeting adjourned at 15:59.

251. COUNCIL CONSTITUTION

The meeting reconvened at 16:10.

The solicitor to the council presented the report.

It was noted that it was important to have a system in place for reviewing the constitution and it was being recommended to the committee that a survey attached at appendix 1 be sent to all members for completion. The recommendation was for a working group be set up to conduct the review and then make recommendations for consideration by the committee.

During the discussion, it was agreed:

- That a working group be set up which was politically representative and the previous members of the constitution working group be invited and other member

volunteers. Councillors Chappell, Newman and Harvey agreed to be part of the group

- The working group consider whether officers and members of the public be consulted over the way the new constitution was working.
- That a meeting of the working group be arranged for December.
- That the working group act as a consultee on the employee code of conduct. It was noted that whilst the employee code of conduct formed part of the constitution, the responsibility for approval sat with the chief executive as head of paid service.
- The words "light touch" be removed from the proposed terms of reference at paragraph 4 of the report.

RESOLVED

That

- (a) The questionnaire in appendix 1 is approved for circulation to all members;**
- (b) A constitution working group be established with terms of reference as set out in paragraph 4 as amended during the meeting (with light touch being removed) to consider any revised changes to the constitution;**
- (c) That a working group be established with membership as set out in the meeting.**

252. CORPORATE RISK REGISTER

The directorate services team leader presented the report. The committee were reminded that their role was to ensure that risks were rated in accordance with the performance, risks, opportunities management (PROM) framework.

Following a query from a member, the directorate services team clarified that the corporate risk register was discussed at directorate management team meetings and that risks were endorsed by the relevant assistant director and director. There were various points in the process where risks are reviewed and updated. The corporate risk register is also regularly reviewed by management board. A member raised concerns that they did not feel assured that there was testing of the revised risk score, especially in connection:

- The medium term financial strategy (MTFS) moving from 20 to 3 given the forecast of an overspend in children's wellbeing.
- Information governance as a report received earlier in the meeting had indicated that there were potential resource issues.
- Accommodation moving from 12 to 4.
- good decision making from 12 to 2.

It was agreed that the corporate risk register would be considered at the March meeting and then the possibility of moving to six monthly reporting would be considered.

RESOLVED

That the report be noted.

253. CONFIDENTIAL REPORTING CODE (WHISTLEBLOWING)

The solicitor to the council presented the report and highlighted that the confidential reporting code (whistleblowing) was out of date. The recommendation was that as the

code formed part of the constitution that the working group be asked to look at the document.

RESOLVED

That

- (a) The constitution working group be asked to consider any revised changes to the code.**

254. CODE OF CONDUCT QUESTIONS

The chairman stated that he was disappointed to see this on the agenda as the matter had been discussed at the meeting on 20 September 2017.

Question 1

A response to this question had been given in September 2017. The council is not obliged to publish the names of the parish councils involved in code of conduct complaints but that does not mean that the committee could not look at providing this information if it helps the public to understand the code of conduct.

The chairman proposed that this issue be deferred until the next code of conduct report which was due in September 2018, seconded by Councillor John Stone.

For: 3
Against: 3

The chairman's casting vote was used. The issue of publishing the names of the towns and parish councils involved in code of conduct complaints deferred until September 2018.

Question 2

It was noted that a working group of the committee had determined that monitoring officer resolution was appropriate and can be relied upon. It was for the committee to determine whether or not they were happy with the procedure. It was agreed that this issue be moved to the working group as the code of conduct formed part of the constitution.

RESOLVED

That:

- (a) the issue of publishing the names of town and parish councils involved in code of conduct complaints be deferred until September 2018; and**
- (b) that the constitution working group be asked to look at whether monitoring officer resolution was still appropriate**

255. INTERNAL CONTROL WORKING GROUP UPDATE

The chief finance and S151 introduced the internal control working group update and provided an update on the HR investigation.

It was noted that the HR report had been received by the chief executive who was looking at the responses to the recommendations. It was not intended to make the

report public as it concentrated on why people acted the way they did which would be difficult to release, but there would be lessons learnt. The chief executive would be attending the meeting on 24 January so the committee would be able to ask him questions about the report. It was noted the public would want to more detail on the investigation.

It was noted that more detailed improvements had been identified and that the committee should see more substantial changes. There would be a corporate peer review which may also have recommendations which would need consideration and there would also be a re-audit of the Blue School House recommendations.

It was confirmed that the officer internal control improvement board did have senior representatives from all directorates and that the issues were being considered very seriously.

RESOLVED

That the report be noted.

256. WORK PROGRAMME UPDATE

The committee's updated work programme was discussed.

RESOLVED

That the work programme be agreed.

The meeting ended at 5.25 pm

Chairman



Meeting:	Audit and governance committee
Meeting date:	Wednesday 24 January 2018
Title of report:	Capital project management and control internal audit progress update
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To update the committee on progress in implementing the recommendations relating to capital project management and control raised in the Internal Auditors audit findings report regarding the joint customer services hub (Blueschool House) capital project presented in September 2017.

Recommendation(s)

That:

- (a) **progress of the plans to implement the recommendations made in the audit findings report regarding capital project management and control be reviewed; and**
- (b) **the committee determine any recommendations it wishes to make to gain assurance that action is being taken in response to the issues raised.**

Alternative options

1. There are no alternative options; this report ensures the committee can gain assurance that action is being taken in response to recommendations made by the internal auditors.

Key considerations

2. As reported to the September Committee meeting an Internal Controls Improvement Board has been set up to ensure delivery of the specific thirteen recommendations in the internal auditors report regarding capital project management and control emerging from the lessons learnt from the joint customer services hub (Blueschool House) capital project. In addition to the thirteen specific recommendations the Internal Controls Improvement Board are considering a range of other changes and improvements to internal controls within the council.
3. The committee has established a member working group to act as a reference group for the internal control improvement board, and gain assurance that actions were appropriate and in proportion to the risk, and were being implemented in a timely fashion.
4. As reported to the November meeting of the committee the working group are working closely with the Internal Controls Improvement Board, who have indicated they are content with progress to date.
5. The table below details the recommendations, the action being taken in response, and the anticipated completion date.
6. As agreed at the September committee meeting once the improvements have been implemented SWAP will be invited to carry out a further review and report back to the committee. This work will be included in the internal audit work plan for 2018/19.

