

Agenda

Audit and governance committee

Date: **Friday 25 September 2020**

Time: **10.30 am**

Place: **On line meeting only**

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

Chairperson **Councillor Nigel Shaw**
Vice-Chairperson **Councillor Christy Bolderson**

Councillor Dave Boulter
Councillor Peter Jinman
Councillor Bob Matthews
Councillor Diana Toynbee
Councillor Yolande Watson

Agenda

		Pages
THE PUBLIC RIGHTS TO INFORMATION AND ATTENDANCE AT MEETINGS		
1.	APOLOGIES FOR ABSENCE To receive apologies for absence.	
2.	NAMED SUBSTITUTES (IF ANY) To receive details any details of members nominated to attend the meeting in place of a member of the committee.	
3.	DECLARATIONS OF INTEREST To receive declarations of interests in respect of Schedule 1, Schedule 2 or Other Interests from members of the committee in respect of items on the agenda.	
4.	MINUTES To approve and sign the minutes of the meeting held on 30 July 2020.	9 - 16
5.	QUESTIONS FROM MEMBERS OF THE PUBLIC To receive questions from members of the public. <i>Deadline for receipt of questions is 5.00 pm on 21 September 2020 (3 clear working days from date of meeting).</i> <i>Questions must be submitted to councillorservices@herefordshire.gov.uk. Questions sent to any other address may not be accepted.</i> <i>Accepted questions and the response to them will be published as a supplement to the agenda papers prior to the meeting. Further information and guidance is available at https://www.herefordshire.gov.uk/getinvolved</i>	
6.	QUESTIONS FROM COUNCILLORS To receive any questions from councillors. <i>Deadline for receipt of questions is 5.00 pm on 21 September 2020 (3 clear working days from date of meeting).</i> <i>Accepted questions and answers will be published as a supplement prior to the meeting.</i>	
7.	RE-THINKING GOVERNANCE To recommend a governance model for Herefordshire Council.	17 - 36
8.	EXTERNAL AUDIT PROGRESS UPDATE To provide the committee with a progress update of the work being undertaken by the external auditor, Grant Thornton.	37 - 56
9.	INTERNAL AUDIT ANNUAL REPORT AND OPINION 2019/20 The purpose of this report is to enable the committee to provide independent assurance on the adequacy of the risk management framework together with the internal control of the financial reporting and annual governance	57 - 84

	processes by considering the head of internal audit's annual report and opinion, and the level of assurance it gives over the council's corporate governance arrangements.	
10.	PROGRESS REPORT ON 2020/21 INTERNAL AUDIT PLAN PROPOSED REVISED INTERNAL AUDIT PLAN 2020/21	85 - 118
	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. To enable the committee to monitor performance of the internal audit team against the approved plan.	
	To be assured that the level and range of activity within the proposed revised annual internal audit plan is sufficient to provide assurance over the council's corporate governance arrangements and provides appropriate coverage of key business activities, associated risks and risk management processes.	
11.	ENERGY FROM WASTE LOAN UPDATE	119 - 130
	To provide assurance to the audit and governance committee on the current status of the energy from waste loan arrangement to enable the committee to fulfil its delegated functions.	
12.	ANNUAL REPORT ON CODE OF CONDUCT	131 - 144
	To enable the committee to be assured that high standards of conduct continue to be promoted and maintained. To provide an overview of how the arrangements for dealing with complaints are working together with views from the latest standards panel sampling review.	
13.	WORK PROGRAMME UPDATE	145 - 148
	To provide an update on the work programme for the committee.	

The public's rights to information and attendance at meetings

You have a right to: -

- Attend all council, cabinet, committee and sub-committee meetings unless the business to be transacted would disclose 'confidential' or 'exempt' information. This meeting will be broadcast live on the Herefordshire Council's YouTube channel. Link: <https://www.youtube.com/HerefordshireCouncil>
- Inspect agenda and public reports at least five clear days before the date of the meeting via the website.
- 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 access to a list specifying those powers on which the council have delegated decision making to their officers identifying the officers concerned by title.
- Copy any of the documents mentioned above to which you have a right of access, subject to a reasonable charge (20p per sheet subject to a maximum of £5.00 per agenda plus a nominal fee of £1.50 for postage).
- Access to this summary of your rights as members of the public to attend meetings of the council, cabinet, committees and sub-committees and to inspect and copy documents.

Recording of this meeting

Please note that the council will be making an official recording of this public meeting. These recordings form part of the public record of the meeting and are made available for members of the public via the council's website.

To ensure that recording quality is maintained, could members and any attending members of the public speak as clearly as possible and keep background noise to a minimum while recording is in operation.

Please also note that other attendees are permitted to film, photograph and record our public meetings provided that it does not disrupt the business of the meeting.

If you do not wish to be filmed or photographed, please identify yourself so that anyone who intends to record the meeting can be made aware.

Please ensure that your mobile phones and other devices are turned to silent during the meeting.

The reporting of meetings is subject to the law and it is the responsibility of those doing the reporting to ensure that they comply.

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 Nigel Shaw (Chairman)	Conservative
Councillor Christy Bolderson (Vice Chairman)	Conservative
Councillor Dave Boulter	It's Our County
Councillor Peter Jinman	Herefordshire Independents
Councillor Bob Matthews	True Independents
Councillor Diana Toynbee	Green
Councillor Yolande Watson	Herefordshire Independents

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; and.
- (e) reviewing the constitution and recommending any necessary amendments to Council as appropriate.
- (f) reviewing the corporate risk register

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 only entitled to speak at the discretion of the chairman.

Minutes of the meeting of Audit and governance committee held at Online meeting on Thursday 30 July 2020 at 10.30 am

Present: Councillor Nigel Shaw (chairperson)
Councillor Christy Bolderson (vice-chairperson)

Councillors: Dave Boulter, Peter Jinman, Bob Matthews, Diana Toynbee and Yolande Watson

Officers: Solicitor to the council, Chief finance officer, Director for children and families and Head of corporate performance

449. APOLOGIES FOR ABSENCE

There were no apologies for absence.

450. NAMED SUBSTITUTES (IF ANY)

There were no substitutes.

451. DECLARATIONS OF INTEREST

There were no declarations of interests.

452. MINUTES

RESOLVED:

That the minutes of the meeting held on 16 June 2020 be confirmed as a correct record and signed by the chairperson.

453. QUESTIONS FROM MEMBERS OF THE PUBLIC

There were no questions from members of the public.

454. QUESTIONS FROM COUNCILLORS

There were no questions from councillors.

455. CORPORATE RISK REGISTER

The chairperson welcomed the director for children and families to the meeting who was in attendance to answer questions in connection with the children and families risk registers.

The head of corporate performance presented the report and highlighted:

- The risk registers were as at 30 June 2020.
- The Covid-19 risk register had been included.

- The draft risk management plan was attached for the committee's comments as it was due to be presented to Cabinet in September 2020 for approval.
- Three new risks had been added and details were contained within the agenda pack for the meeting.
- There was an error on the heat map contained within the report as CRR36 had been included instead of being removed.

In the committee's discussion on the item, the following points were raised:

- Cabinet were potentially looking at a further £5m to £10m from government on top of the funding which had already been received. The council had received just over £13m from government but were waiting for details of the support in connection with lost income. Assumptions had been made in connection with cost implications in the future. It was confirmed that there were a range of reserves in place which could fund these budget pressures. There would be more detail contained within the quarter 2 budget and performance report which would be considered by Cabinet.
- It was confirmed that the public health budget was a ringfenced budget for that area. £840k had been received as part of a Covid-19 grant which was being used as part of the council's response to the pandemic. Details of this grant would be included in the quarter 2 report to Cabinet.
- It was noted that for the high level risks, there appeared to be no change in the mitigation actions. It was acknowledged that further work could be done in connection with this to ensure that there were Specific, Measureable, Attainment, Realistic Targets (SMART) as part of the mitigation.
- It was noted that for five risks, there had been an increase in the risk score but very little detail about the increase or any resultant actions to be taken. It would be useful to the committee if details of why the risk or mitigation had changed could be included.
- It was confirmed that management board do review the risk registers on a regular basis. In the children and families directorate, the risk registers were reviewed on a monthly basis. It was acknowledged that some risks did appear to be longstanding but that was because the directorate were living with longstanding risks. Using the Human Rights Act (HRA) risk as an example, the register acknowledged that there had been cases in the past but there may be cases in the future so it was appropriate to reflect this on the risk register.
- With regard to the children and families' risk in connection of an overspend against planned budget with regard to placements, this was a significant budget pressure but there were a range of mitigating actions in process which included the Widemarsh development.
- With regard to the recruitment of children's social workers, it was noted that this had been present on the risk register for a number of years and it was queried whether there would be a way to mitigate the risk to a lower level. There was a range of activity which included the ability to work remotely whilst acknowledging that staff in that area needed to have contact with families. It was nationally a challenging area to recruit into it.
- It was noted that detail of the actions in the children's and families risk register were being undertaken and detailed in different improvement and action plans which were considered regularly by the children's scrutiny committee, and the performance challenge meetings. An example of this was the annual fostering and adoption report which was considered by children's scrutiny committee and Cabinet.

- It was suggested that there could be links on the risk registers to these various improvement and / or action plans.
- It was agreed that an annual comparison of risks against other councils would be undertaken by the corporate support centre and be reported to the committee.
- It was acknowledged that the number of risks varied by directorate and management board could look at this point as the council services around the risk to children was a daily risk.
- It was agreed that the solicitor to the council would look at the risk management plan with a view to ensuring that there were stronger references to the risks within the children and families directorates and any other high risk council areas.
- It was noted that when setting the budgets, they needed to address the most important risks as that was where resources were directed.
- The two risks relating to Ofsted were in connection with the preparation for an Ofsted visit and it was noted that the wording for this risk had been cut off. The second risk was in connection with the council being judged to be inadequate. In general terms if a council's children's safeguarding was judged inadequate, then staff tended to leave which lead to an increased cost of agency staff and an additional money would need to be spent in order to improve services. It was acknowledged that the wording could be more accurately stated.
- In connection with the risk on the economy and place risk register (EP27, Hereford Transport Package), it was explained that it was an early indication of a risk which had not materialised. There was also the possibility that the original scoring may have been too high.
- It was queried whether the absence of general scrutiny meetings would constitute a risk to good governance. The solicitor to the council confirmed that the risk would sit on the legal risk register as a lack of scrutiny affects the ability of audit and governance committee to provide assurance. It was noted that steps were now being taken which included a meeting with the director and the statutory scrutiny officer.
- The head of corporate performance agreed to circulate the performance, risk, opportunity and management (PROM) framework to the committee.
- The committee requested that details with regard to the assumptions used in the plan were included as an appendix, together with worked examples.
- It was agreed that there would be a dry run of the new plan to see if there were any issues which could be identified.

RESOLVED that

- a) Appendices be included to provide an explanation of the assumptions which have been made in the risk management plan. These appendices to include worked examples from each directorate and include SMART mitigating actions.**
- b) The risk criteria are better define within the risk management plan.**
- c) If when working through the examples and undertaking a dry run of the framework, issues are identified, that there is consideration that they are added to the impact of the risk.**
- d) If during the dry run of the new plan that if there are any relevant issues that they would be added into the document.**
- e) An annual risk comparison is undertaken by the corporate support centre and reported to the committee.**
- f) The impact of the risk to children, young people and vulnerable adults is expressly included within the revised risk management plan.**

The meeting adjourned at 12.00 pm and re-commenced at 12.17 pm.

456. DRAFT ANNUAL GOVERNANCE STATEMENT 2019/20

The chief finance officer presented the report.

During the discussion on the item the following points were raised:

- The external audit work was on track for November 2020.
- The draft annual governance statement is available on the council's website for the public to comment on.
- The typographical and grammatical errors would need to be corrected.
- The committee were pleased with the user-friendly presentation and the inclusion of hyperlinks.
- It was confirmed that the outstanding actions contained within appendix 2 of the agenda pack had been incorporated in the annual governance statement.

RESOLVED that

the committee determined the draft annual governance statement at appendix 1 properly reflected the risk environment the council is operating in and that actions identified are an appropriate response.

457. PROGRESS REPORT ON 2020/21 INTERNAL AUDIT PLAN

South West Audit Partnership presented the report.

The following points were highlighted as part of the discussion on the item:

- Progress was not as expected for Quarter 1.
- There was an error in appendix c on page 102 of the agenda papers as the HALO financial review will form part of the 2019/20 annual opinion report.
- Four new pieces of work had been undertaken and two additional internal audits.
- SWAP had been very active during the period and the council had used the team on a range of counter-fraud activities.
- The 2020/21 internal audit would be reviewed with the chief finance officer to assess the impact of Covid-19 and a revised plan would be presented in September 2020.
- The offer of training in connection with counter-fraud activity was accepted by the committee.
- The audits for 2019/20 had been impacted by officers' ability to respond due to Covid-19. Currently, the audits were lacking the detail of what action officers were going to take in connection with recommendations.
- SWAP had been looking at the cyber security / fraud areas. As cyber fraud was a high risk area, an internal audit had been scheduled. This would be carried out by a SWAP IT auditor. It was confirmed that as IT was a commissioned service from Hoople, the report would go to the relevant council officer to ensure that any identified recommendations were carried out by the provider. The solicitor to council indicated that they would have to further consider the point as to who would be appropriate to attend a committee meeting if there were questions over the outcome of the internal audit but it may be a council officer as the commissioner of the service. It was agreed that the chairperson would work with clerk and the IT team in connection with assurance being provided to the committee in connection with cyber security within the council.

- The process of prioritising audits was outlined. This included SWAP looking at the relevant risk register, meeting with senior managers in each directorate, etc to understand where the risk areas were located.
- SWAP agreed to provide the committee with a brief overview in connection with the 2019/20 audits to provide assurance to committee about any key findings in advance of September 2020 meeting.

RESOLVED THAT:

- a) The Chairperson work with the clerk and the IT team in Hoople in connection with providing assurance with regard to council's cyber security;**
- b) A presentation from the IT auditor at SWAP in connection with cyber security be arranged for the committee;**
- c) A brief overview from SWAP be prepared in connection with the 2019/20 audits in order to provide assurance to committee about any key findings in advance of September 2020 meeting; and**
- d) The chief finance officer consults with SWAP in connection with an audit of the public health budget.**

458. NATIONAL MODEL CODE OF CONDUCT CONSULTATION

The solicitor to the council presented the report.

The proposed national code of conduct from the Local Government Association had arisen following a recommendation from the Committee on Standards in Public Life. There were some differences from the national code of conduct to the adopted code of Herefordshire Council. The examples of the requirement to declare gifts and hospitality on the register of interest form and the need to declare a membership of closed society were used. It was noted that there were currently no sanctions which could be imposed on councillors beyond an apology or training.

The committee were supportive of the proposed responses to the survey questions which had been drafted by the solicitor to the council. It was confirmed that the proposed responses took into account the views of the independent persons for standards but no views from councillors had been sought. Details of the consultation had been provided to all councillors in case they wished to submit an individual response.

In response to a question from a member of the committee, the solicitor to the council confirmed that there were informal arrangements to deal with complaints against councillors in place but where a member of the public had complained then the formal process would need to be used.

RESOLVED that

the solicitor for the council be authorised to submit the response to the national code of conduct consultation attached at appendix 4 by the deadline of 17 August 2020.

459. WORK PROGRAMME UPDATE

The work programme was discussed.

Resolved that:

The work programme be approved subject to the following amendments:

- **annual internal audit opinion be added to the agenda for September 2020.**
- **possible report on changes to the Constitution to the licensing sub committee functions for September 2020**
- **Whistleblowing policy for September 2020**

The meeting ended at 1.07 pm

Chairperson

Audit & Governance Committee Constitution		Report	May	June	July	September	October	November	January	March
3.5.9	The purpose of an audit 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									
3.5.10	Internal Audit	Internal Audit								
a	To consider the Head of Internal Audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements	Internal Audit Plan & Internal Audit Charter Progress Report on Internal Audit plan (see part b for timing)	2020/21 Plan & Charter					Opinion		2021/22 Plan & Charter
b	To consider summaries of specific Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary	Progress Report on Internal Audit plan		Progress Report	Progress Report	Progress Report	Progress Report	Progress Report	Progress Report	Progress Report
c	To consider reports dealing with the management and performance of the providers of Internal Audit Services									
d	To consider a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale	Tracking of internal and external audit recommendations Progress Report on internal audit plan (see part b for timing)		Tracking Report			Tracking Report			Tracking Report
e	To be able to call senior officers and appropriate members to account for relevant issues within the remit of the Committee	No specific activity required as part of normal questioning activity								
f	The Committee will not receive detailed information on investigations relating to individuals. The general governance principles and control issues may be discussed, in confidential session if applicable, at an appropriate time, to protect the identity of individuals and so as not to prejudice any action being taken by the Council	Progress Report on internal audit plan (see part b for timing)								
3.5.11	External Audit	External Audit								
a	Review and agree the External Auditors annual plan, including the annual audit Fee and annual letter and receive regular update reports on progress	Annual Audit Fee letter External Audit progress update (see part b for timing) Tracking of internal and external audit recommendations (see part 3.5.10d for timing) Annual Audit Letter External Audit Annual Plan	Audit Fee							Annual Letter Annual Plan
b	To consider specific reports from the External Auditor	External Audit progress update		Progress Report	Progress Report	Progress Report	Progress Report			Progress Report
c	To meet privately with the External Auditor once a year if required	Not required to be scheduled on Work programme								
d	To comment on the scope and depth of external audit work and to ensure it gives value for money	No specific activity required as part of normal questioning activity								
e	To recommend appointment of the council's local (external) auditor	Not required to be scheduled on 20/21 Work programme								
f	Ensure that the effective relationships between external and internal audit that the value of the combined internal and external audit process is maximised.	No specific activity required as part of normal questioning activity. External Audit can place limited reliance on Internal Audit Work.								
3.5.12	Governance									
a	To maintain an overview of the council's Constitution, conduct a biennial review and recommend any changes to council other than changes to the contract procedure rules, finance procedure rules which have been delegated to the committee for adoption	Re-thinking Governance Update Accounting Policy Update Contract & Finance Procedure Rules		Re-thinking Governance		Re-thinking Governance		Policy Update		Procedure Rules
b	To monitor the effective development and operation of risk management and corporate governance in the council	Work programme Corporate Risk Register	Risk Register Work programme	Work programme	Work programme Risk register	Work programme	Work programme	Work programme Risk Register	Work programme Risk Register	Work programme
c	To maintain an overview and agree changes to the council policies on whistleblowing and the 'Anti-fraud and corruption strategy'	Whistleblowing policy Anti-fraud & corruption strategy		Whistleblowing			Anti-Fraud & Corruption Whistleblowing			Risk register
d	To oversee the production of the authority's Statement on Internal Control and to recommend its adoption	Statement of Accounts								
e	To annually conduct a review of the effectiveness of the council's governance process and system of internal control which will inform the Annual Governance statement	Annual Governance Statement Annual Governance Statement Progress Report				Draft		Final		Progress Report
f	The council's arrangements for corporate governance and agreeing necessary actions to ensure compliance	Annual Governance Statement Progress Report								Progress Report
g	To annually review the council's information governance requirements	Information Governance Review								
h	To agree the annual governance statement (which includes an annual review of the effectiveness of partnership arrangements together with monitoring officer, s151 officer, cabinet guardian and equality and compliance manager reviews)	Annual Governance Statement Annual Governance Statement Progress Report				Draft		Final		Progress Report
i	To adopt an audit and governance code									
j	To undertake community governance reviews and to make recommendations to Council	Last completed 2018. This is on an as required basis and therefore not scheduled.								
3.5.13	Waste Contract									
a	To review, in conjunction with external advisers advising the council as lender, the risks being borne as a result of the funding provided by the council to Mercia Waste Management Ltd and consider whether the risks being borne by the council, as lender, are reasonable and appropriate having regard to the risks typically assumed by long term senior funders to waste projects in the United Kingdom and best banking practice	Energy from Waste Loan Update								
b	To monitor the administration of the loan to the waste project in line with best banking practice having regard to any such external advice, including the terms of any waivers or amendments which may be required or are desirable	Energy from Waste Loan Update								
c	Consider what steps should be taken to protect the interests of the council as lender in the event of a default or breach of covenant by Mercia Waste Management Ltd, and make recommendations as appropriate to Council, the council's statutory officers or cabinet as appropriate to ensure the appropriate enforcement of security and litigation in relation to the loan to Mercia Waste Management Ltd	Energy from Waste Loan Update								
d	Consider and recommend appropriate courses of action to protect the position of the council as lender to the waste project: (i) make recommendation as appropriate to Council with regards to its budget and policy framework and the loan to the waste project (ii) generally to take such other steps in relation to the loan within the scope of these terms of reference as the committee considers to be appropriate.	Energy from Waste Loan Update								
3.5.14	Code of Conduct: To promote and maintain high standards of conduct by members and co-opted members of the Council									
a	To support Town and Parish Councils within the county to promote and maintain high standards of conduct by members and co-opted members of the Council	Annual Code of Conduct Report								
b	To recommend to Council the adoption of a code dealing with the conduct that is expected of members and co-opted members of the Council	Part of Re-thinking Governance Review to be scheduled in next year's Work programme.								
c	To keep the code of conduct under review and recommend changes/replacement to Council as appropriate	Part of Re-thinking Governance Review to be scheduled in next year's Work programme.								
d	To publicise the adoption, revision or replacement of the Council's Code of Conduct	Part of Re-thinking Governance Review to be scheduled in next year's Work programme.								
e	To oversee the process for the recruitment of the Independent Persons and make recommendations to Council for their appointment	7. Remuneration of independent persons Recruitment done on an ad hoc basis and not scheduled for 2020/21 Annual Code of Conduct Report	Remuneration							
f	To annually review overall figures and trends from code of conduct complaints which will include number of upheld complaints by reference to individual councillors within unitary, town and parish councils and when a code of conduct complaint has been upheld by the Monitoring Officer or by the Standards Panel, after the option of any appeal has been concluded, promptly to publish the name of the councillor, the council, the nature of the breach and any recommendation or sanction applied.									
g	To grant dispensations under Section 33 (2)(b)(d) and (c) Localism Act 2011 or any subsequent amendment	On an ad hoc basis only and not scheduled for 2020/21								
h	To hear appeals in relation to dispensations granted under section 33 (2)(a) and (c) Localism Act 2011 by the monitoring officer	On an ad hoc basis only and not scheduled for 2020/21								
3.5.15	Accounts									
a	To review and approve the Statement of Accounts, external auditor's opinion and reports on them and monitor management action in response to the issues raised by external audit.	Statement of Accounts External Auditor Report						Statement & Report		



Meeting:	Audit and governance committee
Meeting date:	Friday 25 September 2020
Title of report:	Re-thinking governance
Report by:	Solicitor to the Council

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To recommend a governance model for Herefordshire Council

Recommendation(s)

That:

- (a) having regard to the work undertaken by the Re thinking Governance working group, a hybrid cabinet model of governance be recommended to full Council with implementation with effect from annual council in May 2021**

Alternative options

1. The committee could ask the working group to continue the review and not make a recommendation at this time. This is not recommended as the resolution at full council on 11 October 2019 asked for a recommendation from this committee by no later than October 2020 and the working group have now completed their work.
2. The committee could resolve to recommend a different model of governance but that is not recommended based upon the evidence reviewed by the working group.