Recommendation	Internal Control Improvement board Response	Timescale for implementation
The council should ensure there is a clear audit trail to show how budget figures have been derived and what the budget is based on.	<p>Agreed. Each project's senior responsible officer, supported by finance staff, is required to keep records to show how budgets are constructed, including the assumptions used and the sensitivity analysis carried to the budget. These records to be kept in accordance with the council's records management policy.</p> <p>A toolkit is being prepared to guide officers on the process to be followed in developing proposals for inclusion in the capital programme and, once included in the approved programme, for implementing. This toolkit will include specification of the minimum information requirements and how information should be recorded.</p> <p>In addition the capital accountant is reviewing existing live capital projects to ensure compliance.</p>	31 Mar 2018

<p>Key decision reports and supporting business cases should contain all relevant information for an informed decision to be made including on what basis the budget was determined and what the budget includes</p>	<p>Agreed. This is a requirement of the decision making rules in the constitution.</p> <ul style="list-style-type: none"> a) A meeting has been held with all report reviewers to review the guidance available, ensure it is sufficiently clear and comprehensive, and that reviewers are carrying out their reviews consistently. b) Following the above the guidance to report authors is being reviewed and will be published and promoted to all staff. c) A further series of training sessions are being arranged by the Democratic Services Manager, and will be promoted to all staff – this will include regular drop in sessions with report reviewers in attendance to provide advice and guidance on particular reports. d) Meetings have taken place with directors to emphasise the importance of identifying, as part of the PPdP process, those staff required to write reports/with a report writing development need, so that targeted training may be delivered as required. e) There is some anecdotal evidence that some professional comments/advice is being deleted without discussion with the advisor and before the draft report is sent to the director – this will be addressed in general through clearer guidance on this point and, if appropriate, on an individual basis through the performance management process. f) The business case template, which covers both financial and wider value considerations, and associated guidance is to be reviewed by the Head of Corporate Finance by the end of March 2018 	<p>31 Mar 2018</p>
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	<p>g) Consideration is being given to including in the annual member development programme a session on the use and analysis of data to enable members to have sufficient confidence to challenge appropriately.</p> <p>h) Induction processes for decision makers (at member and officer level) will include an understanding of accountability and decision-making principles.</p> <p>i) The process of changing culture is ongoing. We do have some good practice throughout the organisation and where possible this practice is being shared.</p>	
The gross cost of a capital project should be costed prior to a proposal being submitted to the Capital Strategy Group.	<p>Agreed. A phased approach to capital projects is being developed to make the distinction between feasibility work and the main project. The feasibility phase will enable the gross cost of a capital project to be costed before a final decision to include the project in the capital program is made.</p> <p>The toolkit mentioned above will provide clear guidance on this point.</p>	31 Mar 2018
When an external consultant is appointed to provide costing for a project this costing should be reviewed prior to the agreement of funding for a project.	<p>Agreed. Please refer to the response to the previous recommendation, all costings for projects will be subject to a feasibility phase during which all elements of a project will be reviewed. Where external consultants are used the senior responsible officer for the project is required to ensure that when external consultants are used sufficient records are retained by the senior responsible officer to demonstrate how the external consultant calculated the costings and the assumptions used</p>	31 Mar 2018
Officers must ensure that the Contracts Procedure Rules are followed for all procurements	<p>Agreed. A new project management system is being built that includes gateways that cover this and ensure that those authorising activity can evidence the relevant processes have been followed. This system was trialled in late December 2017 and the results of that trial are informing its further development before being implemented</p>	31 Mar 2018

<p>The rationale for decision to use two separate companies for the design and build stage or to use one company for both should be clearly documented at the outset of the project.</p>	<p>Agreed. A new project management system is being built that includes gateways that cover these type of decisions and ensure that those authorising activity can evidence the relevant processes have been followed. In future this type of decision will be made during the feasibility phase.</p>	<p>31 Mar 2018</p>
<p>Actions from project/programme boards should be completed by the relevant officer and the board should ensure that there is adequate governance oversight that actions are completed prior to any further decision being made on a project.</p>	<p>Agreed. A new project management system is being built that includes gateways that cover this and ensure that those authorising activity can evidence the relevant processes have been followed.</p>	<p>31 March 2018</p>
<p>The decision of contractor selection to invite to tender must be clearly documented and consultation with key officers must be followed in line with Contracts Procedure Rules.</p>	<p>Agreed. Senior responsible officers and decision makers have been reminded of this requirement. Procurement officers review all decision reports to ensure the process followed has complied with contract procedure rules</p>	<p>31 March 2018</p>
<p>Officers must ensure that value for money can be demonstrated as part of a tender submission and for additional works during the project.</p>	<p>Agreed. . The senior responsible officer will be required to confirm that Value for Money can be demonstrated to the capital strategy working group, and evidence of this will be captured in line with the council's record management policy and contract procedure rules.</p>	<p>31 March 2018</p>
<p>If a tender submission is significantly different to the costing provided at the design stage or</p>	<p>Agreed. A new project management system is being built that includes gateways that cover this and ensure that those authorising activity can evidence the relevant processes have been followed. The finance procedure rules and the contract procedure rules cover</p>	<p>31 March 2018</p>

Further information on the subject of this report is available from Andrew Lovegrove, email: Andrew.Lovegrove@herefordshire.gov.uk

outside the budget agreed as part of the key decision, the tender should be subject to scrutiny and challenge prior to proceeding with the project and the relevant officer should take the decision back to cabinet.	this point. Project senior responsible officers will be advised of the need to comply with these rules.	
Compensation events should only be authorised by an officer with the relevant delegated authority.	Agreed. Authorisation is covered by the scheme of delegation.	31 March 2018
There should be robust budget monitoring and clear documentation of changes to a project if it progresses so there is a clear audit trail to support financial commitment	Agreed. A robust systemised capital budget monitoring process is being developed, The new project management system has appropriate gateways to deal with change control.	31 March 2018
Project boards must be presented with full and accurate information to ensure informed decisions can be made and actions recommended must be completed with a clear audit train to show the action has been completed.	Agreed. The new project management system has gateways to ensure informed decisions are taken and recorded in accordance with the Council's document policy.	31 March 2018

Community impact

7. To ensure clear and transparent processes are in place to govern how resources of the council are effectively managed supports the council's corporate plan objective to manage finances effectively and to demonstrate one of the council's values, namely to be open, transparent, accountable and in accordance with the code of corporate governance.