Key considerations

Section 1 - Methodology and approach

3. On 11 October 2019, the council resolved to review its governance arrangements to investigate and explore options for the future. The following guiding principles were set by the council:
- To maximise member engagement and participation in decision-making.
 - To ensure decision-making is informed, transparent and efficient.
 - To welcome public engagement.
 - To enable member and officers to perform effectively in clearly defined functions and roles.
 - To assess any resource implications for any proposed changes.

4. The review was undertaken by a cross-party working group the current membership of which is:

Member	Substitute member	Political Group	Function
Councillor Bolderson		Conservatives	Audit and Governance
Councillor Bartlett	Councillor Toynbee	Green	Scrutiny
Councillor Watson	Councillor Hardwick	Herefordshire Independents	Planning and Regulatory
Councillor Seldon	Councillor Harvey	It's Our County (Herefordshire)	Cabinet
Councillor James	Councillor Andrews	Liberal Democrats	Employment Panel
Councillor Hunt	Councillor Matthews	True Independents	Scrutiny

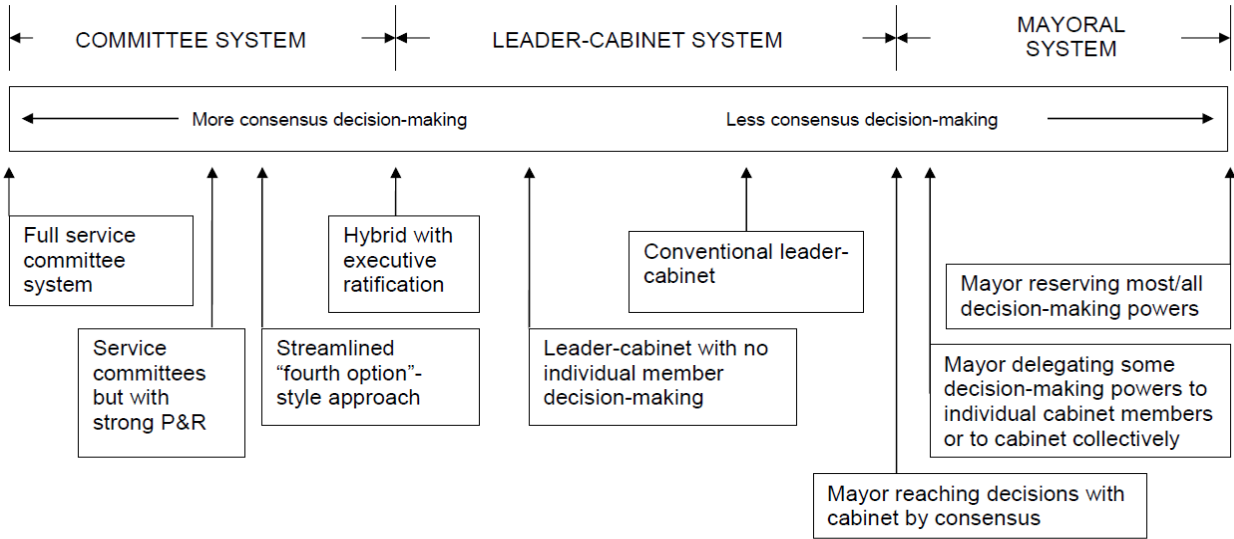
5. The Centre for Public Scrutiny (now known as the Centre for Governance and Scrutiny) ("CfGS") was engaged to provide assistance to the working group, and to the wider membership of the council, as they considered their options. CfGS has carried out significant national research on governance change, and has provided direct support to around two dozen councils on the subject since powers became available in the Localism Act 2010 to effect such a change. CfGS has also provided assistance to a number of councils which have chosen to explore and implement hybrid models of governance. CfGS has no "preferred" model for governance and considers that there are no clear "pros and cons" of any one given system – culture, behaviour and attitudes tend to be more important than structure.

6. The working group met on 10 occasions (27 January, 7 February, 18 March, 7 May, 20 May, 26 May, 10 July, 14 August, 21 August, 7 September and 10 September) to progress their deliberations. Those discussions plus the feedback from the Member workshops (22-23 April 2020) and the All-Members Questionnaire (June 2020) has enabled the working group to identify the following concerns with the current governance model at Herefordshire council. These are:

- insufficient communication with the public, engagement and promotion of current issues;
- political proportionality not always making the best use of members skills & experience;
- process for input into forthcoming decisions could be improved and could be more informative including the use of political group consultations;
- improvements could be made to the forward plan to make it easier to find, navigate and understand;
- lack of a cross party think tank or policy development panel/committee;
- lack of a collaborative culture;
- scrutiny function could be improved and strengthened;
- balance of council work with outside employment responsibilities heavily impacts the level of members involvement;
- member development could be improved as a result of the complexity of rules and experience of members; and
- members feel uninformed and find it difficult to shape new policies and decisions.

7. These concerns have been the foundation for the working group’s discussion on which model would best meet the needs of Herefordshire council.

8. The working group also reviewed the governance change approaches taken by a number of other councils, in particular those councils which have chosen to adopt either the committee system or a hybrid model of governance. The working group found that while several formal governance “options” exist, governance approaches are a spectrum, from systems which concentrate decision-making power in a single individual at one end, to those where decision-making responsibility is far more distributed. The diagram below illustrates this breadth.



Section 2 - Main findings

9. The working group suggest that the Council adopt a hybrid model of governance, allowing for a greater degree of councillor involvement in policy development, decision-making and oversight without a break from the legal structure of the Cabinet system. It is the view of the working group that an improved cabinet system can address all of the issues raised by members over the current cabinet system whilst taking into account members different interests and time commitments during their term in office.
10. Time that members could devote to council business was identified as a significant barrier to good governance and members overall appetite gained from the survey and discussions in groups does not support a model where more meetings would be required. It was highlighted that many task and finish groups of scrutiny which are open to all members, struggle to attract a membership, although it is recognised that this work is not additionally remunerated. In addition, some members wished to focus more time on direct support to their constituents, possibly to the exclusion of “formal” business in committee, whilst others wanted to take roles in either oversight (through the audit or scrutiny process), leadership in licensing or planning or contribute to policy development. The hybrid model provides members with the opportunity for involvement commensurate to their availability and interests, recognising that there is likely to be more involvement in higher profile/contentious decisions.
11. Adopting a hybrid model does not require the Council to embark on a formal, legal process for governance change. A formal change (to the committee system, for example) would lock the Council in to a new form of governance for five years. The hybrid approach provides the council with the opportunity to make changes within the current system with no ridge timescales. To help ensure timely and effective implementation, the working group suggests that any proposed changes be reviewed, and altered if necessary, after one year of operation.
12. Many of the concerns with the current governance could be overcome with a change in culture, and improved behaviour, attitudes and values. The working group believe that improvements can be made to the current model including improved communication, member training and development, to give members the capacity, confidence and expertise they need to play an active role within the political environment.
13. The hybrid model is recommended as the working group believe it can achieve the following outcomes which will meet the concerns identified in Section 1 above.
 - Enhanced opportunities, regardless of proportionality, for councillors to be directly involved in influencing decisions on high profile/contentious matters.
 - Improved provision of information to councillors, through the Forward Plan and forthcoming decision process and through a better approach to member briefing.
 - Refreshed member and officer training and development to reflect the cultural change required for working in a political environment.
 - Clear demarcation between members’ and officers’ roles for the smooth running of the authority.
 - Creation of activities carried out in formal, and informal, spaces. Including opportunities for the creation of more informal spaces for member dialogue.
 - A more active role for councillors in policy development.
 - Improved understanding how and where delegated decisions are made and overseen.
 - Resetting of councillors roles in review and scrutiny of council services.

- Build a more targeted role for scrutiny on performance and risk management alongside its other, external, statutory roles – such as those relating to health and community safety matters.
 - Increase the awareness of activities relating to oversight, decision-making and policy development.
 - Improved layout, accessibility and understanding of the constitution and the processes and systems in it to support good decision-making.
 - More regular and systematic member briefings.
 - Improved ability for the public to be involved.
14. This paper sets out the basic framework for what a hybrid model would address. Should the Audit & Governance Committee recommend to proceed with the implementation of such a system, the working group will continue to refine and add detail to this framework with a view to a new constitution being presented to this committee for recommendation to council in May 2021.
15. The working group have recognised that suggestions to put in place new systems have the potential to raise the resourcing required by democratic services. This will be reviewed and taken into account when designing the new model.

Community impact

16. 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. 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. Periodic reviews of the models of governance adopted by the council and the established processes and culture are valuable ways in which we can demonstrate how we uphold the code of corporate governance.
17. The council is responsible, as a corporate parent, for providing the best possible care and safeguarding for children who are looked after by the council, and as part of this must consider the impact of decision making on looked after children and care leavers. Any review of models of governance and mechanisms for stakeholder engagement in decision-making must consider how this responsibility may best be discharged.

Environmental Impact

18. The development of a revised governance model will seek to minimise any adverse environmental impact and will actively seek opportunities to improve and enhance environmental performance.

Equality duty

19. 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.
20. 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. Any review of governance models and decision making processes must ensure this duty is demonstrably upheld and promoted

Resource implications

21. The review is being undertaken using existing resources. As agreed by committee external support from CfGS has been sought and payment is within the approved £6,000 budget.

Legal implications

22. The council is required to have a constitution. The proposed model will provide the basis for changes to the current constitution to be adopted and implemented at the next annual council meeting.

Risk management

23. The working group will be responsible for ensuring that timescales are met and will provide updates to the audit and governance committee as part of their work programme. There is currently sufficient time to review the constitution, consult and make the necessary proposed changes.
24. There is also a risk that all members are not engaged in the process and their views are not made known to the working group. The establishment of a cross party working group was aimed to address this but given mixed attendance additional steps may be necessary to ensure all members are aware of the work being undertaken in the group.

Consultees

25. All elected members were invited to provide their views in the survey monkey and attend the workshops. All political groups are represented in the working group. The non aligned member declined to participate in the working group.

Appendices

Appendix 1 feedback from workshops which helped to inform the survey

Appendix 2 analysis of survey monkey as circulated to members on 18 August 2020

Appendix 3 revised timetable

Background papers

None.

Herefordshire Council

Notes from Member Workshops - present by Zoom conference sessions

22nd and 23rd April 2020

Report by Centre for Public Scrutiny

1. It was agreed by the Rethinking Governance Working Group that the next stage in the review process should be a workshop to allow all Members to engage in the review. The workshop would provide information on various aspects of governance change and present an opportunity for Members to explore and ask questions on the various models available.
2. Due to current restrictions on physical meetings and gatherings, it was decided to provide the workshops as small group discussion using Zoom conference technology. Four on-line workshop sessions were arranged and facilitated by Ian Parry, Head of Consultancy at the Centre for Public Scrutiny. The sessions were provided as a morning, afternoon or early evening option, with an additional morning session on the second day.
3. 37 Councillors took part over the four sessions.
4. The sessions comprised a presentation and discussion on the review process and the options available. This included:
 - Why taking an analytical approach is essential in reviewing governance
 - Present governance background – purpose of governance and options available
 - Explore the strengths and weaknesses of the current governance model
 - Brief oversight of how each works, and specific examples of where councils have adopted both models
 - Discuss examples of adapting either model to create hybrids and how these can work
 - Consider an option to retain present model but with additional features to offer greater Member inclusion. Taking a gap analysis approach to explore how to strengthen and improve. But also, to retain the option to move to a different model if satisfactory improvement cannot be achieved.
 - Consider an alternative option – if satisfactory improvements can't be found then changing the governance model is explored with an understanding of the possible improvements, implication and timescales

Outcomes from the workshops:

- Members recognised that both governance models – Cabinet or Committee both had strengths and weaknesses
- There was a balanced discussion around the benefits of improving the current structure or moving to committee
- Members appreciated and recognised that the ‘control’ and ‘power’ in both models would inevitably reside in political groups and their relative size
- Organisational culture, involving relationships, behaviours and expectation was widely seen as a key part of ensuring that either governance model is effective, and that greater focus on culture could bring significant benefits
- Councillors also acknowledged that decision making needs to be done effectively, efficiently and often at pace and this was an important consideration in adopting a governance framework
- There was interest from Members in the decision-making role of Officers in a committee structure and how this would be democratically managed
- Members expressed views on the role of Group Leaders in sharing information and the need to consider how information on key decisions, policy change and other important information can be made easier to access for Members.

Member survey

This was explained to Members as part of the evidence and opinion gathering part of the review, to ascertain Member views, expectations and preferences. The survey has been drafted by the Centre for Public Scrutiny and is due to be considered by the Review Group and then issued electronically via email to all Members.

Ian Parry | Head of Consultancy

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Rethinking governance

25

Practical steps for councils
considering changes to their
governance arrangements

Herefordshire Council Rethinking Governance

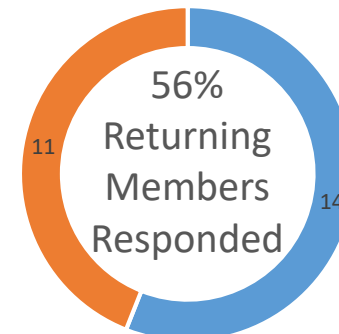
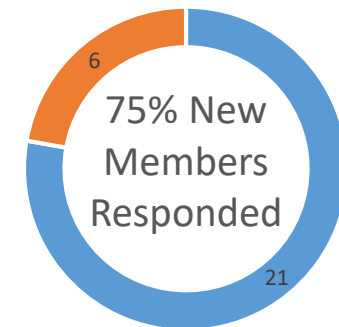
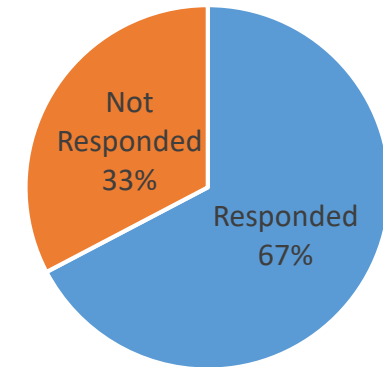
All Members' Questionnaire Summary

July 2020

Rethinking Governance & Questionnaire

- Full Council in 11 October 2019 approved a Notice of Motion to Review Governance Models at Herefordshire Council
- The Re-thinking Governance review is following guidance from the Local Government Association and from the Centre for Public Scrutiny guidance - Rethinking Governance: Practical steps for councils considering changes to their governance arrangement
- The purpose of the questionnaire was to formally gather views and experiences of members on the current governance model at Herefordshire Council in an anonymous way
- It was completed between 4-26 June 2020
- With a 67% response rate, it was considered that the results can inform the future decisions by the working group
- Taking into account the Covid-19 environment, majority of members wanted the review to continue with a full comparison between the committee and cabinet system

Member Response Rate to Questionnaire



Summary – Objectives of Good Governance

Members were asked to rank 11 objectives of good governance from most to least important.

Most Important Objectives:

1. Clear leadership & accountability
2. Open & Clear Communication
3. Robust & Independent challenge/scrutiny of decisions/performance
4. Fosters an inclusive system of decision making

There was wide ranging views on Herefordshire Council's performance against the 11 objectives. Four objectives receiving very low to very high rankings. Only 4 objectives had very low rankings whilst all 11 objectives had very high rankings. Generally, returning members thought the council was performing better when compared to new members.

Best Performing Objectives

1. Clear leadership & accountability
2. Competent, fair & knowledge-based decision-making & law abiding behaviour
3. Has a system that meets the needs and makes best use of available resources
4. Everybody being clear about what their roles are

Worst Performing Objectives

- All the below objectives had an average Low ranking:
1. Fosters an inclusive system of decision making
 2. Enables meaningful engagement which is equitable and inclusive
 3. Promotes collaboration & Consensus

Summary – Barriers to Good Governance

Below is a summary of barriers as identified by the results and members free text options of the questionnaire:

Time

- Complexity of the operating model and time to understand / ask questions
- Balance of council work with outside employment responsibilities impacted all areas of involvement

Culture & Communication

- Insufficient communication with the public, engagement and promotion of current issues
- Proportionality sometimes does not make the best use of members skills & experience
- Process for input into forthcoming decisions could be improved and could be more informative
- Difficult to find officers on the phone and sometimes they are slow to respond to emails
- One member indicated that senior officer leadership could be improved in relation to speaking to officers and decision-makers or policy consultations
- lack of a cross party think tank or policy development panel/committee
- Lack of collaborative culture
- Use of jargon
- Too heavily reliant on email
- Feeling uninformed

Member development

- Returning members expressed a wish to be more involved when compared to new members in all areas except being better informed about council policy and decisions. This could highlight areas for new member development
- Complexity of rules and lack of experience/knowledge in most areas of involvement: to ask questions, submit motions, request call ins, use of forward plan, influencing committee work programs, policy development, constitution in general
- 31% of respondents had never referenced the constitution
- Only 43% of members wanted to participate in a formal policy development panel or committee

Forward Plan

- Too short-term
- Not easy to find, navigate and understand
- Too complex

Other Suggestions

- Improve data collection, sharing and analysis
- More interactive comparisons with other councils
- Operating model considerations: Hybrid model, speed of decision making, value for money and number of decisions made by officers vs members

Summary – next steps

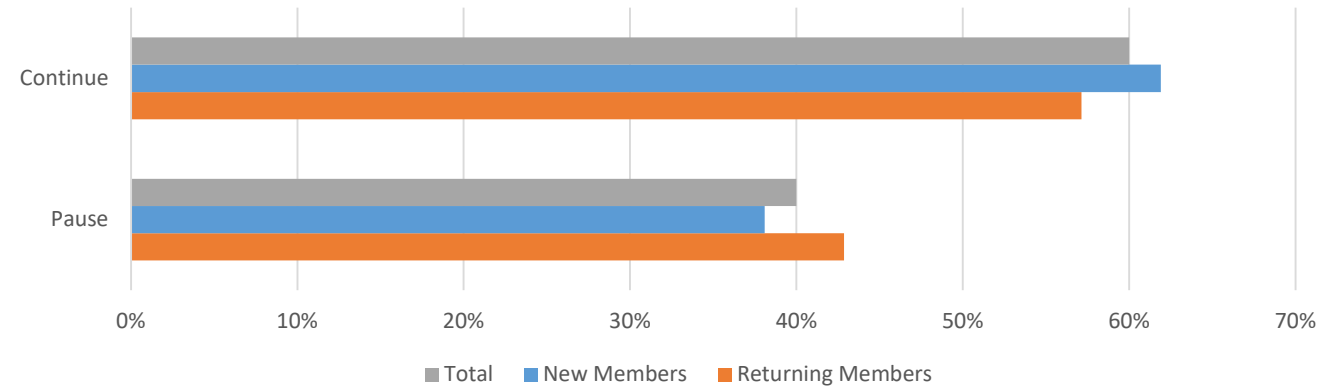
- Identify areas where changing culture and/or practice that could provide solutions
- Identify potential structural solutions
- Assess potential pros and cons (including risks) of the cultural and structural solutions to identify a preferred option (including looking at how effectively these operate in other comparator councils)

Covid-19 & Use of Constitution

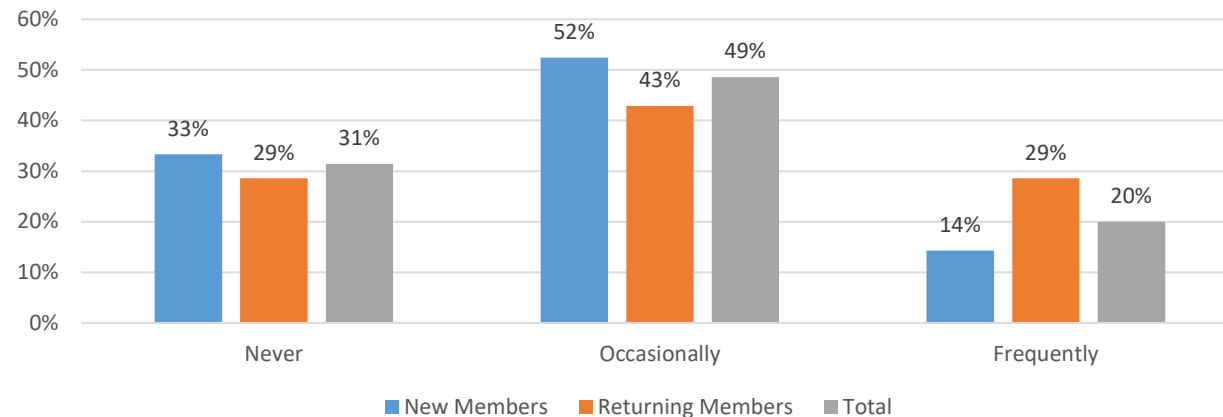
Majority of members wanted the review to continue with a full comparison between the committee and cabinet system

Length of service did not significantly impact the results

Percentage of Members wanting to Pause or Continue as a result of Covid-19



Percentage of members referencing the constitution



Majority of members have referenced the constitution during their service

Returning Members were twice as likely to frequently reference the constitution compared to new members

Objectives of Good Governance

31



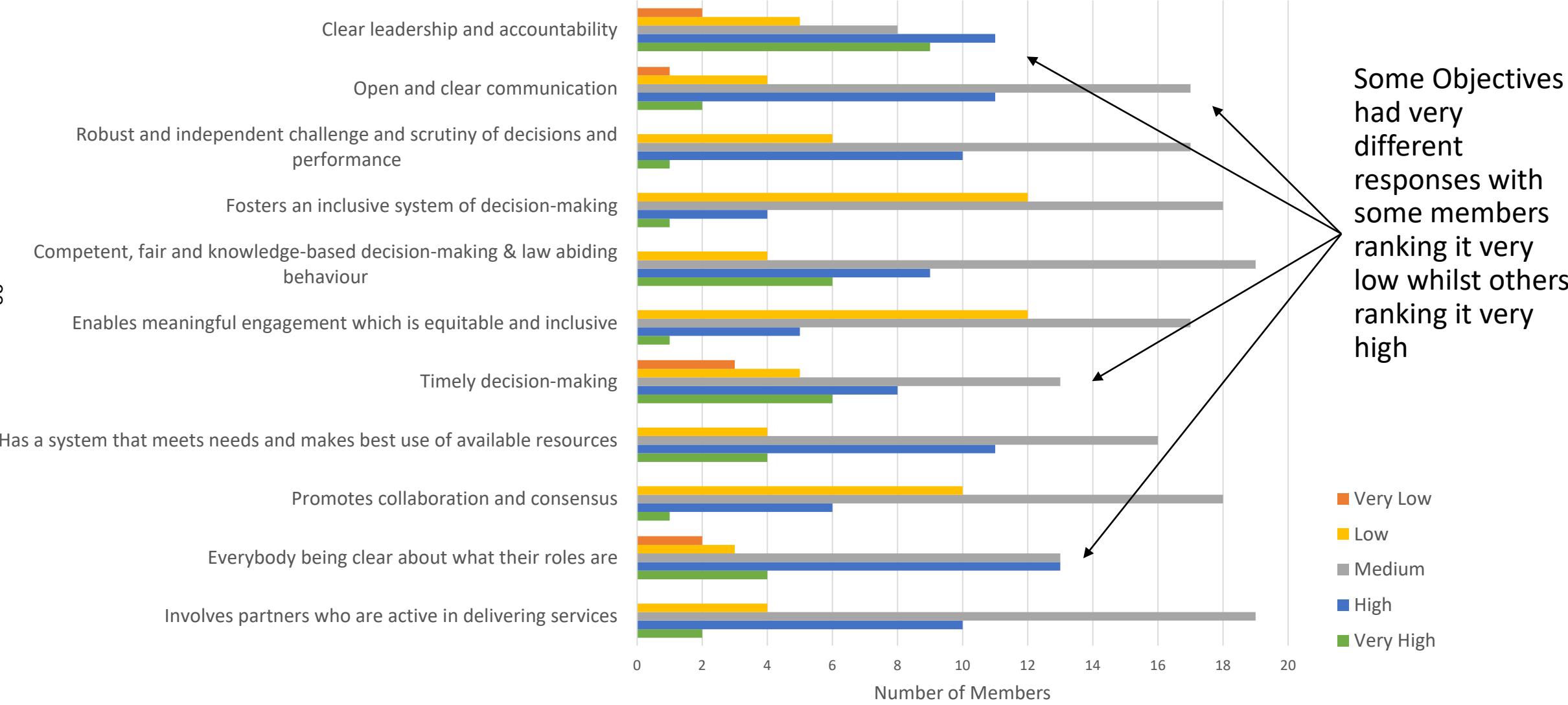
Members ranked the objectives with 1 being most important and 11 being least important

Average results demonstrate clear leadership and accountability as the most important objective

There was no significant difference in rankings when length of service was considered

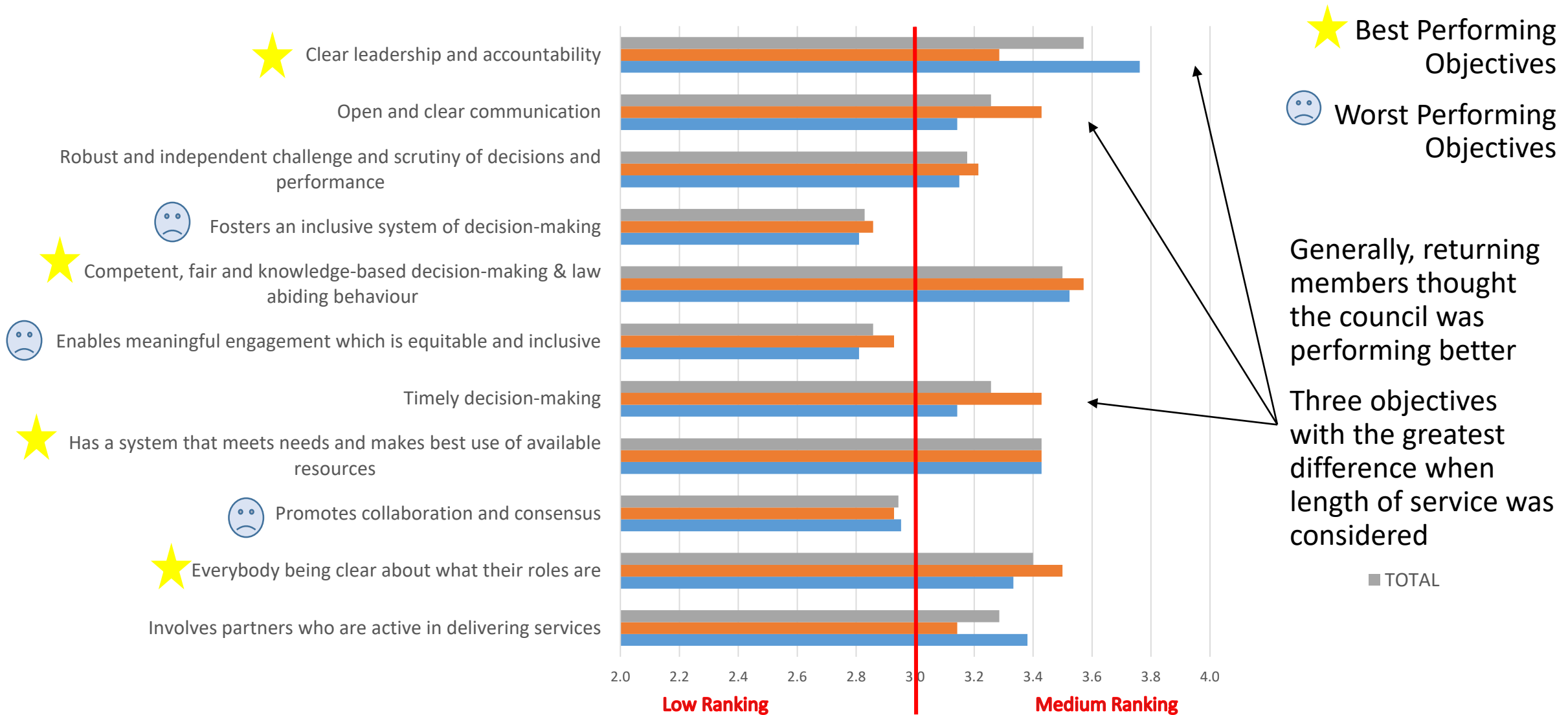
How the Council is Meeting the Objectives

32



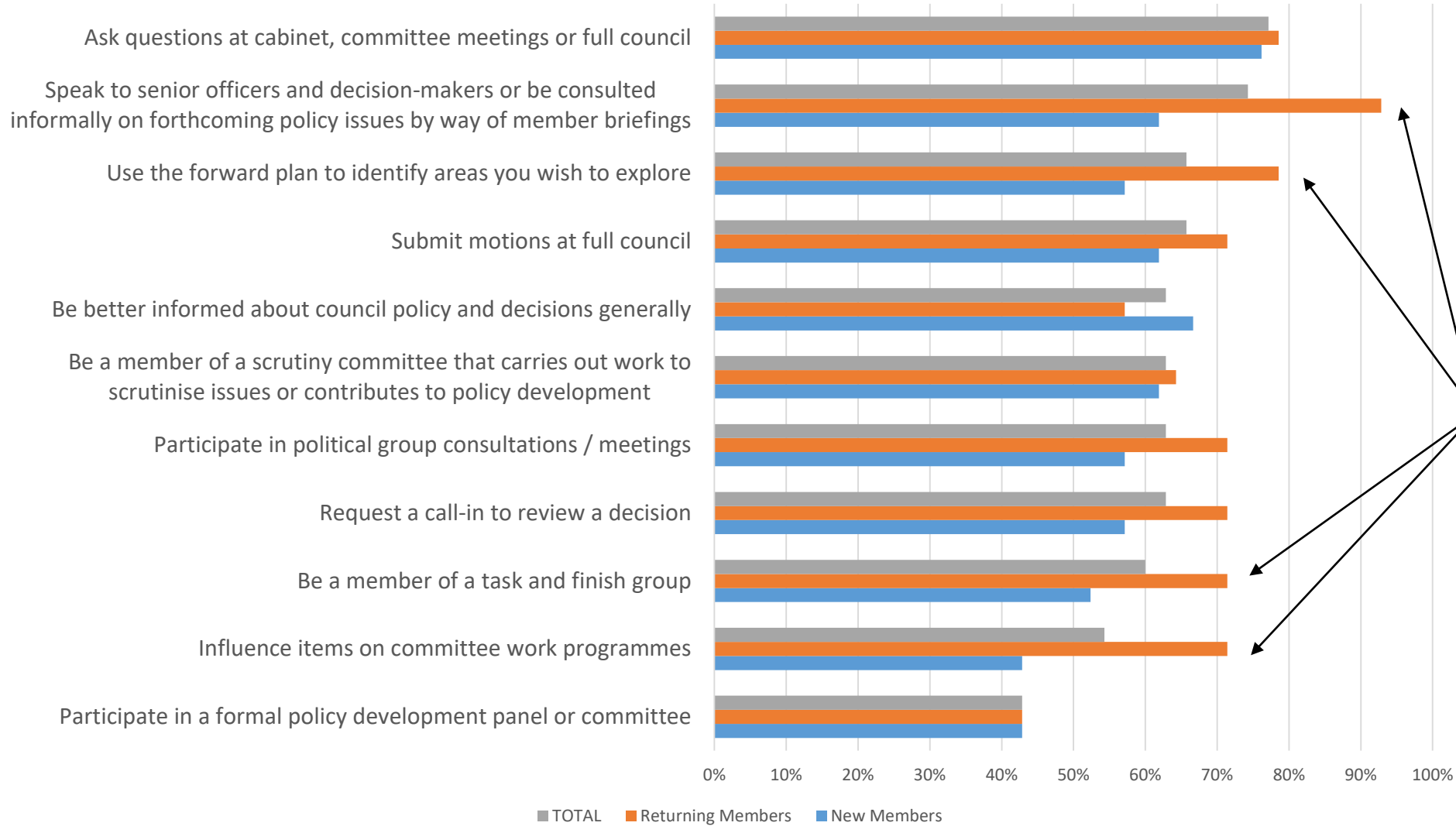
Meeting Objectives – Average & Service

33



Involvement of Members

34



Returning members wanted to be more involved compared to new members across all areas except for being better informed

There was a significant difference in 4 areas when length of service was considered

Only 43% of members wanted to participate in a formal policy development panel or committee

**Re-thinking Governance Working Group
Timetable**

Step/activity	Who	When	CfPS Step	Completed
<i>Step i) Plan the approach and assess current position</i>				
Confirm role of working group	Audit & Governance Committee	19/11/2019		√
Confirm external support from CfPS	Audit & Governance Committee	19/11/2019		√
Confirm whether scope includes impacts on partners	Audit & Governance Committee	19/11/2019		√
Confirm expectations re engagement	Audit & Governance Committee	19/11/2019		√
Assess how decisions are currently made (who by, what/how information about decisions is made available, how member engagement in decision making is enabled, the relationship between the executive and scrutiny, public and stakeholder engagement in decision making, partnership decision-making; mechanisms for review of implemented decisions, budget, and performance)	Working Group	27 January 2020	Workshop 1	√
Review current arrangements against the guiding principles established by Council to identify areas for improvement focus	Working group – facilitated by CfPS	7 February 2020	Workshop 2	√
All members’ webinars	Solicitor to the council	23 -24 April 2020		√
All member questionnaire	Working group	4- 25 June		√
Progress Report to audit and governance committee	Solicitor to the council	16 June 2020		√
<i>Step ii) Agree design principles</i>				
Guiding principles established	Council	October 2019		√
<i>Step iii) Think of ways to meet the guiding principles and put a plan in place</i>				
Identify areas where changing culture and/or practice that could provide solutions	Working group	7 August 2020	Workshop 3 (√
All Members’ Seminar	Solicitor to the council	If required		Not required
Identify potential structural solutions	Working group	14 August 2020	Workshop 3	√
Assess potential pros and cons (including risks) of the cultural and structural solutions to identify a preferred option (including looking at how	Working group – facilitated by CfPS	7 and 10 September 2020	Workshop 4	√

**Re-thinking Governance Working Group
Timetable**

effectively these operate in other comparator councils)				
Produce recommendations for consideration by Council	Working group report to Audit & Governance Committee	25 September 2020		√
	Audit & Governance Committee report to Council	9 October 2020		
	Resolution by Council	9 October 2020		
<i>Step iv) Make the change</i>				
Review constitution to align it to any decision made by Council	Monitoring Officer, using working group as a reference group, and reporting to Audit and Governance Committee bi monthly	By end March 2021		
Independent Remuneration Panel undertake review of member allowances scheme in light of any decision made by Council	Monitoring Officer to co-ordinate	By end March 2021		
Approve revised constitution and allowances scheme	Council	Annual meeting May 2021		
Implementation of any changes		From annual Council May 2021		
<i>Step v) Return to the issue after a year and review how things have gone</i>				
Undertake a survey of members to capture views	Monitoring Officer	June 2022		
Determine whether the changes have produced the intended outcome and, if not, identify further actions.	Audit & Governance Committee	September 2022		



Meeting:	Audit and governance committee
Meeting date:	Friday 25 September 2020
Title of report:	External audit progress update
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To provide the committee with a progress update of the work being undertaken by the external auditor, Grant Thornton.

The progress update includes external audit progress at September 2020 and a sector update on emerging national issues and developments for the committee to consider.

Overall Grant Thornton are making satisfactory progress against the audit deliverables.

Recommendation(s)

That:

- (a) the progress report and sector update attached at appendix 1 be reviewed and the committee determine any recommendations it wishes to make to ensure the value of the external audit work is maximised.**

Alternative options

1. There are no alternative recommendations. The report provides a factual update on progress against the agreed external audit annual plan in accordance with the functions

of the committee, together with briefings on a range of matters of local government interest.

Key considerations

2. The external auditor's progress report attached at appendix 1 provides the committee with an update on progress against delivering the external audit responsibilities. External audit of the councils draft financial statements started in July, to date all adjustments proposed to the financial statements have been agreed with Officers. Grant Thornton will report their work in the Audit Findings Report and aim to give their opinion on the Statement of Accounts and value for money conclusion by 30 November 2020.
3. The National Audit Office (NAO) new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations.
4. The Sir Tony Redmond review of the quality of local authority financial reporting and external audit is due to be published on 8 September 2020. Grant Thornton have agreed to update the next Audit and Governance Committee of its findings.
5. Page 11 of appendix 1 provides a summary of the NAO guide for audit and risk committees on financial reporting and management during Covid 19. The NAO report notes *"Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk. Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for."* Herefordshire council moved to using emergency decision powers in the constitution in response to the pandemic lockdown. Decisions were taken in consultation with cabinet members and recorded in a record of officer decision and reported to council in due course. This means that the directors had the power to authorise decisions to allow these to be made at pace where considered necessary in relation to the national pandemic, and / or implications arising from that, until normal decision routes were established.
6. Overall Grant Thornton have made satisfactory progress against their audit plan and of the work concluded no items have been identified that require highlighting to the committee.

Community impact

7. 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.

Environmental Impact

8. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
9. Whilst this is an update on back office functions and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the Council's Environmental Policy. The external audit is being completed remotely this year reducing travel and pollution time.

Equality duty

10. 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.
11. 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 factual update, we do not believe that it will have an impact on our equality duty.

Resource implications

12. The update has no direct resource implications however the consideration of sector wide emerging issues may lead to further work streams being identified.
13. The committee approved in July 2019 the 2019/20 annual external audit fee total of £96k, the committee has previously been advised of a proposed fee increase to total £107k (£106k in 2018/19).

Legal implications

14. This update has no direct legal implications.

Risk management

15. The potential risks of being unaware of the update include not producing a compliant statement of accounts; this is being mitigated by ensuring the corporate finance team maintain up to date financial knowledge and awareness and maintain open dialogue with

the council's external auditors with whom there is an established, defined and detailed working paper requirements being complied for the final audit work.

Consultees

16. None

Appendices

Appendix 1 External audit progress report and sector update

Background papers

None identified

Audit Progress Report and Sector Update

Herefordshire Council
41 Year ending 31 March 2020

22 September 2020



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Introduction



Jon Roberts

Engagement Lead

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)



Gail Turner-Radcliffe

Engagement Manager

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Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications

www.grantthornton.co.uk.

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

Progress at September 2020

Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in January 2020 and interim audit in January to March 2020. We began our work on your draft financial statements in July.

In January we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

During our work to date all adjustments proposed to the financial statements have been agreed with Officers.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 November 2020.

Covid-19

In addition to the audit risks communicated to those charged with governance in our Audit Plan on 28 January 2020, the Covid-19 pandemic led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response. On 4 May we issued an addendum to our audit plan, setting out a new significant financial statement risk in relation to Covid-19.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by 30 November 2020.

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation is now underway and runs until 2 September 2020. It can be accessed through the NAO website:

<https://www.nao.org.uk/code-audit-practice/agn-03-vfm-consultation/>

Progress at September 2020 (Cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2019/20 claim is underway and we plan to be able to complete our work by the original deadline of 30 November deadline. Although it should be noted that, in response to the impact of the Covid-19 pandemic, the DWP has moved the reporting deadline back to 31 January 2021. We will report our findings to the Audit Committee.

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2019/20 claim is due to be completed in advance of the 30 November deadline.

We also certify the Council's annual Education and Skills Funding Agency Return and are currently discussing timescales with Officers.

Meetings

We met with Finance Officers in March as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in March to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

COVID-19 Update

Impact on working arrangements:

- following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices for the foreseeable future and your audit team are now working from home
- we will be working remotely during your accounts audit. Although there are some audit tasks which are best undertaken in person, we will be able to complete the majority of the audit remotely. This is however likely to make the audit process longer. We continue to work closely with your finance team to make this different way of working as efficient as possible.
- there may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of COVID-19.

Impact on accounts and audit opinions:

There are a number of key issues which your finance team will have had to consider as part of the year end closedown and accounts production:

- impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion) or asset valuations.
- valuation of Property, Plant & Equipment and assumptions made by valuers, particularly in respect of carrying value to current value assessment.
- impact on collectability of debt and assumptions made in bad debt provisions.
- impact on post-balance sheet events. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed.
- disclosure of impact in annual report.
- disclosure of critical judgements and material estimation uncertainties.
- impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion).
- impact on reporting to those charged with governance and signing arrangements.

Changes to reporting requirements:

- the Secretary of State announced that for the 2019/20 accounting period he would be extending the period for publication of principal authority accounts to 30 August 2020.
- for principal authorities, this means that the whole chain of publication requirements will be amended. The audited financial statements are now to be published by 30 November 2020.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred to 2021/22.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20.	April 2019	Complete
Audit Plan We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.	January 2020	Complete
Interim Audit Findings We will provide an update on our interim audit during the Audit and Governance Committee	June 2020	Complete
Audit Findings Report The Audit Findings Report will be reported to the November Audit and Governance Committee.	November 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	November 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	TBC	Not yet due

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Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

Redmond Review

We have previously drawn members' attention to the Review of local audit undertaken by Sir Tony Redmond and have agreed to present the implications of the Review to you. The Review is due to publish on 8 September 2020 and we will update the next Audit and Governance Committee of its findings.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non-domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

In terms of key financial reporting considerations for 2019/20, consideration should be given to:

Information published with accounts

- Does the Narrative Report reflect the urgency of the situation, the changes to Council services as a result of lockdown, the partnership arrangements in place, the impact of the pandemic on income and expenditure and possible future scenarios, the impact on savings programmes, the capital programme, treasury management, medium term financial plans and the Council's communications strategy (noting this is not an exhaustive list)?
- Does the Annual Governance Statement reflect significant developments between 31 March 2020 and the finalisation of the accounts? Does the AGS describe emergency governance arrangements for decision making, the postponement of elections, the transition to virtual meetings and plans for the return to normal democratic processes?

Non-current asset valuations

- There has been a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19. RICS has issued a Valuation Practice Alert following the pandemic, and we are aware a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Has the Council assessed the impact of such comments, reflected 'material valuation uncertainty' disclosures within the financial statements and taken account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in their financial statements in relation to major sources of estimation uncertainty?

Non-current asset valuations

- The Council is required to make an assessment at the end of each reporting period as to whether there is any indication that assets may be impaired. There are several types of event or change in circumstance that could indicate an impairment may have occurred, including evidence of obsolescence or physical damage or a commitment to undertake a significant reorganisation. Has the Council assessed whether the impact of the pandemic may have triggered impairments?
- Has the Council considered these matters in relation to Investment Property held? Potentially more so for 2020/21, there may be significant declines in asset carrying values, especially for investments in retail or office premises.

Impairment of receivables

- IFRS 9 *Financial Instruments* introduced an expected credit loss model for financial assets which drives earlier recognition of impairments. Has the Council assessed the impact of the pandemic on its expectation of credit losses?
- Impairment of statutory Council Tax and Non-domestic rate debtor balances is also possible. Has the Council observed a measurable decrease in estimated future cashflow, for example an increase in the number of delayed payments? Has the Council considered whether recent historical loss experience across aged debt may also need revision where current information indicates the historical experience doesn't reflect current conditions? Experience following the 2008/09 financial crisis may prove to be a useful reference point, given the ensuing recession conditions.

Events after the reporting period

- By 31 March 2020 enough was known about the pandemic for accounts preparers and market participants to reflect and, if necessary, adjust assumptions and assessments. By the end of March 2020, it would be extremely difficult to say that the pandemic was not an event that existed and therefore any accounting impact that occurred after this date is not an adjusting event.
- Has the Council distinguished between subsequent events that are adjusting (i.e. those that provide further evidence of conditions that existed at the reporting date) and non-adjusting (i.e. those that are indicative of conditions that arose after the reporting date)? Has the Council got arrangements in place to assess events up to the date the final accounts are authorised for issue?

Sources of estimation uncertainty

Has the Council identified the assumptions required about the future and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year? Have these been appropriately disclosed in accordance with the requirements of IAS 1 paras 125-133?

2019/20 financial statements are being prepared in an environment of heightened uncertainty as a result of the pandemic and the situation is evolving and fast moving. We have drawn out some of the key considerations for local authority financial reporting here, but further details can be found in our full report available on the Grant Thornton website:

<https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid-19-on-financial-reporting-local-government-sector.pdf>



Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that “aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government’s response to COVID-19.”

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The NAO report notes “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The NAO comment “This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

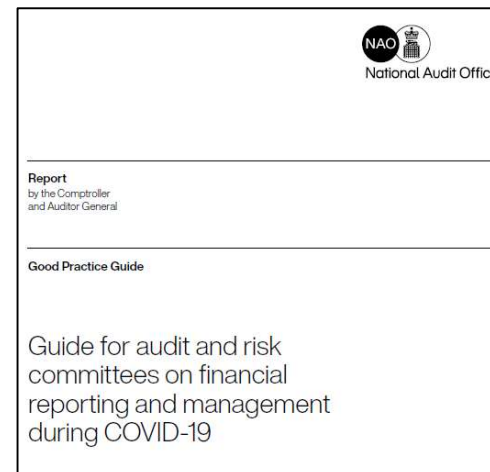
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period.”