Equality duty

8. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
9. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

10. There are no resource implications arising directly as a result of the recommendations in the SWAP report. However the recommendations reflect best practice for governance and project management of major projects. Adopting these measures and ensuring best practice is adhered to at all times will ensure that the council achieves best value for its projects.
11. Staff time has been resourced from existing budgets. Once the policies and recommendations are in place failure to follow them will be a matter for individual's performance management

Legal implications

12. There are no legal implications from the content of this report which is provided for information purposes.

Risk management

13. The report does not result in new additional risks.

Consultees

14. The member working group has been briefed regularly and the working group has observed the Internal Control Improvement Board.

Appendices

None.

Background papers

None identified.



Meeting:	Audit and governance committee
Meeting date:	Wednesday 24 January 2018
Title of report:	Annual governance statement 2016/17
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To report progress made towards implementing the agreed action plan in response to issues identified in the 2016/17 annual governance statement; and to agree the process and timetable for undertaking the review to inform the development of the 2017/18 annual governance statement.

The annual governance statement approved in June of this year was accompanied by an action plan to address weaknesses identified during 2016/17. The report informs the committee about progress made in implementing the agreed action plan in order that the committee may gain assurance that action is being taken in a timely fashion to mitigate identified risks.

In order to prepare for the timetable required for approval of the statement of accounts for 2017/18 a revised timetable for undertaking the review to inform the production of the annual governance statement 2017/18 is proposed.

Recommendation(s)

That:

- (a) **the committee review the progress made in delivering the annual governance statement action plan at appendix 1, and determine whether there are any elements requiring further assurance; and**
- (b) **the process and timetable for the review to inform the development of the 2017/8 annual governance statement, detailed at paragraph 5 be approved.**

Alternative options

1. The committee may determine a different process and timetable for the development of the annual governance statement. In doing so regard must be had to ensuring proposals meet the statutory timetable and guidance, and can be resourced.

Key considerations

2. The council has a responsibility for conducting at least annually a review of the effectiveness of the governance framework including the system of internal control. This is reported through the annual governance statement and published as an appendix to the annual statement of accounts.
3. The annual governance statement also provides commentary on how the council's governance framework including the system of internal control can be improved. Whilst the statement by its nature is only signed off once a year, the process of review is continuous. Reports presented to the audit and governance committee inform the development of the annual governance statement, and the committee receives a half year progress report on implementation of the action plan supporting the annual governance statement. The progress report is attached at appendix 1. Progress has been made in all areas although there has been some slippage in timescale for delivery of some actions; where this is the case revised target dates are provided.
4. Since the annual governance statement and action plan was approved the committee has received reports which identified some weaknesses or failings of governance which either were not recognised within the annual governance statement or the risks of which had not been fully recognised. In particular these relate to the internal audit findings in relation to Blueschool House, and the external auditor's findings report which identified concerns in relation to the process for developing the statement of accounts. The risks identified in these two reports will be reflected in the next annual governance statement. Actions are already in progress to address the weaknesses identified and the committee has a report elsewhere on its agenda reporting progress in responding to the issues identified in relation to Blueschool House. In addition the process for producing the annual statement of accounts are being reviewed to ensure that the suggestions from the external auditors are incorporated in the revised plans.
5. The timetable for completing the statement of accounts process is changing again in 2018 with completion required by the end of July 2018 rather than end of September as in 2017. As the annual governance statement must be published with the statement of accounts the following timetable is proposed:

- i. An initial draft of the statement is provided in May so that the audit and governance committee can assure the statement accurately reflects the strength of the council's governance and internal control processes, on the basis of the knowledge available to the committee at that time;
- ii. The draft statement is published with the draft accounts by the end of May;
- iii. External and internal audit provide the committee with their opinion reports in July and the committee will confirm whether or not those reports raise any new issues which should be reflected in the final annual governance statement;
- iv. Following the July meeting of the committee, and taking account of any recommendations the committee makes, the final statement is signed by the Leader and Chief Executive for publication with the accounts by the end of July; and
- v. The committee receives a progress report on the implementation of the action plan in January 2019.

Community impact

6. Corporate governance is the term used to describe the systems, processes, culture and values Herefordshire Council has established to ensure we provide the right services, to the right people in a timely, open, and accountable way. The council's adopted code of corporate governance recognises that good corporate governance encourages better informed longer-term decision making using resources efficiently, and being open to scrutiny with a view to improving performance and managing risk; it sets out the seven principles to underpin good governance.
7. To assess compliance, the council conducts an annual review of the effectiveness of its governance framework and system of internal control. The results of this review, carried out in accordance with the principles of this code, inform the production of the annual governance statements presented as part of the statement of accounts.

Equality duty

8. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
9. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

10. There are no resource implications arising from the recommendations.

Legal implications

11. The Accounts and Audit Regulations 2015 include a requirement for all councils to produce an annual governance statement. This progress report is for information purposes only and does not have any legal implications.

Risk management

12. The statement itself identifies any significant governance risks and the action plan provides mitigation to those risks.

Consultees

13. None.

Appendices

Appendix 1: 2017/18 action plan progress update.

Background papers

None identified.

	Improvement required	Action planned	By when	Owner	Progress
1.	Members and officers modelling the values and behaviours expected and clear about the processes to follow if they have concerns.	Supporting implementation of the revised constitution and codes which provide clearer information, a communication and training programme will be delivered for both members and officers.	End July 17	CW	Achieved - Member code adopted may 2017, training provide as part of committee induction for municipal year, training to clerks and parish councillors also provided. In progress - employee code of conduct in consultation scheduled for approval end Jan 18.
2.	The council's commitment to openness and the public interest is not always clear in its decision-making.	New guidance on access to information is included in the revised constitution.	19/05/17	CW	Achieved – training also provided
		Guidance on public interest will form part of training to report authors and decision-makers	End July 17	AB	Achieved – guidance included in report writing guide and included in training sessions.
		Guidance on report writing will provide clarity on expected report content and the requirements for compliance with all the principles of good decision making to be demonstrated	End July 17	AB	Achieved – report writing guide produced and published on the intranet. Promoted through training and now, with the benefit of six-months of use, is being reviewed to ensure it is fit for purpose.
3.	Channels of communication with the community and stakeholders are not always clear and there are inconsistent approaches to consultation.	Supporting the communication strategy and protocols, consultation and engagement standards will be established	End Nov 17	DE	In progress: revised target date of February 2018 - a revised internal consultation process and guidance for staff has been drafted to ensure a consistent approach across the organisation and is scheduled for consideration by Management Board in January 2018 for implementation in February 2018.
		Communications training for staff and members delivered	End March	NS	In progress - First tranche of training with key communications