The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>



Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – “Building for renewal: kickstarting the C19 housing recovery”.

Paul asked “So how do we address “the housing crisis” in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response. Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

- **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.
- **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers from the service sectors who are very likely to lose their jobs because of the pandemic.
- **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.
- **Building on existing initiatives to improve security of tenure and quality of accommodation,** a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

- Putting key workers at the heart of the Housing strategy. The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all , a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded “Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind keyworkers that their role in COVID-19 has brought into focus, could help kickstart housing initiatives that help all those in need.”



The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/>

Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into place-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

- Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.
- In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.
- Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnessed sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

- Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places – and focus investment decisions on closing that gap and levelling up local economies.

- The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.
- Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.
- Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

- The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/>



CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>

Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report “draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams”.

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Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that “PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme”.



The full report can be obtained from the PSAA website:

<https://www.psa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>



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Meeting:	Audit and governance committee
Meeting date:	Friday, 25 September 2020
Title of report:	Internal audit annual report and opinion 2019/20
Report by:	Chief finance officer / Head of internal audit

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

The purpose of this report is to enable the committee 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 by considering the head of internal audit's annual report and opinion, and the level of assurance it gives over the council's corporate governance arrangements.

The annual report is attached at appendix A and provides a reasonable assurance opinion.

Recommendation(s)

That:

- (a) having regard to the assurance provided by the annual report the committee determine any potential items for inclusion in its future work programme.**

Alternative options

1. There are no alternative recommendations. This summary of the findings of internal audit and the opinion are not matters which the committee may alter.

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

Key considerations

2. The annual report is required to ensure that the committee is informed of the internal audit work undertaken in 2019/20.
3. The report provides an overall opinion, reached in light of the work undertaken, on the adequacy and effectiveness of the council's governance, risk management and control processes. The work of internal audit informs the development of the annual governance statement and action plan.
4. Sufficient internal audit work has been carried out to enable the head of internal audit to draw a reasonable conclusion about the adequacy and effectiveness of the council's risk management, control and governance processes.
5. In the opinion of the head of internal audit, and having considered the balance of audit work, the assurance levels provided and outcomes together with the response from senior management and the audit and governance committee, the head of internal audit can offer 'reasonable assurance' in respect of the areas reviewed during the year. The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met. Where this is the case, there has been a positive response to ensuring that action is taken to improve the adequacy of controls.

Community impact

6. The council's code of corporate governance commits the council to managing risks and performance through robust internal control and strong public financial management and to implementing good practices in transparency, reporting, and audit to deliver effective accountability. By ensuring robust management responses to identified risks, the council will be better able to meet its corporate plan priority to secure better services, quality of life and value for money.

Equality duty

7. 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.
8. 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.

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

Resource implications

9. None arising from the recommendations; any additional recommendations made by the committee will be considered by the relevant manager or cabinet member and the financial implications of accepting those recommendations will be considered then.

Legal implications

10. Section 5 of the Accounts and Audit Regulations 2015 require the council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
11. It is a function of this committee, under 3.5.10 (a) of the council's constitution to consider the Head of Internal Audit's annual report and opinion, and the level of assurance it can give over the Council's corporate governance arrangements.

Risk management

12. There is a risk that the level of work required to give an opinion on the council's systems of internal control is not achieved. This is mitigated by the regular active management and monitoring of progress against the agreed internal audit plan.
13. Risks identified by internal audit are mitigated by actions proposed by management in response. Progress on implementation of agreed actions is reported to this committee every six months.

Consultees

14. None

Appendices

Appendix A – Internal Audit Annual Report and Opinion 2019-20

Background papers

None identified

In partnership with



Appendix A

Herefordshire Council

Annual Report and Opinion 2019/20

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Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Unrestricted

Contents

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The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.

Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
 - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
 - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
 - the effectiveness of risk management processes;
 - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

Three lines of defence

To ensure the effectiveness of an organisation's risk management framework, the Audit and Governance Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines of Defence' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

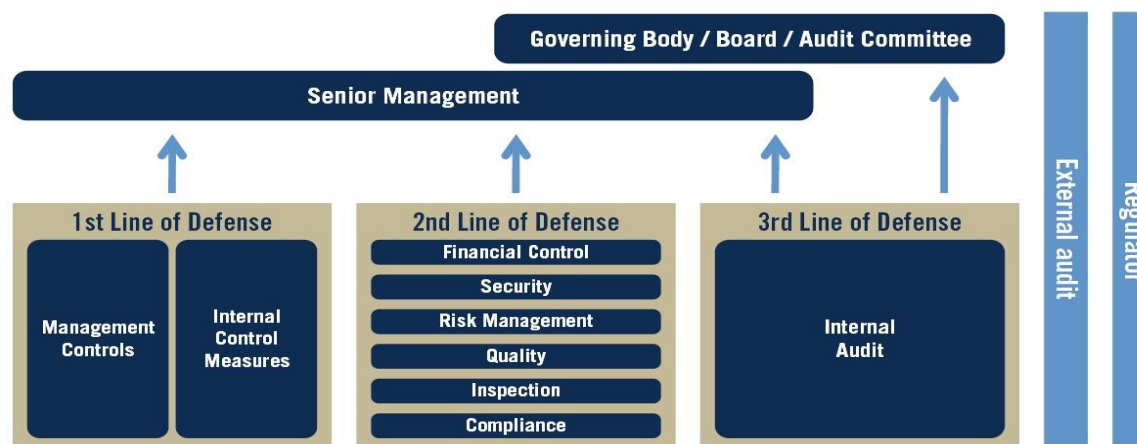
- the first line of defence – functions that own and manage risk.
- the second line of defence – functions that oversee or specialise in risk management, compliance.
- the third line of defence – functions that provide independent assurance.

Scope

The Internal Audit service for Herefordshire Council is provided by SWAP Internal Audit Services. The team's work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of the Internal Audit team for the 2019/20 year against the Internal Audit Plan (approved by the Audit and Governance Committee on 19 March 2019).

The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.

Annual Opinion

The Annual Opinion is made based on the following sources of information:

- Completed audits (during the year 2019/20) which evaluate risk exposures (including new and emerging risks) relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regulations.
- Observations from consultancy/advisory support.
- Follow up of previous audit activity, including agreed actions.
- Significant/material risk where management has not accepted the need for mitigating action.
- Notable changes to the organisation's strategy, objectives, processes or IT infrastructure.
- Assurances from other providers, including third parties, regulator reports etc.

Opinions are a balanced reflection not a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources (including advice/ consultancy work). The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

After considering the above, the Annual Opinion Definitions (which differ from assignment assurance definitions) are explained in Appendix 2.

This Annual Opinion informs the Review of Effectiveness within the Annual Governance Statement. Internal Audit has not reviewed all risks and assurances relating to Herefordshire Council and cannot provide absolute assurance on the internal control environment. Senior Management and Members through the various committees are ultimately responsible for ensuring an effective system of internal control.

Over the year, the Internal Audit Team have found Senior Management of Herefordshire Council to be supportive of Internal Audit findings and responsive to the recommendations made. In addition, there is a good relationship with Management whereby they feel they can approach the Internal Audit Team openly in areas where they perceive potential problems.

Generally, the follow up work confirms the responsive nature of management at Herefordshire Council in implementing agreed recommendations to mitigate exposure to areas of significant risk. Follow up audits completed in the year have not identified any significant issues regarding non-implementation of recommendations.

39.5% of completed audits received Substantial or Reasonable assurance opinions in relation to the control environment. Of the audits completed in 2019/20, there are six areas (10.5%) that have been awarded Partial assurance opinions in relation to their control environment (none of them Key Financial Control Systems). The findings within these audits have been accepted and appropriately addressed by management. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit as part of the 2020/21 Plan. Further details of audits with Partial assurance opinions can be found on page 7.

The percentage of audits receiving Reasonable or Substantial assurance has decreased from 2018/19 where 54% were awarded Substantial or Reasonable assurance. There was a significant increase in the number of Advisory audits completed rising from 10% in 2018/19 to 31% in 2019/20. Whilst Advisory work is and will continue to be important and demonstrates the Council is open to prioritising work in areas where there is a perceived high risk or concern over an the control environment it should not always be seen as an alternative to giving an audit assurance opinion and this is an area that will need to be monitored closely in future years.

The number of Partial assurance opinions did decrease in 2019/20 (10.5%) compared to 2018-19 (18%). Another factor to consider is the number of priority findings where there is a significant decrease from 2018/19. There were 192 priority findings in 2018/19 compared to 81 for 2019/20.

On pages 10 and 11 I have provided two charts to show the impact of the number of Advisory audits on the audit opinion. By removing the Advisory audits, you will see that percentage of Substantial and Reasonable audit increases from 39.5% to 57.5%. This does not suggest that all the Advisory audits would have received a Substantial or Reasonable assurance and some may have received a Partial assurance – the additional chart is to demonstrate the change to the percentage figures when removing the increase in Advisory audits.

A small number of audits (2) are still in the process of being finalised.

A number of audits originally scheduled in the internal audit plan have been removed or deferred over the course of the year and are detailed in the Appendix 1 to this report. A number of unplanned audits have been added to the plan over the year as the need arose and the risk environment altered. These changes have ensured audit resources have been focussed where it matters.

Some fraud risks have been identified with the applications for Small Business Grant Fund / Retail, Hospitality and Leisure Grant Funds. The funding was only put in place in March 2020 and will be reported in more detail in my 2020/21 annual opinion. Internal Audit has however completed some special reviews this year – Loss of Monies, Code of Conduct Complaint and S106 Whitbourne following matters that were raised in these areas. The findings from each of the reviews have been accepted by management.

There will be occasions where audit make recommendations to mitigate risk exposure and after consideration of the recommendation, the service decide to accept the risk. In 2019/20, there have been no instances to bring to the attention of the Audit and Governance Committee.

Although no areas of significant corporate risk have been identified there has again been findings where governance processes or guidance are not always followed to ensure compliance with existing procedures in place across the Council. A number of the findings relate to capital projects and contracts and particular to Record of Officer Decisions and whether value for money can be demonstrated. Management is responsible for ensuring compliance to policies and procedures and should have oversight to address non-compliance.

The Council has recognised that this is an area for improvement in the Annual Governance Statement and has updated the Financial and Contractual procedural rules and put in place new governance arrangements for capital projects through programme boards. The continuing review of these processes and corporate approach to ensure governance process are followed should help to reduce the occasions when processes are not adhered to.

I have considered the balance of 2019/20 audit work, the sources of information referred to above and outcomes against this environment enhanced by the work of external agencies and am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

Definitions of Corporate Risk

High Risk

Issues that we consider need to be brought to the attention of both senior management and the Audit and Governance Committee.

Medium Risk

Issues which should be addressed by management in their areas of responsibility.

Low Risk

Issues of a minor nature or best practice where some improvement can be made.

High Corporate Risk

For those audits which have reached report stage through the year, none have been assessed as a 'High' Corporate Risk.

Assurance Definitions

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Partial or None Assurance Summary

The following audits received a Partial assurance opinion in respect of their control environments in 2019/20. Each audit will have a follow up audit in 2020/21. There were no audits assessed with the assurance opinion None.

Audit Name
South Wye Transport Package Phase 2
Continuing Healthcare process
Homepoint - Review of new provider
Members Expenses
Housing Provision (Capital programme and spending)
Savings Targets

The key findings from the partial assurance audits are reported to this Committee in the Internal Audit Progress reports. There is one report that has been finalised since my last update report and position statement in July and the key findings are provided below.

Homepoint – Partial Assurance

Herefordshire Council does not own any housing stock. To advertise and allocate available homes to those registered on the housing register, Home Point (a choice-based lettings agency) was set up in partnership between the Council and the main Registered Providers. The Council advertises properties and the Registered Providers manage the allocations.

In August 2016, Registered Providers approached the Council with a determination to move away from the choice-based lettings scheme and to allocate their housing stock using alternative arrangements and software providers. A key decision was made on the 12th April 2018 by Cabinet to implement new arrangements for allocating social housing including:

- the closure of the Home Point system and brand; and
- the separation of the housing register from the advertising of properties and the management of bidding and the discharge of the council's duty to nominate people and monitor allocations through multiple arrangements, including automatic data transfer.

Assurance Definitions

Assurance Definitions	
None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
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Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Partial or None Assurance Summary

Following the key decision by the Cabinet Member Finance, Housing and ICT in January 2018 regarding the procurement of a new housing allocations system the contract was awarded to CIVICA on the 16th August 2018 (Record of Officer Decision). However in March 2019 it was identified that the Registered Providers software was not able to guarantee provision of the data transfer within the agreed timescale and more significantly it was uncertain that the company could fulfill the requirements because of the impact on the other users on their platform.

There was one priority two finding and two priority three findings. The priority two finding identified that appropriate governance was not sought when the decision to revert to the choice-based lettings system was made. A Cabinet decision was made in April 2018 to close the choice-based lettings system and this was subsequently not implemented. It is not clear when and who made the decision to revert to a choice-based lettings system as there is limited reference to the event in project team, project board and cabinet member briefing notes. A further key decision should have been made by Cabinet once it was clear the new allocation arrangements were not able to be progressed.

The Programme Director Housing and Growth has explained that choices were extremely limited as it was clear that a complete re-procurement would represent a significant delay and significant extra costs to the Council and broader partnership. Further to this he explained officers had an indication that it was not going to be a significant cost compared to their judgement on what a complete re-procurement would cost. In addition, he identified that the charging model sought to pass much of the cost of this additional element onto the partners.

Assurance Definitions

Assurance Definitions

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Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Partial or None Assurance Summary

Priority 2 finding:

Between March 2019 (when the Registered Providers identified their software (HomeHunt) could not fulfil their requirements) and February 2020 (when the revised Housing Allocations Scheme was approved) there is a lack of documented discussion/decision making regarding the options to the Council specifically the decision not to continue with the redesigned allocation arrangements and revert back to the choice-based lettings scheme whilst continuing with the newly procured ICT software contract (CIVICA). Whilst audit recognise advice was sought from the Councils monitoring officer there is a concern that the information provided was not adequate to ensure the correct governance advice was given.

Recommendation:

We recommend that the Programme Director Housing and Growth in liaison with the Programme Manager: Digital and Technology ensures all governance processes are adhered to regarding decision making. Where changes in the project arise, appropriate approvals should be sought, and consideration given as to whether existing procurement arrangements are still appropriate. If governance advice is sought from the governance team, officers must ensure they outline the considerations in detail. Sufficient and appropriate documentation should be maintained in relation to decision making

Agreed Action:

Agreed: Verto system is being reviewed to ensure system guidance and functionality is made available to ensure recording of relevant key project decisions.

Target Date: 31st December 2020

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

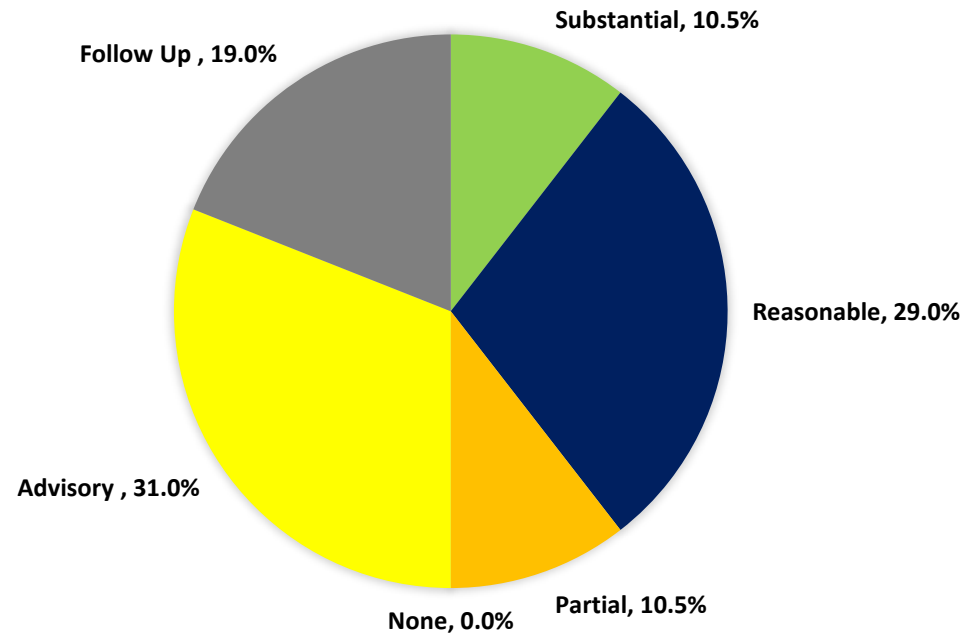
Assurance Definitions

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Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Summary of Control Assurance Opinions

Of the reviews that have a final report, the opinions offered are summarised below.

CONTROL ASSURANCE BY CATEGORY



39.5% of audits resulted in a Substantial or Reasonable assurance opinion (2018/19: 54%); 10.5% in Partial assurance opinion (2018/19: 18%) and 0% in None assurance opinion (2018/19: 0%). The number of Advisory audits has increased from 10% in 2018/19 to 31% in 2019/20.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

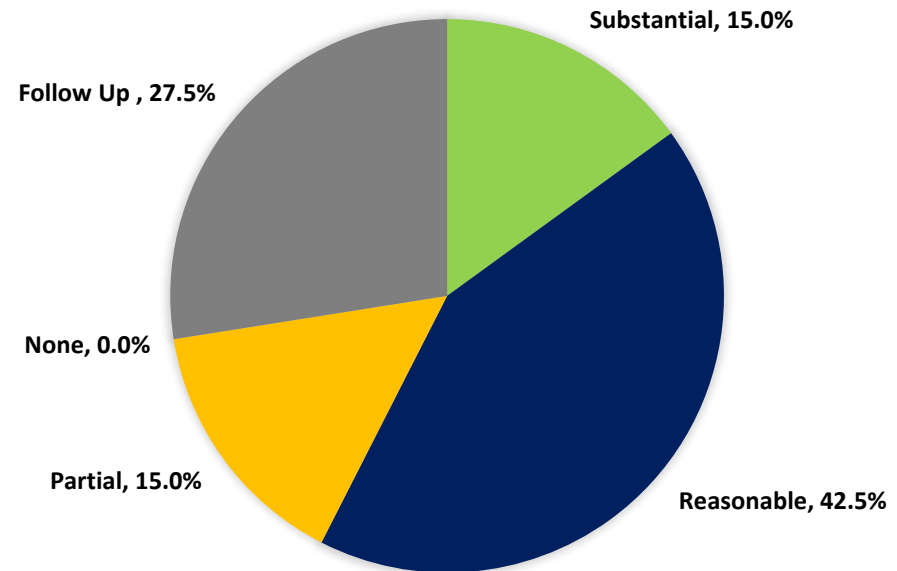
Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
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Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Summary of Control Assurance Opinions

On removing the advisory audits which have increased significantly in 2019/20 an increase in the % of Substantial and reasonable assurance audits is shown to 57.5%. In comparison to 2018/19 the advisory audits were included in the figures for control assurance.

CONTROL ASSURANCE BY CATEGORY

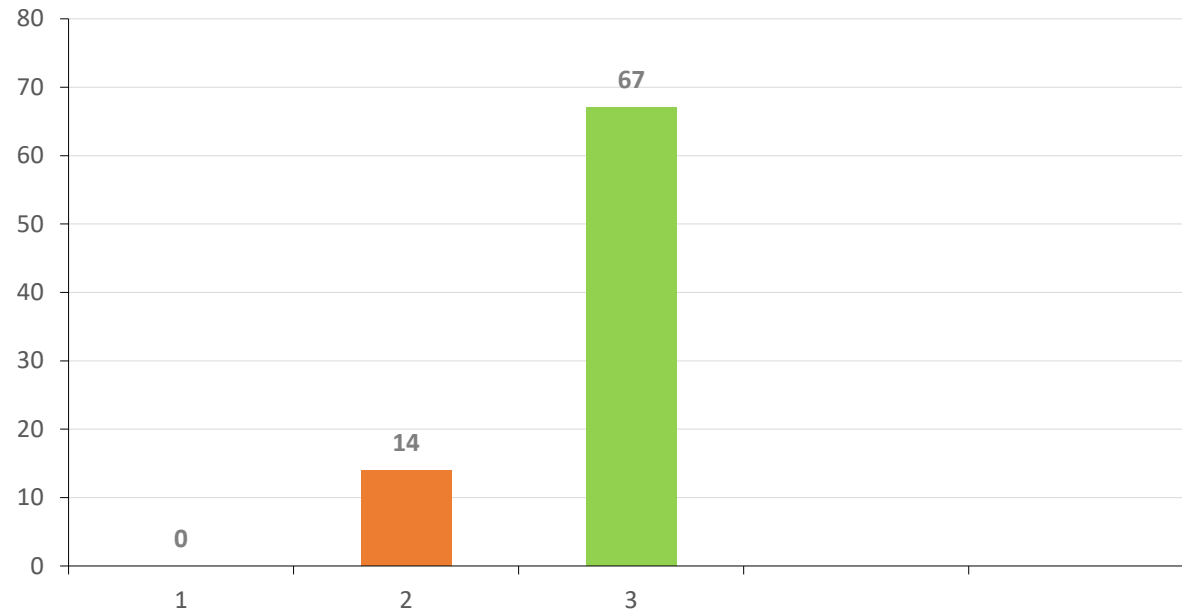


Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of fundamental concern requiring immediate corrective action.

Summary of Recommendations

Audit Recommendations by Priority



The number of Priority 2 recommendations has reduced from 30 in 2018/19 to 14 for 2019/20. Priority 2 are more significant recommendations, important findings that need to be resolved by management. All recommendations made during 2019/20 have been accepted by management who have provided a management response and target date for implementation. The number of priority 3 recommendations has also reduced from 162 in 2018/19 to 67 in 2019/20.

Value Added

‘Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more, while adding little or nothing to its cost.’

Value Added

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

In addition to audits undertaken in Appendix 1, where requested by client officers we look to share risk information, best practice and benchmarking data/information. The section continues to provide advice and support on controls across the organisation and responds to requests to assist with specific pieces of work.