			18 then ongoing		<p>staff (including public health, regulatory and development control, and environment and waste) delivered in December 2017.</p> <p>Communications training for committee chairmen delivered in September 2017.</p> <p>Programme for further training for senior management and members to be confirmed in the new year.</p>
4.	Links between the various visions, budget and service planning and commissioning, risk management, performance and value for money are not consistently demonstrated or measured	Seek to agree consolidated vision through development of corporate delivery plan 2018/19	March 18	AN	In progress.
		Supplement the performance, risk and opportunity management framework with some clearer guidance on service and project planning to ensure these links are made effectively and consistently; to ensure risk is consistently recorded and used to inform decision making; and to ensure outcomes are measured and reported	Sept 17	RB	<p>In progress: revised target date for completion February 18 - service planning guidance was agreed by Management Board in October. Project planning guidance has been produced and will be finalised following system testing during December. It consists of an eight stage process designed to provide the required oversight and assurance at specific points.</p> <p>An update of the PROM is scheduled for Cabinet consideration in February 2018.</p>
		End of year/annual report to highlight the impact of activities	July 17	RB	Achieved - the Annual Report 2016/17 was approved by Cabinet on 22 June 2017, and can be found on the Council's website using the following link: Annual Performance Report 2016/17
		Revised commercial and commissioning strategy adopted, communicated and monitored to ensure	Sept 17	NS	In progress: revised target date for completion February 2018 -

		contractual arrangements reflect the council's priorities and can demonstrate value for money.			Procurement and Commissioning Strategy drafted and currently being reviewed internally; scheduled for cabinet member approval in February 2018.
		Options appraisal to establish whether a course of action represents best use of resources, to be a consistent element of business cases informing decisions	Sept 17	AL	In progress, revised target date for completion March 2018 to allow for the lessons to be learnt from the Internal Control Improvement Board to be incorporated.
5.	The level of awareness of fraud risk and potential mitigation is low in areas outside of financial transaction service areas.	The anti-fraud and corruption policy will be reviewed and refreshed	July 17	AL	Achieved – revised anti-fraud, bribery and corruption policy approved by Audit & Governance Committee in July 2017.
		Communication and training of the revised policy will be delivered	Dec 17	AL	In progress.
6.	There is some evidence from internal audit findings that policies and procedures are not always understood/followed.	Establish a register of policies and procedures which identifies the policy/procedure, policy owner, scope of policy, approval date, review date, and monitoring arrangement.	Dec 17	CT	Achieved. A register has been established on the council's intranet and the policies it contains are also available on the council's website at: policies . Employees are able to self-serve adding policies and procedures to the register and the directorate performance leads are working with their teams to ensure the register is complete.
		Following above action, establish programme to review all policies and procedures to ensure they are relevant, have clear processes for communication to employees, and compliance is monitored appropriately	March 18	CT	Based on a review of the populated register a prioritised programme will be developed and begin to be implemented by the end of March 2018, to ensure that each document entered on the register has been reviewed by its owner and approved through the appropriate governance process.

					<p>Because of the need to prepare for the implementation of the General Data Protection Regulations in May 2018 the review programme will need to be delivered over a period of time – however priority will be given to those policies and procedures where risks associated with non-compliance are the greatest.</p> <p>As policies are taken through the assurance process the communications requirements for each will be confirmed (eg part of induction or mandatory training, staff to be targeted, general communications or requirement for periodic communications updates)</p>
7.	There is a risk that partnerships' governance arrangements don't fully reflect the principles of the revised code of corporate governance.	Significant partnerships have been identified and initial self-assessments undertaken. These will be discussed with the relevant partners and, as part of those discussions improvement actions to mitigate any risks identified will be agreed. This review process will become business as usual going forward.	Ongoing	AB	The approved framework is available on the website together with a register of the council's identified strategic partnerships. The second round of reviews will begin in January and inform improvement actions within directorates.

Action owners:

RB – Assistant director environment and place

AB – Head of corporate governance

DE – Interim assistant director commissioning and transformation

AL – Chief finance officer

AN – Chief executive

NS – Assistant director communities

CT – Equality, resilience and information compliance manager

CW – Solicitor to the council



Meeting:	Audit and governance committee
Meeting date:	Wednesday 24 January 2018
Title of report:	Update on closure process for 2017/18 final accounts
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To update the committee on progress in the planning for the preparation of the 2017/18 final accounts and management responses to items raised in the External Auditors audit findings report presented in September.

The constitution provides that the audit and governance committee will review and approve the financial statements, the external auditor's opinion and reports to members and oversee management action in response to the issues raised by external audit. The recommendation of this report supports the committee in fulfilling this role.

Recommendation(s)

That:

- (a) the committee reviews progress of the plans for the production of the 2017/18 financial statements and determine any actions it wishes to recommend to strengthen management action in response to the issues raised by external audit.**

Alternative options

1. There are no alternative options; this report ensures the committee is fully briefed on progress on the preparation of the 2017/18 financial statements and plans to address the points raised by the external auditors.

Key considerations

2. The council is obliged to produce its financial statements annually. Historically the financial statements need to be audited no later than the end of September following the end of the financial year. For the financial year ended March 2018 the financial statements the audit needs to be completed by the end of July 2018.
3. The Statement of Accounts will be prepared in accordance with the Accounts and Audit Regulations 2015 having due regard to the guidance issued by CIPFA Code of Practice on Local Authority Accounting (The Code).
4. The external auditors as part of the audit of the 2016/17 financial statements identified a number of specific risks in respect of the production of the 2017/18 financial statements, this paper provides a progress update in respect of these risks as well as wider changes to facilitate the production of the financial statements and their subsequent audit.
5. As the committee will recall the deadline for producing the 2017/18 accounts is the end of July, this is two months earlier than last year. This reduced timetable is prescribed by the Accounts and Audit Regulations 2015. To meet this earlier deadline both the council and the external auditors will need to make a number of step changes to processes and procedures to ensure the accounts are produced and the necessary audit work is completed within this revised timetable.
6. We have agreed a revised way of working which is designed to bring greater clarity and consistency to the process of producing the annual accounts and providing information to the external auditors to enable them to complete their audit work.
7. The new ways of working include the council designating an officer to act as the key contact for all information flows to and from the external auditors, meetings being formally recorded. We have agreed a timetable that shows for all stakeholders when they are required to have completed processes including deadlines for committee meetings. In addition we will agree with the external auditors before each planned site visit the information they are requesting including the scope and scale of the information requested.
8. A number of quality control and checking processes have been added to the council's timetable for producing the accounts and working papers to ensure that they are formally reviewed before release.
9. The National Audit Office and CIPFA have recently issued further guidance in respect of the production of the 2017/18 accounts. The council is working through this guidance with the external auditors to ensure that the council complies with the guidance. CIPFA are keen to improve the transparency and understanding of the annual accounts. The

Ministry of Housing, Communities and Local Government is undertaking a review of the Accounts and Audit Regulations 2015, the council is engaging fully with this consultation.

10. A detailed action log and critical path plan will be maintained to ensure that all stakeholders are aware of the different workflows and clarity of which items are complete and which are still in progress.
11. The council has recently run a procurement process to appoint external valuers to carry out the necessary valuations required to inform the production of the annual accounts and providing appropriate working papers to be available for external auditors to enable the auditors to carry out their work within the revised timescale.

Community impact

12. To ensure clear and transparent processes are in place to govern how resources of the council are effectively managed supports the council's corporate plan objective to manage finances effectively and to demonstrate one of the council's values, namely to be open, transparent and accountable.
13. In accordance with the council's code of corporate governance, Herefordshire Council must ensure that it has an effective performance management system that facilitates effective and efficient delivery of planned services. Effective financial management, risk management and internal control are important components of this performance management system.

Equality duty

14. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -
 - (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
15. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

16. The plans to address the findings identified in the audit findings report will be resourced from existing resources. The plans are not identifying any further budget pressures.

Legal implications

17. The Accounts and Audit Regulations 2015 requires the council to produce and publish an annual Statement of Accounts in accordance with the regulations and “proper practice”,
18. Section 21 of the Local Government Act 2003 defines “proper practice” for this purpose to be the CIPFA Code of Practice on Local Authority Accounting (The Code) for the relevant year. The Code specifies the principles, practices, format and content required in the preparation of the Statement of Accounts.

Risk management

19. The risk is that the external auditors will not issue an unqualified opinion on the statement of accounts by the end of July. This risk is mitigated by providing working papers and officer time to help external auditors form an appropriate judgement on the statement of accounts, and in the council’s response to risks identified by external auditors as part of last year’s financial statements, which have been included in paragraph 3.

Consultees

20. None.

Appendices

None.

Background papers

None identified.



Meeting:	Audit and governance committee
Meeting date:	Wednesday 24 January 2018
Title of report:	External audit plan for 2017/18
Report by:	Head of corporate finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To review and agree the external auditors audit plan for 2017/18.

The external audit of Herefordshire council's statement of accounts for 2017/18 is required to be completed before the 31 July, in previous years this was due to be completed before 30 September. Achieving this revised regulatory deadline is reflected in the audit plan attached at Appendix 1.

Recommendation(s)

That:

- (a) subject to any recommendations the committee wish to make to the external auditor, the proposed external audit plan 2017/18 at appendix 1 be approved;**
- (b) the timetable for reporting on progress in delivering the external audit plan at paragraph 7 be approved; and**
- (c) the committee determine any recommendations it wishes to make to maximise the value of the combined internal and external audit process .**

Alternative options

1. There are no alternative options to approving an external audit plan. The audit plan must meet statutory requirements, however it is open to the committee to identify any additional areas of risk they wish the external audit to consider and to recommend additional actions to maximise the value of the combined internal and external audit process.

Key considerations

2. The constitution provides that the audit and governance committee will:
 - a. Review and agree the External Auditors annual plan and receive regular update reports on progress.
 - b. To comment on the scope and depth of external audit work and to ensure it gives value for money.
 - c. Ensure that there are effective relationships between external and internal audit that the value of the combined internal and external audit process is maximised.
3. Attached as appendix 1 is the external audit plan for the audit of the 2017/18 statement of accounts. The 2017/18 external audit aims to complete by the statutory deadline of 31 July and interim audit work has already been completed.
4. The appendix shares the audit approach, the focus of external audit work and the preparation work that has already commenced. There are two standard presumed risks for all Grant Thornton clients being fraudulent transactions and management override of controls to be addressed during the audit
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. A separate report updates the committee on progress in the planning for the preparation of the 2017/18 final accounts and management responses to items raised in the External Auditors audit findings report presented in September.
6. The committee is asked to consider whether there are any further comments it would like to make with reference to the series of statements made in Appendix 1 that inform the audit risk assessment and external audit plan.
7. Progress against the plan will be reported to the committee on 21 March and 8 May.

Community impact

8. One of the principles in the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. External audit contributes to effective accountability.

Equality duty

9. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
10. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

11. The cost of the external audit is detailed in the appendix and, at £124k, remains the same as in previous years and is included in the revenue budget.
12. The risk is that the reduced statutory deadlines may result in the council and / or the external auditors being unable to meet its audit obligations; the audit plan has been drafted and will be followed to minimise this risk.
13. Grant Thornton confirm their resourcing in the appendix attached, this is supported by their audit working paper requirements, which are to be shared at the January interim audit visit, and the internal year-end timetable which identifies key tasks, nominated internal contact and deadline dates.

Legal implications

14. The Accounts and Audit Regulations 2015 requires the council to produce and publish an annual Statement of Accounts in accordance with the regulations and "proper practice",
15. Section 21 of the Local Government Act 2003 defines "proper practice" for this purpose to be the CIPFA Code of Practice on Local Authority Accounting (The Code) for the relevant year. The Code specifies the principles, practices, format and content required in the preparation of the Statement of Accounts.

Risk management

16. The risk is that the plan does not achieve the conclusion of the audit work within the statutory deadlines. The attached plan details how interim work, planning and resourcing will mitigate this risk.

Consultees

17. None

Appendices

Appendix 1 – external audit plan for 2017/18

Background papers

None

External Audit Plan

Year ending 31 March 2018

Herefordshire Council

26 January 2018



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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 planning 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.

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Herefordshire Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. 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 audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

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Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of control
- Valuation of property plant and equipment
- Pension liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £5.9m, which equates to 1.8% of your gross expenditure for 2016/17. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.295m.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Financial sustainability
- Management of the capital programme

Audit logistics

Our interim visits will take place in January and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £124,405. (PY: £124,405 plus a fee variation yet to be finalised with PSAA).