- Fraud Bulletins – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- Partners Newsletters – We produce regular partner newsletters that provides information on topical areas of interest for public sector bodies. We have increased the frequency of our newsflash to weekly during Covid-19 to provide relevant information.
- An Internal Audit View – These are quarterly newsletters where SWAP and other Local Authority Audit Partnerships convey key audit matters that Local Authorities should be aware.
- Attendance at working groups as required
- Participation in Knowledge Sharing and Benchmarking requests:
- Responsiveness – we adapt our audit plans to address emerging risks and areas requiring assurance to management, such as the Transformation Lessons learned review and responding to the whistleblowing allegation.
- Benchmarking and best practice – we share best practice from our partners wherever possible and undertake benchmarking exercises in a number of audits.
- Data Analytics – We are increasing the use of data analytics across all audits to provide a greater level of assurance and insight to trends and themes.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

Internal Audit Team Performance

SWAP's performance is subject to regular monitoring and review by both the SWAP Board and the SWAP Member Meetings. The respective outturn performance results for Herefordshire Council for the 2019/20 year are as follows:

Performance Target	Actual Performance
<u>Audit Plan – Percentage Progress</u>	
Final, Draft and Discussion 90%	100%
In progress/ Review	0%
Yet to start	0%
<u>Customer Satisfaction Questionnaire</u>	
Feedback 95%	98.8%

SWAP work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm compliance to the required standards. SWAP was recently assessed in February 2020 and confirmed that we are in conformance to PSIAS.

Attribute Standard 1300 of the IPPF requires heads of internal audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues this dual aspect by stating that the programme must include both internal and external assessments. This acknowledges that high standards can be delivered by managers, but it also implies that improvements can be further developed when benchmarking is obtained from outside the organisation and the internal audit function. Following our External Assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to make, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our actions.

The schedule below contains a list of audits agreed for inclusion in the Annual Audit Plan 2019/20 and the final outturn for the financial year.

At the conclusion of audit assignment work each review is awarded a “Control Assurance”, a summary of the assurance levels is as follows:

Assurance Definitions	
None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

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Recommendations have been assigned a priority based on the following framework:

Categorisation of Recommendations	
In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
Completed Audits								
Governance, Fraud & Corruption	New Model in Technology and Engineering (NMI TE) Project (University) quarter 1 review	1	Completed	Advisory Report	-	-	-	-
Advisory	South Wye Transport Package Phase 1 – Governance	1	Completed	Advisory Report	7	0	4	3
Operational	Coroners/Registrars	1	Completed	Substantial	1	0	0	1
Operational	Transport / Highways policy setting	1	Completed	Reasonable	4	0	0	4
Operational	Environmental Health / Trading Standards	1	Completed	Reasonable	2	0	0	2
Operational	Property Maintenance - Schools	1	Completed	Reasonable	5	0	0	5
Grant	Troubled Families (Qrt 1 monthly review of claims)	1	Completed	Advisory Report	-	-	-	-
Operational	Schools Exclusion Policy – Deferred to qrt 3	1	Completed	Advisory Report	-	-	-	-
Operational	Children’s centres (changed to Pupil Referral Unit)	1	Completed	Reasonable	5	0	1	4
Operational	Facilities Management	1	Discussion Document					
ICT	ICT Applications	1	Completed	Advisory		-	-	-
Operational	Mandatory Training	1	Completed	Reasonable	5	0	1	4
Operational	Disclosure and Barring Service	1	Completed	Reasonable	6	0	2	4

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
Special Investigation	Code of Conduct Complaint	1	Completed	Special Investigation	-	-	-	-
Special Investigation	Loss of Monies	2	Completed	Special Investigation	-	-	-	-
Governance, Fraud & Corruption	New Model in Technology and Engineering (NMITe) Project (University) quarter 2 review	2	Completed	Advisory Report	-	-	-	-
Grant	Bus Subsidy grant	2	Completed	Reasonable	0	0	0	0
Operational	South Wye Transport package Phase 2	2	Completed	Partial	7	0	2	5
Grant	Troubled Families (Qrt 2 monthly review of claims)	2	Completed	Advisory Report	-	-	-	-
Operational	Council Reserves	2	Completed	Substantial	2	0	0	2
Grant	Local Transport Block Funding	2	Completed	Reasonable	0	0	0	0
Operational	EU Grant Funding	2	Final Report	Reasonable	3	0	0	3
Reasonable	Cemeteries / Crematoriums	2	Completed	Reasonable	3	0	0	3
Operational	Healthy Lifestyle Service (was Development of Community Strategy)	2	Completed	Advisory Report	4	0	1	3
Operational	Continuing Healthcare process	2	Completed	Partial	4	0	2	2
Operational	Quality Assurance Panel Process (change of audit to Local Enterprise Resources team)	2	Completed	Advisory Report	4	0	0	4
Operational	Independent review officer services	2	Completed	Reasonable	6	0	0	6

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
Schools	Schools Financial Value Standard – School 1	2	Completed	Reasonable	4	0	0	4
Schools	Schools Financial Value Standard – School 2	2	Completed	Reasonable	5	0	0	5
Schools	Schools Financial Value Standard – School 3	2	Completed	Reasonable	4	0	0	4
ICT	Data Centres	2	Completed	Advisory Report	-	-	-	-
Operational	Project Delivery/project management	2	Completed	Reasonable	1	0	0	1
Grant	Troubled Families (Qrt 3 monthly review of claims)	3	Completed	Advisory Report	0	0	0	0
Key Control	Council Tax follow up	3	Completed	Follow up	-	-	-	-
Governance, Fraud & Corruption	New Model in Technology and Engineering (NMITe) Project (University) quarter 3 review	2	Completed	Advisory Report	-	-	-	-
Key Control	Treasury Management	3	Completed	Substantial	2	0	0	2
Special Review	S106 Whitbourne	3	Completed	Special Review	1	0	1	0
Key Control	Accounts Payable follow up	3	Completed	Follow up	-	-	-	-
Key Control	Main Accounting	3	Completed	Substantial	2	0	0	2
Key Control	Payroll follow up	3	Completed	Follow up	-	-	-	-
Key Control	Accounts Receivable follow up	3	Completed	Follow up	-	-	-	-
Key Control	Capital Accounting follow up	3	Completed	Follow up	-	-	-	-

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
Key Control	NNDR	3	Completed	Substantial	1	0	0	1
Key Control	Housing and Council Tax Benefit	3	Completed	Follow up	-	-	-	-
Governance, Fraud & Corruption	Contracts - Public Realm, Waste and Balfour Beatty (review of actions from vfm review)	3	Completed	Advisory	0	0	0	0
Operational	Income Charging	3	Completed	Advisory	1	0	0	-
Schools	Prevention of Fraud in Schools audit – one school	3	Combined with SFVS audit	-	-	-	-	-
Governance, Fraud & Corruption	Compliance with Financial Regulations	3	Completed	Reasonable	1	0	0	1
Operational	Service Planning	3	Completed	Advisory Report	0	0	0	0
Governance, Fraud & Corruption	New Model in Technology and Engineering (NMITe) Project (University) quarter 4 review	4	In Progress	Advisory Report	2	0	0	2
Grant	Troubled Families (Qrt 4 monthly review of claims)	4	Completed	Substantial	2	0	0	2
Governance, Fraud & Corruption	Savings Targets	4	Completed	Partial	4	0	2	2
Operational	RNIB Site for FE College	4	Completed	Reasonable	3	0	0	3
Operational	Housing Provision (Capital programme and spending)	4	Completed	Partial	5	0	2	3
Operational	Integrated Short-Term Support and Care Pathway – Delayed Transfers of care (DToC) plan – process of hospital discharges, Front door redirected.	4	Draft Report					
Operational	Homepoint - Review of new provider	4	Completed	Partial	3	0	1	2

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
Governance, Fraud & Corruption	Members Expenses	4	Completed	Partial	6	0	2	4
COVID-19	Grant Funding Schemes Small Business Grant Fund / Retail, Hospitality and Leisure Grant Fund	4	Completed	Advisory	-	-	-	-
COVID-19	HALO Leisure – Financial Review	4	Completed	Advisory Report	-	-	-	-
Follow Up	Health and Safety	4	Completed	Follow up	-	-	-	-
Follow UP	Major Transport Schemes - financial reporting	4	Completed	Follow up	-	-	-	-
Follow UP	Special Educational Needs transport	4	Completed	Follow up	-	-	-	-
Follow UP	ICT Cloud and Externally Hosted Services	4	Completed	Follow up	-	-	-	-
Follow UP	IT Access Controls –Mosaic and other systems used by AWB and CWB –	4	Completed	Follow up	-	-	-	-
Audits Deferred/Removed								
Operational	Client finance System - Interface between all systems	1	Deferred	Days allocated to COVID 19 work				
Operational	Integrated Short Term Support and Care Pathway - Carers Assessment – replaced with Compliance with the Adult Social Care Supervision Policy and adherence to Best Practice	2	Removed	Days allocated to COVID 19 work				
Operational	Workforce Development – Adults	3	Removed	Days allocated to COVID 19 work				
ICT	Incident Management to include Ransomware	3	Removed	Days allocated to COVID 19 work				
Operational	Development Regeneration Programme	3	Deferred	Days allocated to Loss of Monies SI				

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
Operational	Integrated Short-Term Support and Care Pathway phase 4 Housing Pathway – Replaced with Supervision Audit Process	4	Deferred	Days allocated to COVID 19 work				
Operational	Strategic Partnerships	4	Deferred	Days allocated to Code of Conduct Complaint SI				
Operational	Brexit Preparedness	4	Deferred	Days allocated to Facilities Management				

Annual Opinion Definitions	
None	<p><i>A control framework is not in place to mitigate key risks. The organisation is exposed to abuse, significant error or loss and/or misappropriation. Objectives are unlikely to be met.</i></p> <p>serious systemic control weaknesses identified through aggregation of individual audit engagements significant number of critical and/or high risk rated weaknesses identified for isolated issues internal audit has serious concerns about managements approach to resolving identified issues.</p>
Partial	<p><i>The control framework is not operating effectively to mitigate key risks. A number of key controls are absent or are not being applied to meet business objectives.</i></p> <p>significant number of medium and/or critical risk rated weaknesses identified in individual audit engagements isolated critical and/or high risk rated weaknesses identified that are not systemic internal audit has concerns about managements approach to resolving identified issues</p>
Reasonable	<p><i>The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met.</i></p> <p>medium risk rated weaknesses identified in individual audit engagements isolated high risk rated weaknesses identified for isolated issues no critical risk rated weaknesses were identified internal audit is broadly satisfied with management’s approach to resolving identified issues.</p>
Substantial	<p><i>There is a sound framework of control operating effectively to mitigate key risks, which is contributing to the achievement of business objectives.</i></p> <p>no individual audit engagement classed as limited or no assurance occasional medium risk rated weaknesses identified in individual audit engagements although mainly only low/efficiency weaknesses internal audit has confidence in managements attitude to resolving identified issues.</p>



Meeting:	Audit and governance committee
Meeting date:	Friday, 25 September 2020
Title of report:	Progress report on 2020/21 internal audit plan Proposed Revised Internal Audit Plan 2020/21
Report by:	Chief finance officer / Head of internal audit

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

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. To enable the committee to monitor performance of the internal audit team against the approved plan.

To assure the committee that action is being taken on risk related issues identified by internal audit. This is monitored by acceptance by management of audit recommendations and progress updates in implementing the agreed action plans. In addition, audit recommendations not accepted by management are reviewed and progress to an appropriate recommendation to cabinet if it is considered that the course of action proposed by management presents a risk in terms of the effectiveness of or compliance with the council's control environment.

Proposed revised Internal Audit Plan 2020/21

To be assured that the level and range of activity within the proposed revised annual internal audit plan is sufficient to provide assurance over the council's corporate governance arrangements and provides appropriate coverage of key business activities, associated risks and risk management processes.

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

Recommendation(s)

That:

- (a) performance against the approved plan be reviewed and any areas for improvement identified; and
- (b) consider the assurances provided and the recommendations which the report makes, commenting on its content as necessary; and
- (c) the proposed revised internal audit plan 2020/21 be reviewed and the committee determine any recommendations it wishes to make regarding the level and range of activity proposed in order that the work carried out may give a satisfactory level of assurance over the council's corporate governance arrangements

Alternative options

- 1 There are no alternative recommendations; it is a function of the committee to consider these matters in fulfilling its assurance role.

Key considerations

2. The internal audit progress report is attached at appendix A. In the period covered by the report, one priority 2 recommendation has been made for the 2020-21 audit plan.
3. The progress report provides a proposed revised annual internal audit plan (appendix D in the report). The internal audit plan for 2020/21 was approved by the Audit and Governance Committee on the 5th May 2020. Clearly a lot has changed since that date, and as such, an updated and proposed revised annual audit plan for the remainder of 2020/21 has been prepared following consultation with the Chief Finance Officer. The proposed revised annual internal audit plan (appendix D in the report) sets out the work required for internal audit to give an opinion on the adequacy and effectiveness of the council's risk management, governance and internal control arrangements.

Community impact

4. The council's code of corporate governance commits the council to managing risks and performance through robust internal control and strong public financial management and to implementing good practices in transparency, reporting, and audit to deliver effective accountability. By ensuring robust management responses to identified risks, the council will be better able to meet its corporate plan priority to secure better services, quality of life and value for money.

Equality duty

5. 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;

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

- (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.
6. 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 progress report, we do not believe that it will have an impact on our equality duty.

Resource implications

7. None arising from the recommendations; any additional recommendations made by the committee will be considered by the relevant manager or cabinet member and the financial implications of accepting those recommendations will be considered then.

Legal implications

8. None

Risk management

9. There is a risk that the level of work required to give an opinion on the council's systems of internal control is not achieved. This is mitigated by the regular active management and monitoring of progress against the agreed internal audit plan.
10. Risks identified by internal audit are mitigated by actions proposed by management in response. Progress on implementation of agreed actions is reported to this committee every six months.

Consultees

11. None

Appendices

Appendix A – SWAP Internal Audit plan progress report 2020-21 and Proposed Revised Internal Audit Plan 2020/21.

Background papers

None

Further information on the subject of this report is available from
Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

In partnership with



Appendix A

Herefordshire Council

Report of Internal Audit Activity

Plan Progress 2020/21- September 2020

Proposed Revised Internal Audit Plan 2020/21

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Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by SWAP Internal Audit Services (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Chartered Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and the CIPFA Local Government Application Note. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 05 May 2020.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Outturn to Date



Internal Audit Work Programme

The schedule provided at Appendix C contains a list of all audits as agreed in the Annual Audit Plan 2020/21. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in Appendix B of this document.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service findings (priority 1 or 2), a summary of the key audit findings is given as part of this report. In circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised.

This is the progress report for the 2020/21 audit plan as at 21 August 2020. Since my last update three audits have been completed, two audits are at report and there are nine audits in progress. An additional audit Commissioning and Value for Money (BBLP) to the 2020-21 audit plan has also been completed.

The audits completed since my last update have the following assurance:

Audit	Assurance
NMiTE Project	Advisory
Grant Funding Schemes - Small Business Grant Fund / Retail, Hospitality and Leisure Grant Fund	Advisory Work
Procurement Cards	Limited
Commissioning and Value for Money (BBLP)	Limited

Internal Audit Plan Progress 2020/21

Outturn to Date



Significant Corporate Risks

We provide a definition of the 3 Risk Levels for Corporate risk applied within audit reports. For those audits which have reached report stage through the year, I will report risks we have assessed as 'High'.

In this update there are no final reports included with 'High' corporate risks.

SWAP Performance - Summary of Limited Opinions



Summary of Limited Assurances and Significant Service Findings (Priority 1 and 2)

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit and Governance Committee.

There has been one audit with Limited Assurance in the 2020-21 plan and one audit with Limited assurance in addition to the 2020-21 plan.

Procurement Cards

The audit was requested with a view to ascertaining whether card usage was compliant with the policy since the beginning of the Covid-19 pandemic, and that purchases were not being made where Council contract arrangements should be utilised.

An initial review of the data provided by Finance highlighted areas that SWAP Internal Audit considered merited a more in-depth review, notably around appropriate card usage, understanding and compliance with the policy, and the level of monitoring and review carried out by Finance. Considering that the roll-out of cards across the Council commenced in March 2018, and is currently still in progress, it was seen to be suitable timing for a detailed audit to be carried out, in order to review the current level of risk with current card usage and monitoring practices.

Audit found the following areas of good practice:

- The Procurement Card Policy is up to date, dated, version controlled, with the author and the next review date annotated. It is comprehensive and details all relevant required information and guidance for card holders. The application form contains a declaration that the applicant must sign to confirm that they have read and understood the policy.

SWAP Performance - Summary of Limited Opinions

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit and Governance Committee.



Summary of Limited Assurances and Significant Service Findings (Priority 1 and 2)

- Finance send monthly email reminders to card holders prompting them of the deadline date to code the transaction, to ensure that essential fields are completed when coding, and that cards must be used in accordance with the Procurement Card Policy; a link to the policy is included in the email.
- The cashback facility has been blocked on all cards.

There were five priority 3 findings and one priority 2 finding. The priority 3 findings identified areas for improvement for card usage, monitoring of card usage, change of cardholder roles within the Council and the monitoring of unused cards.

Priority 2 finding:

Receipts for purchases are not always retained, details of the purchase are not being recorded, and purchases are not always being made within Procurement Card Policy guidelines.

Recommendation:

We recommend that the Corporate Finance Manager ensures that the following controls are implemented to ensure that guidance within the procurement policy is adhered to, and to safeguard the Council's reputation and finances:

- receipts for purchases should be retained for audit purposes
- officers should record the details of the purchase, to ensure compliance with the Procurement Card Policy, and that impermissible items are not being purchased;
- all telephone and online purchases are made in the name of Herefordshire Council;
- orders should not be split to circumnavigate the £5,000 transaction limit;
- staff should be reminded that they must code their expenditure when inputting their claim.

Agreed Action:

The Corporate Finance Manager has agreed to send an email to all cardholders reminding of them of their responsibilities highlighted above.

Target Date:

30 September 2020

SWAP Performance - Summary of Limited Opinions

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit and Governance Committee.



Summary of Limited Assurances and Significant Service Findings (Priority 1 and 2)

Additional audit work to the Internal Audit Plan Progress 2019/2020 – Commissioning and Value for Money (BBLP) – Limited

The objective of the audit was to provide assurance that the controls relating to the commissioning and contract management arrangements with Balfour Beatty Living Places are well-managed and represent value for money. The Council signed a contract with Balfour Beatty Living Places Limited for the provision of Public Realm services, which commenced on 1st September 2013. This ten-year contract has an option for extension of a further 10 years based on the acceptable strategic performance of the contractor across the initial term.

In July 2018, the Cabinet approved the award of a one-year extension based on the performance in the period 2014-15 to 2016-17. This effectively means that the contract will currently run until 31st August 2024. The planned review and decision around the possible contract extension for the latest period was due to commence on the 1st April 2020.

The audit found the following controls to be operating effectively:

- There is evidence of adequate separation of duties in the expenditure process and each transaction is supported by an authorised service order.
- Agresso Business World is used to record transactions and their details, including authorisation of spend, related orders and any documentation linked to variation of spend, such as early warning notices, risk reduction meetings and compensation events.
- Monthly applications for payment from BBLP are checked so only the commissioned amount shown on the service order is paid, unless supported by an approved compensation request.
- This process includes a sample check of claims and further audit from secondary systems used by BBLP to support eligibility and accuracy of claim. There is evidence of healthy challenge in relation to this process.
- There are responsible officers for each annex in the annual plan who meet regularly with the contractor to discuss service delivery progress. These discussions are included at the established cluster group meetings, which in turn feed into the Operations Board.

SWAP Performance - Summary of Limited Opinions

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit and Governance Committee.



Summary of Limited Assurances and Significant Service Findings (Priority 1 and 2)

- There is evidence to support a reduction in revenue costs in the previous financial year in line with the contract and evidence that the 2020-21 budget has been set with further efficiency savings planned.

Five findings were raised in this report two of which were priority 2 findings and three priority 3 findings.

The priority 3 findings related to compensation events and enhancements to the VFM toolkit to be rolled out across the contract.

Priority 2 Finding:

The planned review and decision around the possible contract extension was due to commence on the 1st April 2020. This has not yet happened and should be progressed.

Recommendation:

We recommend that the Director of Economy and Place review of the contract for years 4-6 is formally programmed and undertaken. This should be considered in line with the contract in relation to the performance in the qualifying period. This exercise should also include a review of the strategic measures and thresholds in light of the current direction of travel at the Council and changes to the relevant funding elements.

Agreed Action:

The Commercial and Contract Manager has agreed a review of the contract for years 4-6 is now due and it will be progressed by the contract management team through the Council's governance process. The data on BBLP's performance during the relevant period is now available now that period has ended. This review will objectively assess performance against the strategic performance indicators that had been set for the qualifying period and will include an independent external assessment. This will enable a recommendation to be put forward for decision in regard to whether a contract extension should be awarded to BBLP based on the performance achieved. A review of the strategic measures and thresholds takes place each year alongside Annual Plan development. Measures and Thresholds are reviewed as part of this process considering the current direction of travel at the Council and changes to the relevant funding elements.

Target date: 31 December 2020

SWAP Performance - Summary of Limited Opinions

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit and Governance Committee.



Summary of Limited Assurances and Significant Service Findings (Priority 1 and 2)

Priority 2 finding:

With regards to the commissioning of work under annexes 15 or 16, the mechanisms that demonstrate the client's decision to commission works and services through the Public Realm Services Contract is one that represents best value are not documented.

Recommendation:

We recommend that the Director of Economy and Place creates a mechanism which ensures that the Council can demonstrate transparency in relation to the demonstrations of best value within the framework of Financial Procedure Rules in relation to works completed outside the BBLP annual plan.

Agreed Action:

It is agreed, all relevant commissioning decisions are/ will be made on the basis of Best Value, having considered all relevant commissioning options available through the Contract Procedure Rules. . The Acting Expert Adviser (Special Engineering Projects) has agreed that a specific mechanism will be developed and agreed with legal, finance and procurement to ensure that the Council can demonstrate transparency in relation to the demonstrations of best value within the framework of Financial Procedure Rules in relation to works completed outside the BBLP annual plan. This will be adopted as soon as agreed for all commissioning decisions in relation to works and services outside of the BBLP annual plan.

The contract management processes in place do require the client for any prospective Annex 15 or 16 work to present a decision notice, or record of a decision, taken in accordance with the Council's governance processes. This showing authority to commission a scheme before using the PRSC. Ultimately, the Council's ability to demonstrate that its choice to commission any scheme through the PRSC has been reached on the basis of Best Value sits outside of its management of the PRSC. This finding does not mean that best value cannot be realised through the PRSC when the decision to use it is made following the reasoned consideration of all commissioning options available to the council through its Contract Procedure Rules.

Target date: 30 September 2020

Follow Up audits are completed where the auditor could only provide limited assurance.



Follow Up Audits

Follow Up audits are completed where the auditor could only provide limited assurance. The follow-up audit is to provide assurance to the Director, Senior Management and the Audit and Governance Committee that the key risks have been mitigated to an acceptable level of risk. Evidence is obtained to demonstrate implementation and progress made in relation to all 2019/20 priority 1 and 2 recommendations. For the priority 3 recommendations progress reported is based on self-assessment by relevant officers. Where a key control audit received Reasonable assurance, the key control is included in the plan to follow up on all recommendations to provide assurance that action has been taken to address the recommendations. For key control follow up audit evidence is obtained to demonstrate implementation and progress for all recommendations.

No follow up audits have been completed this quarter.

Internal Audit Plan Progress 2020/2021

Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value

Primarily, Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP, we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

Risk Management – benchmarking of Risk Management systems used SWAP Partners

Grant Funding Schemes - Small Business Grant Fund / Retail, Hospitality and Leisure Grant Fund – request for information on state aid limits and where business addresses have been referred to the VO for rating and this has not been completed by the end of August for payment of the grant.

Internal Audit Plan Progress 2020/2021

SWAP Performance - Summary of Audit Opinions



Summary of Audit Opinion

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

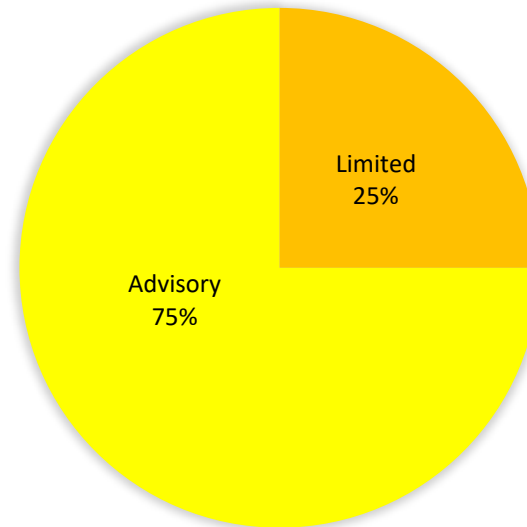
- Substantial
- Reasonable
- Limited
- No

We also undertake Advisory / Non-Opinion work on a consultancy basis where we have been asked to look at a specific area of potential concern.

Where we follow up on a previous adverse audit opinion the opinion is stated as follow up.

Of the four reviews that have a final report (at 21 August 2020), the opinions offered are summarised below.

Control assurance by category 2020/21



100

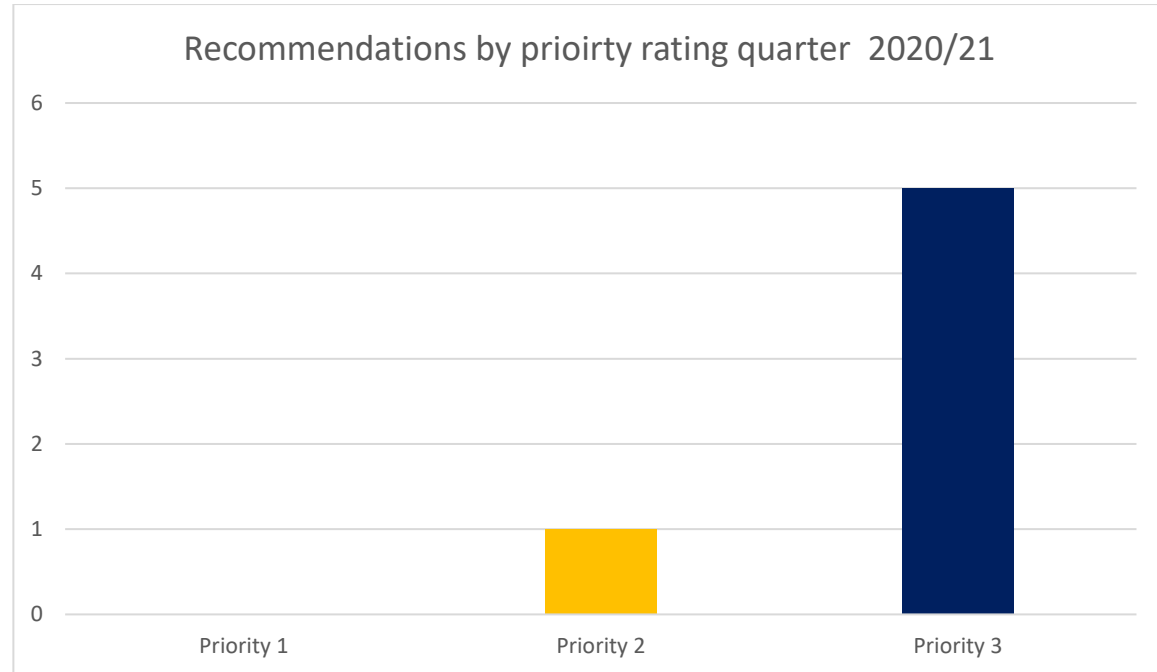
Internal Audit Plan Progress 2020/2021

Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of fundamental concern requiring immediate corrective action.



Summary of Recommendations by priority



Internal Audit Plan Progress 2020/2021

We keep our audit plans under regular review to ensure that we are auditing the right things at the right time.



Approved Changes to the Audit Plan

Unplanned work, special reviews or projects carried out on a responsive basis are requested through the Chief Finance Officer (Section 151 Officer). As new and emerging risks are identified, any changes to the plan will be subject to the agreement of the Chief Finance Officer (Section 151 Officer) and reported to this Committee.

There will continue to be some disruption to the 2020/21 audit plan due to additional work related to COVID -19 and additional work requested by the Chief Finance Officer.

Since my last update there have been two additional audits added to the 2020/21 plan in quarter 2:

- Loss of Monies – Children’s – Special Investigation Audit
- Local Transport Authority Covid-19 Bus Service Support Restart (Revenue) Grant (CBSSG)– Grant Determination

Proposed Revised Internal Audit Plan 2020-21



Proposed Revised Internal Audit Plan 2020-21

The 2020/21 audit plan has been reviewed following completion of quarter 1 to establish the remaining audit days available for the period August 2020 – March 2021 and Appendix D outlines the proposed revised audit plan for the remainder of 2020/21.

Internal Audit Plan Progress 2020/2021

Conclusion



Conclusion

Since my last update three audits have been completed for the 2020/21 audit plan bringing the total audits completed to four. There are two audits at report stage and there are nine audits in progress.

For the four audits completed two are Advisory reports, one is advisory work and one was assessed as Limited assurance. There were no significant corporate risks or significant findings identified. An additional audit to the 2020-21 audit plan has also been completed and this was assessed as Limited assurance.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. A score of 95% would reflect the fact that the client agreed that the review was delivered to a good standard of quality, i.e. agreed with the statement in the questionnaire and satisfied with the audit process and report. For 2020/21 the feedback score is 100%.

As stated above a proposed revised plan has been developed for the remainder of 2020/21. It is however important to note that this plan may be subject to change as the year progresses particularly in light of the Government's continuing requirement for declaration returns on funding in response to the COVID-19 pandemic. There may also be some disruption if officers within the Council are unavailable as they continue to support the changing requirements as a result of COVID-19 pandemic.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Limited
- No
- Advisory



Audit Framework Definitions

Control Assurance Definitions

Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Advisory Report - In addition, to our opinion-based work we will provide consultancy services. The advice offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendations are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

Risk	Reporting Implications
	In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. Each recommendation has been given a priority rating at service level with the following definitions:
Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Definitions of Risk

Risk	Reporting Implications
	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Audit Area	Corporate Risk	Quarter	Status	Opinion	No of Rec	1 = Major ← 3 = Medium Recommendation		
						1	2	3
						Corporate Centre (including ICT)		
Accounts Payable	CRR10, CRR23	3	Not Started					
Main Accounting Follow Up	CRR10, CRR23	3	Not Started					
Payroll	CRR10, CRR23	3	Not Started					
Accounts Receivable	CRR10, CRR23	3	Not Started					
Council Tax	CRR10, CRR23	3	Not Started					
NNDR - Business rates avoidance	CRR10, CRR23	3	Not Started					
Treasury Management Follow Up	CRR10, CRR23	3	Not Started					
Housing and Council Tax Benefits	CRR10, CRR23	3	Not Started					
NMITE Project (University)	Accountable Body Requirement	1	Completed	Advisory Report	-	-	-	-
MTFS	CRR.24	4	Not Started					
Commercial Investments	CRR.21	2	Not Started					
Balfour Beatty Contract 1 year (minor to major repairs)	CRR.23	4	Not Started					
Councillor Allowances Overspend	CRR.23, CRR.24	4	Not Started					
Voting restrictions for Members	CRR.20	1	Not Started					
Staff Car Parking - Business passes	CRR.10, CRR.23	1	In progress					

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Better Ways of Working (BWOW)	CRR.15	4	Not Started					
Risk Management	All Risks	2	Not Started					
Strategic/Significant Partnerships	CRR.26	2	Not Started					
Brexit Preparedness	CRR.09	4	Not Started					
Cyber Security Framework	CRR.13 CRR.25	3	Not Started					
ICT Governance Risk Review	CRR.13 CRR.25	2	Not Started					
Schools Educational visit service	CRR.12	4	Not Started					
Staff benefit scheme	CRR.08, CRR.23	1	Not Started					
Employee Expenses	CRR.23 CRR.10	2	Not Started					
Leavers Process	CRR.13 CRR.29	2	Not Started					
Economy and Place								
Development Regeneration Programme	CRR.14 CRR.27	1	Not Started					
Local Transport Block Funding	Financial Governance	2	In Progress					
Bus Subsidy Grant	Financial Governance	2	In Progress					
Bellwin /Resilience Management	Financial Governance	2	In Progress					
Commercial Properties/Rents	–	1	Not Started					
Herefordshire Waste Contract	–	4	Not Started					

S106 Agreements	CRR.10 CRR. 18 CRR.20	2	In Progress					
Climate Change	CRR.41	1	Not Started					
Emergency Planning	CRR.11	4	Not Started					
Capital Programme/Capital Projects	CRR.18	4	Not Started					
Adults and Communities								
Care Providers - risk of fraud.	CRR.23 CRR.02	2	Not Started					
Care Panel.	CRR.17	1	Not Started					
Support to self-funders.	CRR.17	1	Not Started					
Integrated Short-Term Support and Care Pathway - Carers Assessment	CRR.17	2	Not Started					
Integrated Short-Term Support and Care Pathway phase 4 Housing Pathway	CRR.17	3	Not Started					
Client Finances	CRR.10, CRR.23	2	Not Started					
West Midlands Peer Review	-	3	In Progress					
Children's and Families								
Troubled Families – monthly review – quarterly report quarter 1	Financial Governance	1	Completed	Advisory Report	-	-	-	-
Troubled Families – monthly review – quarterly report quarter 2	Financial Governance	2	Not Started					
Troubled Families – monthly review – quarterly report quarter 3	Financial Governance	3	Not Started					
Troubled Families – monthly review – quarterly report quarter 4	Financial Governance	4	Not Started					
Schools thematic audit	CRR.23 CRR.03	3 and 4	Not started					

Schools - Off rolling.	CRR.23, CRR.03	2	Not Started					
DP Pre Paid Cards	CRR. 23	3	Not Started					
Accommodation based support service for care leavers with complex needs	CRR.03	3	Not Started					
EHCP (Education, Health and Care Plans)	-	1	Not Started					
Looked after Children and Complex Needs Children's Placements	CRR.03	4	Not Started					
Support for young people not in education, employment or training (NEET)	-	3	Not Started					
Follow Up Audits								
Members Expenses Follow Up	-	3	Not Started					
CHC - Follow Up	-	4	Not Started					
SWTP Phase 1 - Follow Up	-	4	Not Started					
SWTP Phase 2 - Follow Up	-	4	Not Started					
Contingency - Follow Up	-	4	Not Started					
Additional Audits added to the plan for COVID-19								
Grant Funding Schemes - Small Business Grant Fund / Retail, Hospitality and Leisure Grant Fund	CRR.23, CRR.39	1		Advisory Work	-	-	-	-
Transport Contracts	CRR.23, CRR.39	1	In Progress					
Procurement cards	CRR.23, CRR.39	1	Completed	Limited	6	0	1	5
HALO Leisure Centre – Financial review	CRR.23, CRR.39	1	Completed	Advisory Report				
Emergency Decisions	CRR.39	1	Discussion Document					

Local Transport Authority Covid-19 Bus Service Support Restart (Revenue) Grant (CBSSG)	CRR.23, Crr.39	2	In Progress					
Additional Audits approved by the Chief Finance Officer								
Gypsy and Traveller Sites – Special Investigation	CRR.10	1	Draft Report					
Hereford City centre Transport Package – Governance Review	CRR.10	1	In Progress					
Contract Management – BBLP	CRR.38	1	Not started					
Loss of Monies – Children’s - Special Investigation	CRR.23	2	In Progress					
Audit work requested in addition to the 2020-21 audit plan by the Chief Finance Officer								
Commissioning and Value for Money (BBLP)		1	Completed	Limited	5	0	2	3

Proposed Revised Internal Audit Plan 2020-21

As a result of the COVID-19 pandemic, SWAP has had to adapt and change its focus in the short-term.

This has involved audit work redirected to provide support and assurance for COVID-19 processes to assist with the response to the huge challenges faced.

With the Authority moving into a recovery phase from COVID-19, we are now looking to re-commence audit work in some areas.



Background

The internal audit plan for 2020/21 was approved by the Audit and Governance Committee on the 5th May 2020.

Clearly a lot has changed since that date, and as such, an updated and proposed revised audit plan for the remainder of 2020/21 is provided below. The plan that had previously been prepared is likely to remain relevant in many respects, but the huge effort the Authority is undertaking in relation to response and recovery from the COVID-19 pandemic is likely to push back a significant proportion of this work. As such an updated plan has been prepared following consultation with the Chief Finance Officer.

Internal audit continues to respond to request to support COVID-19 work and this will continue to cause some disruption to the plan particularly where there is a definitive date for a declaration to the relevant Government department.

The plan will continue to be reviewed as the year progresses and changes to the plan will be reported to this committee in my Internal Audit progress update reports.

When reviewing the proposed revised internal audit plan, key questions to consider include:

- Are the areas selected for coverage this year appropriate?
- Does the internal audit plan cover the organisation's key risks as they are recognised by the Management Board and Audit and Governance Committee?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

The proposed revised plan identifies where it is suggested to move audits to 2021/22 and includes the additional audits that have already been added to the plan for 2020/21.

Proposed Revised Internal Audit Plan 2020-21

It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.

Link to Corporate Ambition/ Corporate Risk Register	Areas of Coverage	Brief Description	Priority (H, M, L)	Status
Corporate Centre (including ICT)				
Environment, Community, Economy CRR.10 CRR.23	Key Financial Controls Accounts Payable Main Accounting - Follow Up Payroll Accounts Receivable Capital Accounting Council Tax NNDR - Business rates avoidance Treasury Management - Follow Up Housing and Council Tax Benefits	Review of key financial system to provide assurance on effectiveness of controls and management of risks remaining with the Council. The work will assess responses to previous audit coverage and any changes to the control environment. The audit work will also include the use of data analytics.	High	Not Started
Accountable Body Requirement	NMITE Project (University)	Final review to cover February/March 2020	High	Completed
Environment, Community, Economy CRR.24 CRR.23 CRR.20	MTEP	The revenue and capital budgets are set following a robust process using sound and realistic assumptions.	Medium	Not Started
	Commercial Investments	The acquisition of commercial property has become a significant area of activity for some authorities in recent years. Local authorities acquire commercial property for a variety of reasons, but yield is currently an important factor.	Medium	Not Started
	Balfour Beatty Contract 1 year (minor to major repairs)	Review of compliance with contract.	High	Not Started

	Councillor Allowances Overspend	Review of allowances with Members Expenses follow up	Low	Defer to 2021-22
	Voting restrictions for Members	Review of process and how this is monitored.	Low	Defer to 2021-22
Environment, Community, Economy CRR.10 CRR.23 CRR.15 CRR.26 CRR.09	Staff Car Parking - Business passes	Review of process.	Low	In Progress
	Better Ways of Working (BWOW)	Review of BWOW principles and delivery of agreed programme. Deferred from 2019-20	Medium	Defer to 2021-22
	Risk Management	Last reviewed in 2014. Is the Risk Management Framework in place effective and appropriate for managing and monitoring risk?	Medium	Defer to 2021-22
	Strategic/Significant Partnerships	Review the governance arrangements in place between the council and Significant Partners to ensure they support effective transparency and communication and there are adequate contractual or partnership arrangements in place.	Medium	Not Started – planned for quarter 2
	Brexit Preparedness	Is the council prepared for the opportunities and risks that Brexit will bring? Are the short and long term issues that matter most to communities being addressed.	Deferred from 2019/20. Agreed with the Chief Finance Officer. Medium	Not Started
Environment, Community, Economy CRR.13 CRR.25	Cyber Security Framework	This review covers 20 key controls regarding cyber security and allows senior and strategic management to assess risk from a high level and provide requirements or challenge to the ICT provider or service. This review is being undertaken across SWAP partners so can facilitate future benchmarking. A continuous audit approach will be applied to update the results of this review annually.	High	Not Started – planned for quarter 2
	ICT Governance Risk Review	A high-level holistic risk review covering ICT Governance, Infrastructure and Enterprise. This allows senior and strategic management to gain exposure to current ICT risks and to inform future value added ICT audit.	High	Not Started
	Schools Educational visit service	Review of Health and Safety advice to Schools and process for school buy in.	Low	Defer to 2021-22

Environment, Community, Economy CRR.12 CRR.23 CRR.10 CRR.29	Staff benefit scheme	Scheme has been running since July 2019. Review of scheme and accuracy of data - is the scheme delivering the benefit intended.	Low	Defer to 2021-22
	Employee Expenses	Review of automated approval process for expenses under £100. Assurance that self-certification is complying with guidance. Use of Data Analytics Proactive Fraud Work	Medium Use of Data Analytics Proactive Fraud Work	Defer to 2021-22
	Leavers Process	Review of adequacy of process. Previous weaknesses identified in process.	Medium	Defer to 2021-22
Economy and Place				
Environment, Community, Economy CRR.14 CRR.27 CRR.20 CRR.10 CRR.11 CRR.18	Development Regeneration Programme	Scope to be agreed.	Medium	Defer to 2021-22
	Local Transport Block Funding	Grant Certification	High	In Progress
	Bus Subsidy Grant	Grant Certification	High	In Progress
	Bellwin /Resilience Management	Grant Certification	High	In Progress
	Commercial Properties/Rents	Review of the processes and procedures in place for commercial rentals owned and managed by Herefordshire Council. Areas to review - setting of rents and payment terms; discounts; invoicing and debt recovery; write-offs; vetting; rent reviews; tenancy starts and terminations and lease contents. Last reviewed in 2015-16.	Medium	Not Started - planned for quarter 2
	Herefordshire Waste Contract	Herefordshire Council and Worcestershire County Council waste treatment, recycling and disposal services are managed by Mercia Waste Management. What assurance do the council have that the contract is delivering against service expectation, contract delivery.	Medium	Defer to 2021-22
	S106 Agreements	Review of expenditure against s106 agreements - Covers all aspects of s106's not just E&P so include children. Focus on delivery against commitments.	Medium	In Progress

	Climate Change	Herefordshire Council has been working to reduce greenhouse gas emissions by 40% between 2008/09 and 2021, with a new aspirational target for achieving carbon neutrality by 2030. Review of the obligations and processes around carbon management.	Medium	Defer to 2021-22
	Emergency Planning	Review of Emergency Planning response	High	Not Started
	Capital Programme/Capital Projects	Capital Programme - to review a sample of projects across each Directorate.	High	Not Started
Adults and Communities				
Community Ambition CRR.23 CRR.17 CRR.10	Care Providers - risk of fraud.	What assurances do the Council have care is provided as per contract/agreement and the individual annual care plan. Proactive Fraud Work	Medium	Defer to 2021-22 Director of Adults and Communities advised unable to progress this year.
	Care Panel.	Assurance around the process – is it effective?	Medium	Defer to 2021-22 Director of Adults and Communities advised unable to progress this year.
	Support to self-funders.	What is the level of support provided by the Council and how does it compare to other LA's – to include cross partner comparison report.	Medium	Defer to 2021-22 Director of Adults and Communities advised unable to progress this year.
	Integrated Short-Term Support and Care Pathway - Carers Assessment	Pathway, system changes and a new contract in place. Deferred from 2019-20 to allow for implementation of new contract.	Medium	Defer to 2021-22 Director of Adults and Communities advised unable to progress this year.