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of

Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version is due to be published in December 2017.

Devolution

The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas.

Both Herefordshire Council and the Marches LEP are 'observer' authorities in the West Midlands Combined Authority.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the prudential code coming into force in 2018/19:

Following consultation it is likely that there will be changes to the Local authorities Investment code. The changes are aimed at providing more transparency and openness in Investment activity.

There are also changes proposed to the determination of the minimum revenue provision (MRP). This could impact on the assumptions made in the recent changes to the basis of MRP undertaken during 2017/18 in Herefordshire.

Key challenges

Financial pressures

Herefordshire Council has a significant savings programme. Good progress has been made towards targets and there is now a focus on building reserves.

In common with many other Councils, Herefordshire continues to face particular financial pressures around both children's and adults' services. Overspends in these areas are being forecast for 2017/18.

The Council has a number of ongoing capital schemes, in particular investment in the local roads network. The adequacy of the management of capital projects and reporting has come under some increased challenge recently in the Council.

Education

The population of Herefordshire is relatively elderly. The county has struggled with poor school attainment. Young people have tended to move out of the area for both further education and employment. This is exacerbated by relatively low salaries in the county.

Development of a university in the city is seen as a way of improving the diversity of the population and to encourage economic development, in particular in new small and medium sized businesses in the area.

The development of a university is supported by both the Council and the LEP. It is intended that there will be significant investment by the private sector in the project.

Our response

- We will consider your arrangements for managing and reporting your financial resources, including your progress on devolution and/or use of investment vehicles, as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.
- We will continue to consider the progress the Council is making against the matters raised in the 2016/17 audit findings report aimed at improving the quality of the draft financial statements.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>The revenue cycle includes fraudulent transactions</p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the 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 <p>Therefore we do not consider this to be a significant risk for Herefordshire Council.</p>
<p>Management over-ride of controls</p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

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Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	<p>The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>The 2016/17 audit identified some weakness in the Council's arrangements for valuation of PPE.</p> <p>The Council is currently out to tender to appoint new valuers in 2017/18 to inform the final accounts.</p> <p>The Council will also be using another external valuer and an internal valuer to value different aspects of PPE.</p> <p>We consider the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; consider the competence, expertise and objectivity of management experts used (valuers); review the basis on which the valuation is carried out and challenge key assumptions; review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; test a sample of valuations made during the year to ensure they are input correctly into the Council's asset register and are reasonable; and evaluate the assumptions made by management for those assets not revalued during the year and how management has been satisfied that these assets are not materially different to current value.
Valuation of pension fund net liability	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p> <p>The Council is a statutory member of the Hereford and Worcestershire Local Government Pension Scheme administered by Worcestershire County Council. Herefordshire Council remain responsible for the accuracy of disclosures within the accounts, and this will include having a clear understanding of key assumptions within the estimate.</p>	<p>We will:</p> <ul style="list-style-type: none"> identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; evaluate the competence, expertise and objectivity of the actuary who carried out the pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out; undertake procedures to confirm the reasonableness of the actuarial assumptions made; and check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Employee remuneration</p>	<p>Payroll expenditure represents a significant percentage (26%) of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a significant number of individual transactions throughout the year, including transactions involving new-starters, grade changes and leavers, there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; • gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; • obtain the year-end payroll reconciliation and ensure the amount in the accounts can be reconciled to ledger and through to payroll reports. We will investigate significant adjusting items; • agree payroll related accruals (e.g. unpaid leave accrual) to supporting documents and review any estimates for reasonableness; and • perform substantive analytical procedure for M1 to M9 (at interim) and M10 to M12 (at final) disaggregated by month.
<p>Operating expenses</p>	<p>Non-pay expenses on other goods and services also represents a significant percentage (55%) of the Council's operating expenses. Management uses judgement to estimate accruals of non-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • document the accruals process and the controls management have put in place. Challenge any key underlying assumptions, the appropriateness of the source of data used and the basis for calculations; • obtain a listing from the cash book of non-pay payments made in April and test to ensure that they have been charged to the appropriate year; and • Obtain a listing of non-pay expenditure and agree a sample to supporting documentation (invoice or equivalent) to confirm accuracy (correct amount charged), occurrence (payment properly incurred), classification (coded correctly as expenditure in CIES or as capital) and cut-off (charged to right year).

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Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
 - 48 • giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

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 this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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

Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £5.9m, which equates to 1.8% of gross expenditure reported in the 2016/17 audited financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision.

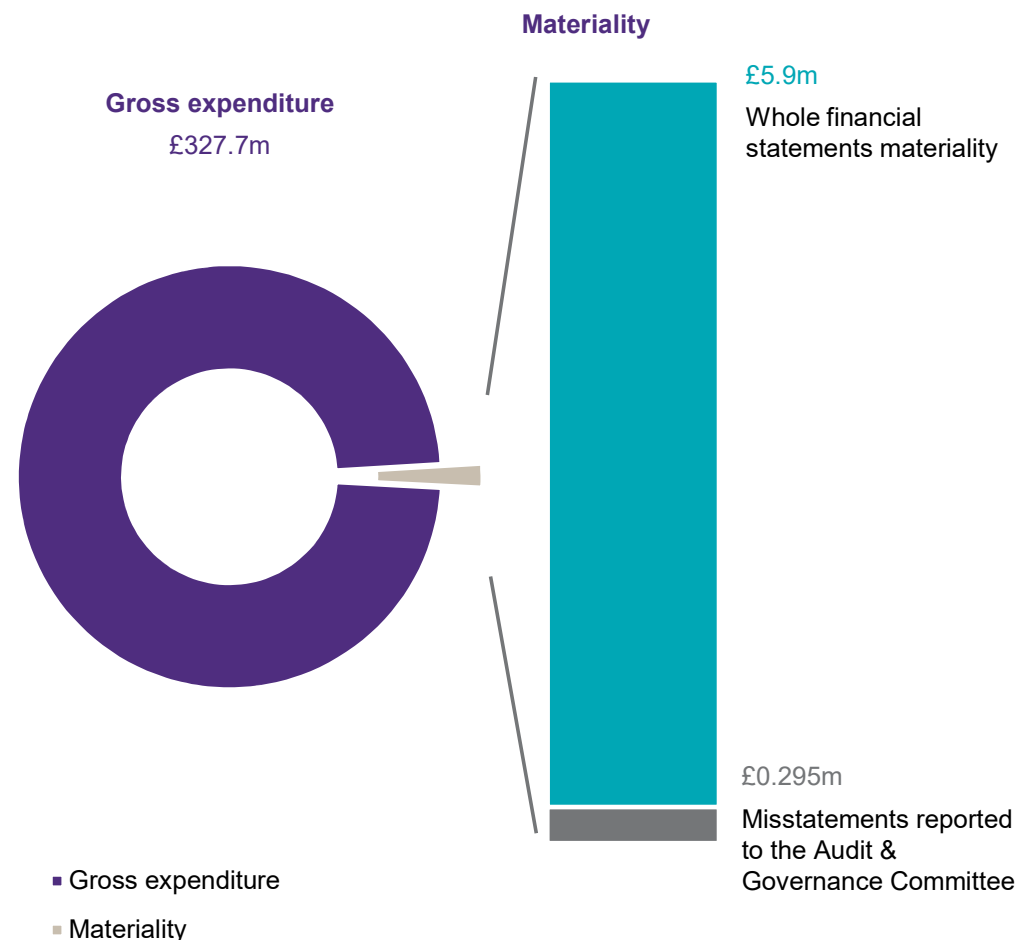
ISA 320 also requires auditors to determine separate, lower, materiality levels where there are particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence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