	Integrated Short-Term Support and Care Pathway phase 4 Housing Pathway	Deferred from 2019-20. Is the Pathway prospective providing a customer journey with consideration of the system in respect of: <ul style="list-style-type: none"> • Moving at the right pace • Fit for purpose • Operating correct model of practice 	Medium	Defer to 2021-22 Director of Adults and Communities advised unable to progress this year.
	Client Finances	Client Finance System - Interface between all systems. Deferred from 2019-20.	Medium	Not Started
	West Midlands Peer Review	Compliance to peer review and progress against recommendations.	Medium	In progress
Additional Adults and Communities Audits				
Community Ambition CRR.23 CRR.17 CRR.10	Workforce Development	Is there a robust workforce development offer to support the frontline services and wider system appropriately? Can this be delivered in the new COVID 19 environment.	High	In Progress
	The Quality Development Framework	In order to establish adherence to the policy and best practice in supervision a quality audit programme was introduced. The purpose of this audit is to verify that the audit process is consistently applied so assurance standards are met.	Medium	Not Started not planned for quarter 3
	Oral Health Needs Assessment Plan	Comments expressed at "Q4" Cabinet. An audit of the progress made against the Oral Health Needs Assessment. It is worth noting that the plan was only completed at the end of 2019 and actually therefore runs from 2020 – 2023. We are technically therefore only at the end of Q2 of year 1 so SWAP may recommend delaying the audit until later in the year.	Medium	Defer to qrt 1 2021-22 this will then give a full year to review of progress against the plan.
	Supervision Practices	Review of performance – noticed there has been some slippage at the front door through the COVID-19 period.	Medium	Not Started planned for quarter 3
Children's and Families				
Community Ambition CRR.03	Troubled Families	Grant Certification review of claims monthly.	High	In Progress
	Schools thematic audit	Scope to include elements of SFVS and Prevention of Fraud	Medium	Defer to 2021-22

CRR.23	Schools - Off rolling.	Building upon the 19/20 schools exclusion work. Piece of work specifically on off rolling.	Low	Defer to 2021-22
	DP Pre Paid Cards	Review of controls for the use of and issue of pre-paid cards. Use of Data Analytics - Proactive Fraud Work.	Use of Data Analytics - Proactive Fraud Work. Medium	In Progress
	Accommodation based support service for care leavers with complex needs	Approach and accommodation for 16-18-year olds.	Medium	Defer to 2021-22
	EHCP (Education, Health and Care Plans)	Education, Health and Care (EHC) Plans are legally binding. A request for an EHC Needs Assessment is made where a child does not make expected progress following the Assess/Plan/Do/Review cycle and the special educational provision required cannot reasonably be provided from within the resources normally available to their educational setting.	Medium	Not Started
	Looked after Children and Complex Needs Children's Placements	A review of the process and the delivery of placements.	Medium	Defer to 2021-22
	Support for young people not in education, employment or training (NEET)	Review of support available - include care leavers and looked after children.	Medium	Not Started
Follow Up Audits				
Follow Up Audits	Members Expenses - Follow Up	Partial assurance 19/20. The work will assess responses to previous audit coverage and any changes to the control environment.	Medium	Not Started – Quarter 4
	CHC - Follow Up			
	SWTP Phase 1 - Follow Up			
	SWTP Phase 2 - Follow Up			
	RNCB Follow Up			
Homepoint Follow Up				
COVID- 19 Audits Not in 2020-21 Original Plan				
CRR.23	Grant Funding Schemes Small Business Grant Fund / Retail,	Additional audit as a result of Government funding for small businesses.	High	Completed

	Hospitality and Leisure Grant Fund			
	COVID-19 Advice	Advice as requested	High	Ongoing
CRR.20	Emergency Decisions - Decision Making	Review of changes to Emergency Decisions - for COVID-19	High	Discussion Document
CRR.23	Transport Contracts	Additional audit request to review payments for transport contracts in line with the variation to payments.	High	In Progress
CRR.23	Procurement Cards	Review of use of Procurement cards during COVID-19	High	Completed
CRR.23	Local Transport Authority Covid-19 Bus Service Support Restart (Revenue) Grant (CBSSG)	Grant Determination	High	Not Started
Additional Audits requested by the Chief Finance Officer				
CRR.20 CRR.23 CRR.10	Gypsy and Traveller Sites – Special Investigation	Special Investigation	High	Draft Report
	Hereford City Centre Transport Package	Review of spend against 2015 business case - 9 deliverables in the business case - £46M project.	High	In progress
CRR.23	Loss of Monies - Childrens and Families – Special Investigation	Special Investigation	High	In progress
CRR.20 CRR.10	Contract Management – Public Realm Contract	Review of contract management for Public Realm Contract.	High	Not Started



Meeting:	Audit and governance committee
Meeting date:	Friday 25 September 2020
Title of report:	Energy from waste loan update
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To provide assurance to the audit and governance committee on the current status of the energy from waste loan arrangement to enable the committee to fulfil its delegated functions.

Herefordshire and Worcestershire are partners in a joint waste disposal private finance initiative contract that was varied in May 2014 to enable the councils to finance the construction of an Energy from Waste plant through the use of prudential borrowing. A total loan facility was agreed at £163.5m, with Herefordshire providing 24.2% of the loan value, being £40m.

The current status of the loan arrangement is considered satisfactory.

Recommendation(s)

That:

- (a) the risks to the council, as lender, are confirmed as being reasonable and appropriate having regard to the risks typically assumed by long term senior funders to waste projects in the United Kingdom and best banking practice; and**
- (b) arrangements for the administration of the loan are reviewed and confirmed as satisfactory.**

Alternative options

1. None, the loan arrangement was contractually agreed in May 2014, no breaches or areas of concern have taken place during this reporting period. This report provides an update on the arrangement to the Audit and Governance Committee in its role as the waste loan governance committee which entails reviewing risks to the lender and monitoring administration of the loan.

Key considerations

2. In 1998 Herefordshire Council, in partnership with Worcestershire County Council, entered into a 25 year contract with Mercia Waste Management Limited for the provision of an integrated waste management system using the Private Finance Initiative.
3. A variation to the contract was signed in May 2014 to design, build, finance and operate an Energy from Waste plant. Both councils provided circa 82% of the project finance requirement from their own planned prudential borrowing with the remaining 18% being provided by the equity shareholders of Mercia Waste Management Limited.
4. This report ensures the committee fulfils the functions delegated to it in relation to the governance of the waste loan arrangement; specifically to review the risks to the council as lender and to monitor administration of the loan.
5. Since the last report to the committee in September 2019 the loan arrangement has continued to be repaid in line with expectations. No decisions or courses of action have been identified for recommendation to the committee.

Key loan features and update

6. Herefordshire and Worcestershire councils provided a loan facility of £163.5m in total, with Herefordshire providing 24.2% of the loan value, £40m.
7. Total loan interest and fees charged to Mercia are fixed and are representative of commercial bank charges. These total £69m, £17m for Herefordshire.
8. During the last year, since the previous report to the committee, loan repayments of £3.7m have been received, representing £1.5m in principal and £2.2m in interest. A summary of repayments received to date is shown in the table below:

Date	Interest (£m)	Principal (£m)	Total (£m)
December 2019	1.1	0.6	1.7
June 2020	1.1	0.9	2.0
Totals	2.2	1.5	3.7
Previous repayments received	5.4	3.2	8.6
Total to date	7.6	4.7	12.3

Covid 19 Impact

9. During March the effects of the Covid 19 pandemic began and on March 24th both Councils instructed Mercia Waste Management Limited (the Company) to close Household Recycling Centres (HRCs) in both Counties. During late March and early April the Company saw commercial waste volumes plummet and there were fears that waste collections would be reduced to a significant degree which could lead to problems having sufficient waste for the EfW to continue operating. The Company took measures including securing new temporary commercial waste contracts whilst the situation improved. There was an impact of staff availability due to self - isolation but this has been managed successfully. Nearly all HRCs have reopened albeit with restrictions on the number of cars on site and observance of social distancing measures. There has been no threat to the ability of the Company to continue to make the loan repayments falling due with the June loan repayment being paid as expected.

Assurance Statement

10. The company is required to produce a short, high level assurance statement with the aim being to reassure the Lender (the council) that there is no material matters which would impair Mercia's ability to repay the loan in accordance with the financial model in the coming period, this is attached at appendix 1. The Company anticipates being able to continue to make payments as per the Loan Agreement and no material problems exist which would require the Lenders attention at any of Mercia's Facilities.

Plant Performance Operating Report

11. Attached at Appendix 2 is an update of the operating performance of the energy from waste plant prepared by external advisors Fichtner Consulting Engineers Limited. The report confirms that for the second year of operation the plants overall availability were above annual average guarantees. One minor item remains from construction and payment is being withheld until this has been completed. During the defects liability period, 332 defects were raised and of these, 82 remain open. The final certificate will not be issued until all open defects have been closed. The report confirms that it cannot currently foresee any performance issues with the plant that are likely to impact ongoing operations.
12. The Company has subsequently confirmed that the work in respect of the air handling unit has been done, but some minor issues need to be addressed before the system is accepted as compliant with the contract. Thirty three defects remain open and it is anticipated that all items will be addressed by the end of September and closed out by the end of October.

Community impact

13. In accordance with the adopted 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. The committee's assurance that any risks associated with the loan arrangement have sufficient mitigation actions applied supports adherence to the code.
14. The loan arrangement supports the continued viability and affordability of the contracted waste disposal arrangement.

Environmental Impact

Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.

This is a factual update on an existing loan arrangement and will, in isolation, have minimal environmental impacts. However consideration to minimise waste and resource use in line with the Council's Environmental Policy is considered as part of the overall waste collection and disposal service provision.

Equality duty

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 factual update, we do not believe that it will have an impact on our equality duty.

Resource implications

- 16. There are no financial implications arising from the recommendations of this report.
- 17. The loan arrangement is being repaid as expected, the implications of the agreed loan arrangement are reflected in the council's medium term financial strategy and treasury management strategy as agreed by Council in February 2020.

Legal implications

- 18. The terms and arrangements for this loan agreement are set out in the senior term loan facilities agreement. There are no specific legal implications arising from this report.
- 19. The function of the committee is set out in the constitution under 3.5.13. This report relates to functions (a) to review risks as lender and (b) to monitor the administration of the loan.

Risk management

20. The two open risks that have been substantially mitigated and are assessed as green remain on the risk register as reported last time, see appendix 3. All risks, including closed risks, are regularly reviewed.
21. Part of the senior term loan facility agreement refers to debt ratio calculations that demonstrate that the Company has the required funds to meet the loan repayments falling due.
22. A historic periodic ratio calculation is performed to assess the project's ability to service its current debt obligation over the preceding 12-month period. In addition a cash flow after debt servicing within the current base financial model is compared to the actual cash flow after debt servicing position. This has showed a positive picture where the actual cash flow in the Company has been more than the current base financial model.
23. The Councils are currently reviewing the service provision contract. The loan arrangement ends when the private finance initiative contract ends in 2023. The Councils are considering the options available at contract end which includes a contract extension. If an extension were to be agreed then a new finance model would be negotiated.
24. An updated financial model is expected to forecast immediate contract savings, discussions are being held with KPMG to support the Councils in understanding the updated model in terms of savings delivery and also any implications that this may have on the affordability of the future loan repayments.
25. To reflect this a new risk has been added to the risk register in relation to the impact on the ratio analysis testing of an updated financial model. There is currently no clear deadline for agreeing a contract extension and therefore no date to expect an updated financial model.
26. The risk register is shared with Worcestershire County Council and is therefore in a jointly agreed format.

Consultees

27. None

Appendices

- | | |
|------------|------------------------------------|
| Appendix 1 | Assurance Statement |
| Appendix 2 | Plant Performance Operating Report |
| Appendix 3 | Risk Register |

Background papers

- None identified

Senior Term Loan Facility Agreement

Assurance Statement for Lenders

1. Audit and Trading

The Company has performed well against the Modelled figures during 2019 as a whole. As reported previously the first half of the year was a good period for us. The second half has unfortunately been impacted by a longer and more costly shutdown than expected for Energy from Waste Plant. The outage incurred both greater costs and as it took longer the loss of income was higher than planned. The Company as a whole outperformed in November and we expect to have a satisfactory outturn for the year.

In looking forward the Company continues to perform well across the more than twenty locations it operates from and continues to succeed in terms of the contractual Recycling and Recovery targets it has as part of the Service agreement with the Councils. The recycling market continues to be of concern with further price falls experienced. Additional risks relating to the plans of the main political parties in respect of the Minimum Wage and Corporation Tax, among other matters, in the Party's election manifestos are now apparent.

2. Loan Repayment

The payments due to the Councils at the end of December will be in full and on time. As at the date of this statement, Mercia anticipates being able to continue to make payments as per the Loan Agreement.

3. Buildings, Plant and other Infrastructure

No material problems exist which would require the Lenders attention at any of Mercia's Facilities.

4. Compliance with Environmental Conditions and Permits

As mentioned in the last report, the Environment Agency requested that we investigate a source of noise at the EfW Plant (the Induced Draft Fan). The Company has worked closely and openly with the Environment Agency, the Council and local residents and a course of action has been agreed. Following a Survey in early December a Computer Model will be made enabling fabrication and installation of the measures required to resolve the issue in the first quarter of the new year.

5. Insurance

All appropriate Policies are in place. The Company's claims history remains satisfactory. The non – EfW renewal meeting is due to take place on 5th December. The EfW policy renewal takes place in March.

6. Key Staff

All senior staff remained in their roles during the period and continue in their employment at the date of this Statement.

J W Haywood - Mercia Waste Management 3.12.19

30 September 2019

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Mr Jim Haywood
Mercia Waste Management
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Ref: Performance of the EnviRecover EfW Plant

Dear Jim,

In response to your request for an update on the operational performance of the EnviRecover energy from waste (EfW) plant, we are pleased to provide this brief overview.

Following completion of construction by Hitachi Zosen Inova (HZI), the plant was taken over on 3rd March 2017 and is now operated by Severn Waste Services (SWS) on behalf of Mercia Waste Management (Mercia).

In accordance with the engineering, procurement and construction (EPC) Contract, following successful completion of the Reliability and Performance Tests, the Acceptance Certificate was issued on 2nd August 2017 and the Availability Test subsequently commenced at 00:00 on 3rd August 2017.

The Availability Test was performed over a 730-day period and was successfully completed at 00:00 on 3rd August 2019. The overall availability for the Plant over the 730-day test period was 93.1% in terms of thermal input and 88.5% in terms of electrical export, compared to annual average guarantees of 90.6% and 88.1% respectively.

At the end of August 2019, Severn Waste Services (SWS) advised that only one Minor Item remains. It relates to the installation of a new variable speed drive for the administration building air handling unit and the successful demonstration that the ventilation system is now compliant with the requirements of the Contract. As such the following milestones have still not been certified.

- Milestone 43d - Completion of remaining priority B Minor Items; and
- Milestone 44b – Installation of replacement air handling unit fan and completion of commissioning to the satisfaction of the Purchaser.

All outstanding Final Documentation has now been provided by HZI, and as such, Milestone 45b - Provision of outstanding as built quality documentation as detailed in Variation Order 73, has been certified for payment. Only milestone 43d and 44b now remain outstanding.

The Defects liability period ended on 3rd March 2019 (two years after Take Over). During the Defects liability period, 332 Defects were raised by SWS and of these, 82 remain open. No new Defects can now be raised, but HZI is still required to address the remaining open Defects. The Final Certificate, as defined under Clause 38.1 of the Contract, will not be issued until all open Defects have been closed.



Certificate Number 2291
ISO 9001
ISO 14001
OHSAS 18001

30/09/19 Page 2 of 2

In conclusion, the EnviRecover EfW plant has successfully achieved the guaranteed availability over its first two years of operation. HZI is continuing to close out the remaining Defects, although progress has been quite slow on some points. We cannot currently foresee any performance issues with the plant that are likely to impact ongoing operations.

Yours sincerely
FICHTNER Consulting Engineers Limited

Mark Shatwell
Project Manager under the EPC Contract

Stuart Wilson
Engineering Director

Waste Credit Committee Risk Register - Open Risks
December 2019 - Corporate Scoring Terms

Risk Reference	Description of risk	Gross Impact	Gross Likelihood	Gross Risk Score	Risk control approach	Mitigating Actions	Residual Impact	Residual Likelihood	Residual Risk Score	Assigned to (Risk Owners)
a	Default of loan repayments by borrower to lenders due to SPV (Mercia) or HZI falling into administration.	Critical	Medium	15	Risk transferred	Due to the security package negotiated by the Councils a fall away analysis indicated that Mercia, its Shareholders and HZI would need to have entered administration at the same time to put at repayment at risk during the construction phase. The maximum exposure to the Councils has been calculated and included within the sufficiency assessment of the Council's reserves. All press articles are scanned regularly for indications of financial strength issues and followed up to ensure counterparty risk is not increased. An example is where ACS Construction and Services S.A., through its subsidiary ACS Services y Concessions S.L., executed the sale recently of its total interest in URBASER S.A. To Firion Investments S.L.U, a company controlled by a Chinese group. The Councils then obtained legal advice that reassured lenders that no action was required by any parties arising from this change in ownership, as there were no changes to the Shareholder (Urbaser Limited).	Substantial	Very Low	6	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default and Deloitte to monitor Mercia's actual quarterly cash flow tests and cover ratios that have to be maintained by Mercia.
f	Mercia loan principal and / or interest repayments are below the required values as per the rates agreed in the STFLA .	Substantial	Very Low	6	Risk treated	The Council's treasury team maintain a spreadsheet detailing drawdowns to date and expected future principal and interest payments. This is reconciled to Mercia's repayment spreadsheet and will be matched to principal and interest repayments received from Mercia during the post construction period.	Substantial	Almost Impossible	5	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.
g	The impact on the ratio analysis testing of the availability of an updated financial model	Substantial	Medium	15	Risk treated	The Council's treasury team are seeking KPMG to assess any impact on the ability of MWM to repay the loan regarding an updated financial model. This will also assess the impact on the ratio analysis required.	Substantial	Very Low	5	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.

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Key

High 19 – 24	Unacceptable Risk: Immediate control/improvement required
Medium 8 – 18	Acceptable Risk: Close monitoring and cost effective control improvements sought.
Low 1 – 7	Acceptable Risk: Need periodic review, low cost control improvements sought if possible.

Scoring Matrix

Likelihood	Negligible	Substantial	Critical	Extreme
Very High	9	19	21	24
High	8	12	20	23
Medium	4	11	15	22
Low	3	10	14	18
Very Low	2	6	13	17
Almost Impossible	1	5	7	16
	Negligible	Substantial	Critical	Extreme

Impact



Meeting:	Audit and governance committee
Meeting date:	Friday 25 September 2020
Title of report:	Annual report on code of conduct
Report by:	Solicitor to the Council

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To enable the committee to be assured that high standards of conduct continue to be promoted and maintained. To provide an overview of how the arrangements for dealing with complaints are working together with views from the latest standards panel sampling review.

Recommendation(s)

That:

- (a) the annual report on code of conduct complaints be reviewed and any areas for further work be identified for inclusion in the work programme; and
- (b) the recommendations from the standards panel advising this committee (appendix 1), following their annual sampling exercise, are considered and are adopted as appropriate into the action tracker

Alternative options

1. There are no alternative options, the constitution requires the committee to annually review overall figures and trends from code of conduct complaints. The report provides a

factual summary of the work undertaken during the period 1 May 2019 to 30 April 2020 the ('review year').

Key considerations

2. The monitoring officer is responsible for dealing with allegations that councillors have failed to comply with the members' code of conduct and for administering the local standards framework.
3. Herefordshire Council, and all parish, city and town councils in the county, have a statutory duty under the Localism Act 2011 to 'promote and maintain high standards of conduct by members and co-opted members of the authority'.
4. The committee is responsible for receiving an annual review by the monitoring officer.

Code of Conduct

5. In accordance with Section 28 Localism Act 2011 the council has adopted a code of conduct, and this has also been made available to all parish councils in the county to inform the adoption of their own code. This report considers the code as adopted on by this council on 25 May 2018.

Independent Persons

6. Section 28(7) of the Act also requires that the council appoint "at least one independent person" whose views are sought and taken into account before it makes its decision on an allegation of a breach of the code of conduct.
7. During the year 2019/20, there were seven independent persons appointed for Herefordshire Council.
8. There are currently six independent persons as Mr Richard Stow's four year term came to an end in March 2020. Mr Stow's contribution to the code of conduct arrangements were invaluable during his period of term. A future recruitment exercise is currently scheduled for 2022/3.
9. The monitoring officer is grateful for the work and support from all of the independent persons.
10. During the review year the monitoring officer has held two independent persons' conferences and key outcomes were
 - Agreement on how independent persons can offer support to councillors who are subject to complaints; and
 - A legal update on when a potential defence might be relevant, where a councillor fails to meet their statutory obligations in relation to disclosable pecuniary interests, which could otherwise result in criminal liability; and
 - A helpful guide on when 'public interest' is relevant in handling code of conduct complaints.
11. The independent persons framework under which they will offer support to councillors who are subject to complaints became effective from January 2020 and is routinely offered when councillors are advised of a complaint against them. Support has been sought

Further information on the subject of this report is available from

Claire Ward, tel: 01432 260657; email: claire.ward@herefordshire.gov.uk

since since May 2020 and details will be provided in the 2021 annual code of conduct report.

Arrangements

12. A [revised standards procedure](#) to investigate code of conduct complaints was endorsed by this committee on 24 September 2019. The changes outlined in the 2019 annual code of conduct report were implemented from October 2019. A review of the arrangements is scheduled for discussion by the Independents persons in October 2020.

Register of Interests

13. The council maintains a register of interests for members of Herefordshire Council and parish councillors, where provided; these declarations are published on the Herefordshire Council website ([parish councils](#) and [Herefordshire Council](#)).
14. As from May 2017, the Herefordshire Council register of interests also includes the register for gifts and hospitality. Over the period covered by this report, registers have been updated in order to record offers of gifts and hospitality which have been accepted or declined.
15. Members do regularly update their registers and these are republished on our website. Herefordshire council members are reminded to keep their register under review at six monthly intervals.

Dispensations

16. Since last year's annual code of conduct report, no new dispensations have been granted by the monitoring officer. Four remain in existence ([live link](#))

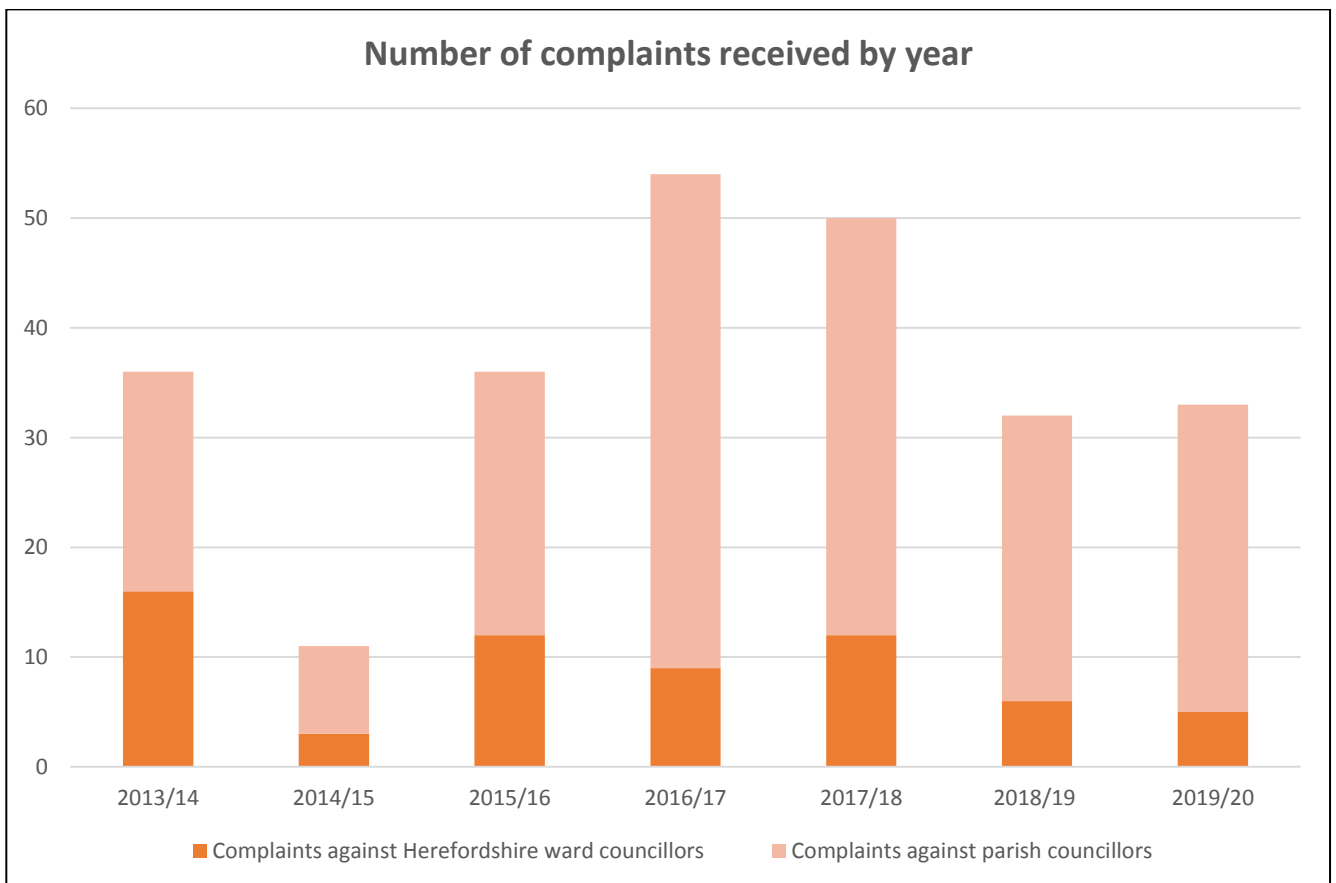
Protocol with the police

17. The protocol with West Mercia Police has remained unchanged during the year and is available on the council's website. This protocol explains how the council and police will deal with a code of conduct complaint if it is considered that a criminal offence may have occurred.