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.295m.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

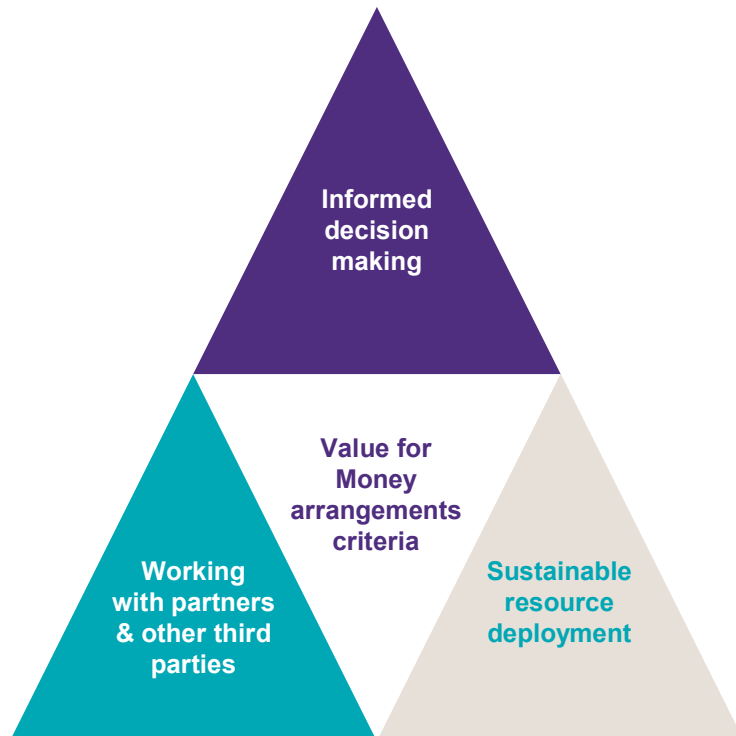
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

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



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



Financial sustainability

If the key assumptions within the medium-term financial plan are not reasonably based then the future financial position of the Council could be at risk.

We will discuss with officers the key assumptions in the medium term financial plan and consider supporting evidence.



Capital programme and governance

There has been recent high profile budget overspend on a capital project. The quality of capital reporting has also been under some scrutiny. The Council is currently reviewing the governance arrangements around on-going schemes. Whilst the Council is responding to the weakness in this area we consider that this represents a significant risk.

We will consider the actions that the Council is taking to respond to concerns raised around the governance of the capital programme.

Audit logistics, team & audit fees



Jon Roberts, Partner

Jon's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council. Jon is an experienced engagement lead and is one of Grant Thornton's Regional Lead Public Sector Partners. This will be Jon's first year as your engagement lead.



Zoe Thomas, Audit Manager

Zoe's role will be to be a key contact with the Chief Finance Officer and the Audit Committee.



Zak Francis, Audit In-charge

Zak's role will be to be the day to day contact for Council finance staff. He will take responsibility for ensuring there is effective communication and understanding by the finance team of audit requirements.

Audit fees

The planned audit fees are no less than £124,405 for the financial statements audit and £5,806 for grant claims. 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'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we plan to share with you early in the new year
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Non-audit services

The following non-audit services were identified

Service	Fees £	Threats	Safeguards
Audit related			
Certification of teachers pension return	6,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £124,405 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Audit of Hoople Ltd	14,780	Self-Interest (because this is a recurring fee) Self-review	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,780 in comparison to the total fee for the audit of £124,405 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. Group accounts are not prepared due to the Council's assessment of materiality. The turnover of Hoople is not significant relative to that of Herefordshire Council.
Audit of West Mercia Energy	3,250 (pro-rata)	Self-Interest (because this is a recurring fee) Self -review	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £13,000 in comparison to the total fee for the audit of £124,405 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. Group accounts are not prepared due to the Council's assessment of materiality. West Mercia Energy has equal shareholding across Shropshire Council, Herefordshire Council, Telford & Wrekin Council and Worcestershire County Council.

Independence & non-audit services

Non-audit services (continued)

Service	Fees £	Threats	Safeguards
Non-audit related			
Provision of advice to support procurement of a development partner	12,000	Management threat	The proposed work is an objective analysis and any decisions will be made by management.

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The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Appendices

A. Revised ISAs

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Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

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Meeting:	Audit and governance committee
Meeting date:	Wednesday 24 January 2018
Title of report:	Housing benefit grant certification 2016/17
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To review the external auditors certification letter in relation to the housing benefit subsidy claim for 2016/17 as submitted by Herefordshire Council. There were no significant matters arising from the certification work, the auditors are satisfied that the council had in place appropriate arrangements to compile complete, accurate and timely claims/returns for the audit certification.

This is one of a number of reports which the committee receives in order that it may provide independent assurance on the adequacy of the risk management framework together with the internal control of the financial reporting and annual governance processes.

Recommendation(s)

That:

- (a) **The committee are recommended to confirm the findings of the external auditor's certification letter for the housing benefit subsidy claim submitted by Herefordshire Council and attached at appendix 1 provide satisfactory assurance of the work completed.**

Alternative options

1. There are no alternative options, the external audit housing benefit grant certification is required under the audit code of practice and forms part of the annual audit plan.

Key considerations

2. The audit certification relates to the housing benefit claim returned to the Department of Work and Pensions (DWP) as evidence for the subsidy funding claimed.
3. Appendix 1 sets out the certification letter from Grant Thornton on the housing benefit subsidy claim submitted by Herefordshire Council for 2016/17. The letter provides details of the claims and returns certified for 2016/17. The audit findings are comparable with previous years.
4. There were no significant matters arising from the certification work, of the £46.9m subsidy claimed the return was amended by an increase of £24,429. The auditors are satisfied that the council had in place appropriate arrangements to compile complete, accurate and timely claims/returns for the audit certification.

Community impact

5. One of the principles in the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. External audit contributes to effective accountability.

Equality duty

6. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
7. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

8. The additional external audit fee for completing this work is referred to in appendix 1 and, at £5,415, is as approved by audit and governance committee on 20 September 2017.

Legal implications

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

Risk management

10. The work did not identify any significant risks. Some minor improvements in working practice to minimise future fee costs are being actioned. The DWP has not requested any further work be completed.

Consultees

11. None.

Appendices

Appendix 1 – Housing benefit certification letter 2016/17

Background papers

None



Grant Thornton

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12 December 2017

Dear Andrew

Certification work for Herefordshire Council for year ended 31 March 2017

We are required to certify the Housing Benefit subsidy claim submitted by Herefordshire Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2016/17 relating to subsidy claimed of £46.9 million. Further details are set out in Appendix A.

We identified some issues from our certification work which we wish to highlight for your attention.

We undertook testing this year of a sample of 40 cases in relation to an error in Rent Allowances which we reported in 2015/16. This error occurred due to the incorrect Local Housing Allowance (LHA) rate being applied. We identified no errors from the testing undertaken in 2016/17.

From our initial testing of 20 rent allowance cases we identified one case where the incorrect rent had been applied when assessing the eligible housing benefit. Benefit had been overpaid in this case. In line with guidance a further sample of 40 cases were tested to ensure that the correct rent had been applied. We identified no fails from this extended testing. We extrapolated the error on the single fail and reported this in our qualification letter to the Department for Work and Pensions (DWP). The extrapolated financial impact on subsidy is relatively insignificant to the total subsidy receivable.

The signed claim we originally received for audit purposes had been populated by running the incorrect system report. The correct reports were subsequently run and an amended claim has been submitted to DWP. The impact on subsidy claimed was relatively small.

As a result of the errors identified, the claim was amended and qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2016/17 was £5,415.

We would like to take the opportunity to thank the benefits team for their assistance in completing the work. The team were supportive and responsive to our audit requirements and whilst the claim was qualified, there were relatively few errors identified or matters raised in our report to DWP.

Yours sincerely

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2016/17

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£46,918,874	Yes	£24,429 increase	Yes	<p>Amendment as the original subsidy return was prepared using the incorrect reports.</p> <p>Qualification:</p> <ol style="list-style-type: none"> 1) Error in rent allowance claimed due to incorrect rent used when determining subsidy. Cell 102 overstated £9,450 (100% subsidy), cell 113 understated £9,450 (nil subsidy) 2) Benefit software reconciliation: reported imbalance of £300 due to cheques returned which could not be written off within the system.

Appendix B: Fees for 2016/17 certification work

Claim or return	2014/15 fee (£)	2016/17 indicative fee (£)	2016/17 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£7,220	£5,415	£5,415	£nil	<p>Due to staff turnover in the benefits department, we agreed with officers that we would complete the initial testing, whereas this has been completed by council staff in previous years.</p> <p>This has involved agreed additional work by external audit. The indicative fee is based on the 2014/15 claim where there was greater 40+ testing. We have made an assessment that the additional work in completing the workbooks is</p>

					<p>offset by less work due to reduced 40+ testing and we are not proposing an adjustment to the indicative fee.</p> <p>All indicative fees are available on the PSAA website:</p> <p>https://www.psaa.co.uk/audit-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/</p>
Total	£7,220	£5,415	£5,415	£nil	



Meeting:	Audit and governance committee
Meeting date:	24 January 2018
Title of report:	Work programme for 2017/18
Report by:	Democratic services officer

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 2017/18.

Recommendation(s)

THAT:

Subject to any updates made by the committee, the work programme for 2017/18 for the audit and governance committee be agreed.

Alternative options

- 1 There are no alternative options as regards whether or not to have a work programme as the committee will require such a programme.

Reasons for recommendations

- 2 The work programme is recommended as the committee is required to define and make known its work. This will ensure that matters pertaining to audit and governance are tracked and progressed in order to provide sound governance for the council.
- 3 The committee is asked to consider any further adjustments.

Key Considerations

Further information on the subject of this report is available from
Caroline Marshall, democratic services officer on Tel (01432) 260249

- 4 The routine business of the committee has been reflected as far as is known, including the regular reporting from both internal and external auditors.

Community impact

- 5 A clear and transparent work programme provides a visible demonstration of how the committee is fulfilling its role as set out in the council's constitution.

Equality duty

- 6 This report does not impact on this area.

Financial implications

- 7 There are no financial implications.

Legal implications

- 8 The work programme reflects any statutory or constitutional requirements.

Risk management

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

Consultees

- 10 The chief finance and S151 officer and monitoring officer have contributed to the work programme

Appendices

Appendix A – audit and governance work programme 2017-18

Background papers

- None identified.

**Audit and Governance Work Programme
2017/18**

Function area	Report	Purpose
March 2018		
External audit (Annual)	External auditors annual plan	Review the annual letter.
External audit	Informing the risk assessment	Report setting out risks and council's approach to managing risks in key areas.
External audit	External auditor report	Timetable for completion of 2017/18 and current issues update.
Internal audit (Annual)	Internal audit plan for 2018/19	To consider the internal audit plan for 2018/19.
Governance	Update on the implementation of SWAP recommendations following audit of the joint customers services hub	<ul style="list-style-type: none"> • To update members on the progress of the internal control improvement board • Update on any changes necessary to the contract procedure rules and finance procedure rules. • Update on SWAP re-audit of the recommendations
Internal audit	Progress report on 2017/18 internal audit plan	To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.
Governance (as and when there are working groups)	Working Group Update	To note progress of the working group
Governance (Annual)	Future work programme for 2018/19	To note the work programme for 2018/19.
Governance (Quarterly)	Corporate risk register	To consider the quarterly status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.