Code of Conduct Complaints

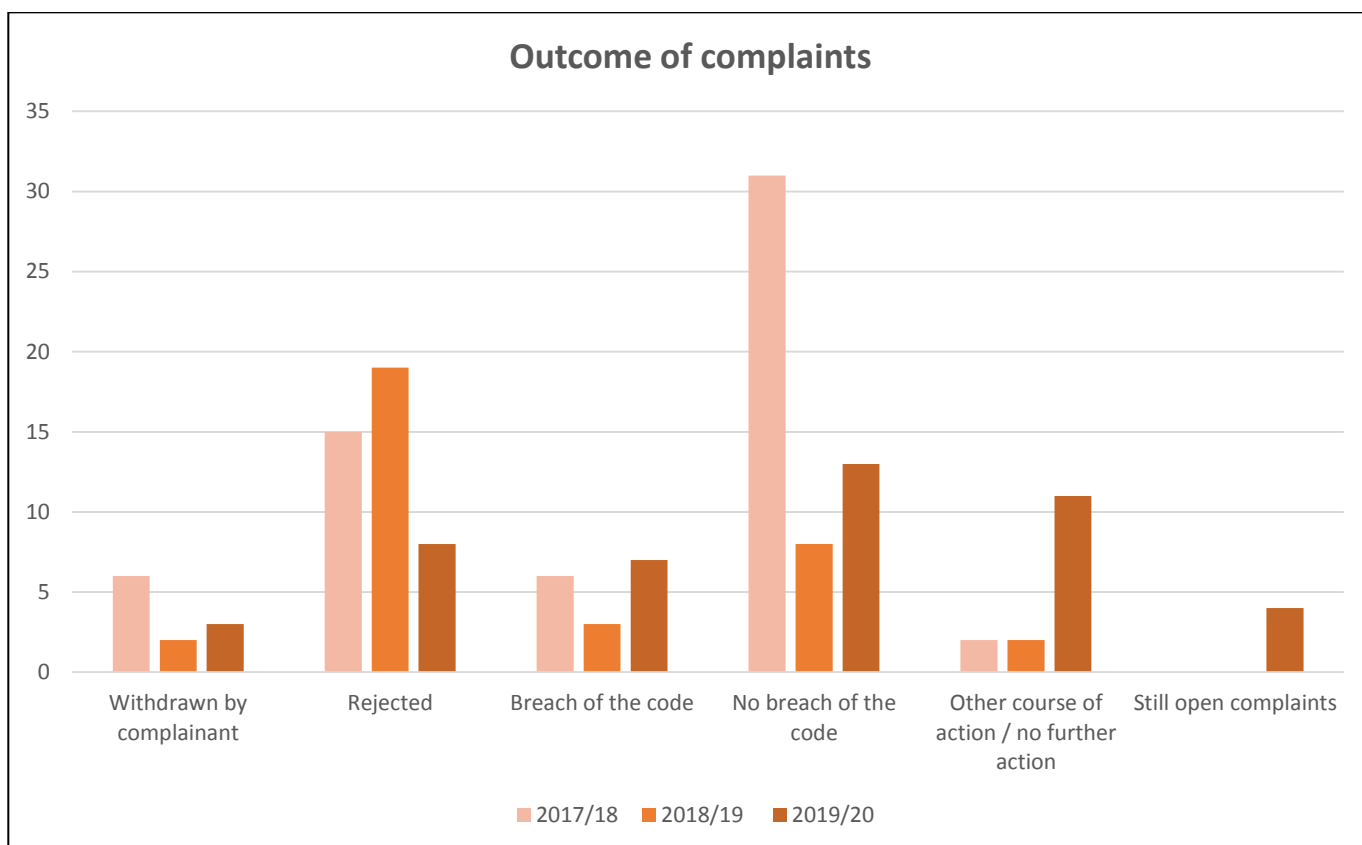
18. During the period 1 May 2019 to 30 April 2020 there were 36 Code of Conduct complaints. Some of these complaints cited multiple councillors and so the total number of councillors subject to a complaint received in the period was 46.
19. As at 17 September 2020, there were 3 complaints (number of councillors 4) still open for the review period. Two are being considered under the appeals process, two are in the appeals period and 1 is in the process of being determined by the monitoring officer.
20. Since the introduction of the Localism Act 2011, the complaints handled by Herefordshire Council is tracked and set out in the table below. There are 53 Herefordshire councillors and approximately 1300 parish councillors each of whom are subject to the councillor code of conduct. As can be seen from the figures below which are based on the number of complaints received, the majority of complaints received continue to be against parish councillors who are the largest number of councillors in the area.

Year	Total no of complaints received	No of complaints against Herefordshire ward councillors	No of complaints against parish councillors
2013/14	36	16	20
2014/15	11	3	8
2015/16	36	12	24
2016/17	54	9	45
2017/18	50	12	38
2018/19	29	6	26
2019/20 (excludes 3 withdrawn complaints)	36	5	28



21. Of these complaints, the following outcomes are recorded:

Outcome	2017/18	2018/19	2019/20
Withdrawn by complainant	6	2	3
Rejected	15	19	8
Breach of the code of conduct	6	3	7
No breach of the code of conduct	31	8	13
Other course of action / no further action	2	2	11
Still open complaints	N/A	N/A	4
Total number of complaints received against councillors	60	34	46



22. During the year there were 7 upheld complaints. Details of the upheld complaints can be found on the council's website.

23. During the year there were no standards panels convened in order to hear appeals against monitoring officer resolution. Four appeals were received but rejected as no new substantial information / evidence had been provided by either the complainant or the subject members.

24. On analysis of all complaints received, there is now an approximately 50% split between complaints relating to a lack of respect which includes behaviour at meetings, email correspondence and social media and allegations of failing to declare relevant interests at meetings. The failure to declare interests has not previously been an area of major concern but will need to be a key focus of the 2020 training to ensure clear understanding of when interests can occur and what it restricts a member from doing.
25. Of the complaints received during the period, 8 complaints were received from councillors complaining about other councillors and 25 complaints were made by members of the public. These figures exclude the withdrawn complaints.
26. There were 5 complaints received against Councillors at Herefordshire Council. The remaining complaints were against parish councillors. Details of the complaints by parish council are:

Parish Council	Number of complaints
Bodenham Parish Council	1
Bromyard and Winslow Town Council	2
Clifford Parish Council	1
Edwyn Ralph Parish Council	1
Ledbury Town Council	4
Linton Parish Council	1
Llangarron Parish Council	6
Pixley and District Parish Council	1
Tarrington Parish Council	3
Vowchurch Parish Council	1
Walford Parish Council	6
Welsh Newton & Llanrothal Group Parish Council	1
Total (excludes three withdrawn complaints and includes the open complaints)	28

27. This compares to last year where the complaints were:

Parish Council	Number of complaints
Bartestree Parish Council	1
Belmont Rural Parish Council	1
Cradley Parish Council	2
Eardisley Parish Council	1
Ledbury Town Council	1
Linton Parish Council	1
Marden Parish Council	1
Mathon Parish Council	1
Much Cowarne Parish Council	1
Tarrington Parish Council	1
Walford Parish Council	1
Total (excludes withdrawn complaint)	12

28. The independent persons views were sought for all complaints considered at initial assessment and resolution stage during the period.
29. Following last years review of code of conduct complaints at the audit and governance committee meeting held on 24 September 2019, there were various actions and attached at appendix 2 is an update on those actions.

Sanctions

30. Our arrangements explain that where there has been a breach of the code and recommendations are made by the monitoring officer that these actions are in fact complied with. A councillor is asked to confirm that they have complied within 6 weeks of the decision being communicated to them. If they are unable to confirm completion then the matter has not been able to have been resolved by the monitoring officer and the complaint will be referred to the standards panel for determination.
31. Where there is a breach of the code, the decision notice is published on the council's website, once the appeal period has expired, and can be viewed [here](#) (live link)
32. In respect of the seven breaches of the code of conduct, three findings had a recommendation from the monitoring officer as follows:
 - Tarrington Parish Council – Councillor Ward to provide an apology in respect of the behaviour displayed. This apology was provided.
 - Linton Parish Council – written advice to be provided on dispensations. This was provided by Herefordshire Council to the clerk of Linton Parish Council
 - Walford Parish Council – training was provided by the monitoring officer to the councillor in respect of code of conduct and when interests should be declared.
33. Two complaints dealt with under any other course of action contained a recommendation of training. Both complaints were broadly about the behaviour of the councillors in meetings. The arrangements for this training were put on hold due to Covid-19. However, one parish council has confirmed that training has been undertaken and confirmation is awaited that 100% of councillors attended. The other parish council is arranging the training through HALC and confirmation is awaited as to when this has been completed.

Training

34. All Herefordshire ward councillors were trained by the monitoring officer on the code of conduct, as part of the mandatory induction training in 2019
35. Code of conduct training is available to all parish councils upon request free of charge as part of the monitoring officer's duty to uphold high standards of conduct within the county.
36. A training session open to all parish councillors is in the process of being arranged. This was due to take place in March 2020 but was delayed due to pandemic. This training is now considered a priority due to the rising numbers of complaints relating to failure to declare an appropriate interest in planning matters in particular.

Freedom of Information Requests

37. During the year there was one Freedom of Interest request.
38. One complaint was referred to the Local Government and Social Care Ombudsman. The Ombudsman decided not to investigate the complaint as they did not see any evidence of fault in the way the complaint was dealt with nor did they consider that any significant personal injustice was suffered that warranted their involvement.
39. The First Tier Tribunal dismissed the appeal against the information commissioner's decision to not require the council to publish the details of complaints rejected on initial assessment by the Monitoring Officer, in circumstances where we had provided summary information but refused to provide the names of the subject member / complainant and council concerned. This decision was communicated on 17 September and the reasons are not yet published on the information commissioner's website to provide more detail.

Standards Panel

40. As from 25 May 2018, there has been a right of appeal against monitoring officer resolution decisions. During the period, there were no appeals heard. Four appeals were received but were rejected as they did not contain any new substantial information or evidence which had not been considered at the time of the original complaint. Any new allegation would be dealt with as a new complaint.
41. Standards panels were convened on 18 December 2019 and 20 August 2020 in order to undertake a sample review of monitoring officer resolution decisions during the period 1 May 2019 to 30 April 2020.
42. In total, the panels reviewed 28 complaints. The panel found that they were satisfied with the level of assurance provided on the timeliness, consistency and sanctions.
43. The standard panels held on 18 December 2019 and 20 August 2020 did have some recommendations for the audit and governance committee and these are contained in appendix 1 for the committee's consideration. The standards panel held on 20 August 2020 agreed to close the 2019/20 complaints year based on the sampling completed even though a number of complaints remained open. This was on the understanding that if there were significant issues arising from the then five remaining complaints, this would be reported to the audit and governance committee.

Community impact

44. This report provides information about the council's performance in relation to the code of conduct.
45. Having an effective process for dealing with code of conduct complaints upholds principles A and G of the code of corporate governance by ensuring that councillors behave with integrity and that councillors are accountable for their actions. This should provide reassurance to the community that councillors are behaving in the best interests of their communities.

Environmental Impact

46. There are no environmental impacts arising from this report.

Equality duty

47. 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.
48. 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

49. There are no resource implications arising directly from this report which is for information.
50. The council has a statutory duty in the Local Government and Housing Act 1989 to provide the monitoring officer with sufficient resources to allow them to perform their duties.
51. The Independent Persons receive no allowances and are only reimbursed their travel expenses for meetings with the monitoring officer.
52. Following a report to this committee, the council's independent remuneration panel (IRP) will be asked to consider an allowance for the independence persons for standards. It is anticipated that there will be recommendations contained within the IRP report for the councillors' allowances scheme which will be presented to the council meeting in May 2021. Under the Localism Act 2011, it is permissible to pay the independent persons for standards an allowance without affecting their independence and it would be a matter for the independents persons as to whether or not they wished to receive the allowance.

Legal implications

53. There is no statute that specifically requires the monitoring officer to produce an annual report. However, the review evidences that the council complies with the duties required under the Localism Act 2011.

Risk management

54. There are no risks arising directly from this report which is for information. Maintaining high standards of conduct mitigates risks to the reputation of the council. How the arrangements are managed can be cause for complaint and are dealt with by

the chief executive. The fact that only recommendations can be made exposes the council to risk of criticism, this is a result of the national framework which the committee in public life considered.

Consultees

55. None

Appendices

Appendix 1 – recommendations from the standards panels held on 18 December 2019 and 20 August 2020

Appendix 2 – Action tracker

Background papers

None identified.

**Recommendations from the Standards Panel
to the audit and governance committee**

Meeting held on 18 December 2019

- a) Audit and governance consider whether the subject member details should be published where there is a finding of no breach of the code.
- b) A public interest test criteria be developed which can be published on the website.
- c) Guidance on social media be included as part of the code of conduct.
- d) The arrangements for dealing with code of conduct complaints be reviewed with regard to the provision and standard of evidence required by both parties.
- e) Guidance be issued to parish councils in connection with planning applications and the requirements to declare interests.

20 August 2020

- 1. To consider promoting membership of HALC to parish councils;
- 2. Consider whether a template could be used for appeals under the arrangements for dealing with code of conduct complaint;
- 3. Consider adding a question to the code of conduct complaints form to ask what resolution complainants are seeking; and
- 4. Close the complaints for the municipal year 2019/20 accepting that standards panel have not reviewed 5 complaints received during the year. Any identified significant issues will be brought to the attention of the audit and governance committee.

Action tracker

Audit and governance committee: September 2019				
	Action	By who	Due date	Completed
1	The arrangements for dealing with code of conduct to be amended to:			
	(a) include definition on bullying, harassment and intimidation in line with the ACAS guidance	Monitoring officer	31 October 2019	Yes – arrangements updated and effective as from October 2019.
	(b) say that independent persons will be consulted on all complaints at initial assessment stage	Monitoring officer	31 October 2019	
	(c) include guidance that complaints by a parish council clerk against a councillor should be made by the chair or parish council as a whole	Monitoring officer	31 October 2019	
	(d) include the delegation to the deputy monitoring officer or different authority where there is a conflict with the monitoring officer dealing with a code of conduct complaint	Monitoring officer	31 October 2019	
	(e) include that the decision on how to proceed will involve the views of the IP's".	Monitoring officer	31 October 2019	
2	When the next constitution review takes place, consideration is given to amending the code of conduct for the inclusion of unpaid directorships or trusteeships being declared in schedule 2	Audit and Governance Committee	May 2021	
3	Broad details of the behaviour complained of and recommended sanctions are included within the annual report by the monitoring officer	Monitoring officer	July 2020	Now included
4	A named contact for the external auditor together with contact details be included in the Whistleblowing Policy	Audit and Government Committee	24 September 2019	Constitution updated 24 September 2019

Recommendations from the standards panel to audit and governance in September 2019:

Action	Status
That the guidance for making code of conduct complaints stress the need for the complainant to co-operate in providing requested information in a timely manner.	Completed - arrangements for dealing with code of conduct complaints updated in October 2019.
That guidance provided on the website, explaining the remit of the arrangements for code of conduct complaints, also includes signposting complainants to other relevant organisations for matters which the council is unable to consider because they are outside the	Completed – factsheet is available on the council's website:

Action tracker

scope of the code of conduct. Such guidance should include, in particular, how to contact the internal or external auditor.	
That the panel meet twice a year, to review a six-month sample of code of conduct complaints by, and reports to the audit and governance committee on an annual basis	Completed, standards panels are now convened at six monthly intervals
That the sampling report includes information on the extent of compliance with recommendations made in each case reviewed	Completed – the spreadsheet presented to standards panel now contains details of compliance with any recommendations which may have been made.
That the process and criteria for undertaking the sample review be replicated at the next meeting	The standards panels convened on 18 December 2019 and 20 August 2020 have replaced the process and criteria



Meeting:	Audit and governance committee
Meeting date:	Friday 25 September 2020
Title of report:	Work programme update
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.

Recommendation(s)

THAT:

Subject to any updates made by the committee, the work programme 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 in order to set out its objectives for the coming year.

Reasons for recommendations

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

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

Key Considerations

- 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 officer, monitoring officer, chairperson and vice-chairperson have contributed to the work programme.

Appendices

Appendix 1 – work programme for audit and governance committee

Background papers

- None identified.

Audit & Governance Committee Constitution		Report	May	June	July	September	October	November	January	March
3.5.9	The purpose of an audit 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									
3.5.10	Internal Audit	Internal Audit								
a	To consider the Head of Internal Audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements	Internal Audit Plan & Internal Audit Charter Progress Report on Internal Audit plan (see part b for timing)	2020/21 Plan & Charter					Opinion		2021/22 Plan & Charter
b	To consider summaries of specific Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary	Progress Report on Internal Audit plan		Progress Report	Progress Report	Progress Report	Progress Report	Progress Report	Progress Report	Progress Report
c	To consider reports dealing with the management and performance of the providers of Internal Audit Services									
d	To consider a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale	Tracking of internal and external audit recommendations Progress Report on internal audit plan (see part b for timing)		Tracking Report			Tracking Report			Tracking Report
e	To be able to call senior officers and appropriate members to account for relevant issues within the remit of the Committee	No specific activity required as part of normal questioning activity								
f	The Committee will not receive detailed information on investigations relating to individuals. The general governance principles and control issues may be discussed, in confidential session if applicable, at an appropriate time, to protect the identity of individuals and so as not to prejudice any action being taken by the Council	Progress Report on internal audit plan (see part b for timing)								
3.5.11	External Audit	External Audit								
a	Review and agree the External Auditors annual plan, including the annual audit Fee and annual letter and receive regular update reports on progress	Annual Audit Fee letter External Audit progress update (see part b for timing) Tracking of internal and external audit recommendations (see part 3.5.10d for timing) Annual Audit Letter External Audit Annual Plan	Audit Fee							Annual Letter Annual Plan
b	To consider specific reports from the External Auditor	External Audit progress update		Progress Report	Progress Report	Progress Report	Progress Report			Progress Report
c	To meet privately with the External Auditor once a year if required	Not required to be scheduled on Work programme								
d	To comment on the scope and depth of external audit work and to ensure it gives value for money	No specific activity required as part of normal questioning activity								
e	To recommend appointment of the council's local (external) auditor	Not required to be scheduled on 20/21 Work programme								
f	Ensure that the effective relationships between external and internal audit that the value of the combined internal and external audit process is maximised.	No specific activity required as part of normal questioning activity. External Audit can place limited reliance on Internal Audit Work.								
3.5.12	Governance									
a	To maintain an overview of the council's Constitution, conduct a biennial review and recommend any changes to council other than changes to the contract procedure rules, finance procedure rules which have been delegated to the committee for adoption	Re-thinking Governance Update Accounting Policy Update Contract & Finance Procedure Rules		Re-thinking Governance		Re-thinking Governance		Policy Update		Procedure Rules
b	To monitor the effective development and operation of risk management and corporate governance in the council	Work programme Corporate Risk Register	Risk Register Work programme	Work programme	Work programme Risk register	Work programme	Work programme	Work programme Risk Register	Work programme Risk Register	Work programme
c	To maintain an overview and agree changes to the council policies on whistleblowing and the 'Anti-fraud and corruption strategy'	Whistleblowing policy Anti-fraud & corruption strategy		Whistleblowing			Anti-Fraud & Corruption Whistleblowing			Risk register
d	To oversee the production of the authority's Statement on Internal Control and to recommend its adoption	Statement of Accounts								
e	To annually conduct a review of the effectiveness of the council's governance process and system of internal control which will inform the Annual Governance statement	Annual Governance Statement Annual Governance Statement Progress Report				Draft		Final		Progress Report
f	The council's arrangements for corporate governance and agreeing necessary actions to ensure compliance	Annual Governance Statement Progress Report								Progress Report
g	To annually review the council's information governance requirements	Information Governance Review								
h	To agree the annual governance statement (which includes an annual review of the effectiveness of partnership arrangements together with monitoring officer, s151 officer, cabinet guardian and equality and compliance manager reviews)	Annual Governance Statement Annual Governance Statement Progress Report				Draft		Final		Progress Report
i	To adopt an audit and governance code									
j	To undertake community governance reviews and to make recommendations to Council	Last completed 2018. This is on an as required basis and therefore not scheduled.								
3.5.13	Waste Contract									
a	To review, in conjunction with external advisers advising the council as lender, the risks being borne as a result of the funding provided by the council to Mercia Waste Management Ltd and consider whether the risks being borne by the council, as lender, are reasonable and appropriate having regard to the risks typically assumed by long term senior funders to waste projects in the United Kingdom and best banking practice	Energy from Waste Loan Update								
b	To monitor the administration of the loan to the waste project in line with best banking practice having regard to any such external advice, including the terms of any waivers or amendments which may be required or are desirable	Energy from Waste Loan Update								
c	Consider what steps should be taken to protect the interests of the council as lender in the event of a default or breach of covenant by Mercia Waste Management Ltd, and make recommendations as appropriate to Council, the council's statutory officers or cabinet as appropriate to ensure the appropriate enforcement of security and litigation in relation to the loan to Mercia Waste Management Ltd	Energy from Waste Loan Update								
d	Consider and recommend appropriate courses of action to protect the position of the council as lender to the waste project: (i) make recommendation as appropriate to Council with regards to its budget and policy framework and the loan to the waste project (ii) generally to take such other steps in relation to the loan within the scope of these terms of reference as the committee considers to be appropriate.	Energy from Waste Loan Update								
3.5.14	Code of Conduct: To promote and maintain high standards of conduct by members and co-opted members of the Council									
a	To support Town and Parish Councils within the county to promote and maintain high standards of conduct by members and co-opted members of the Council	Annual Code of Conduct Report								
b	To recommend to Council the adoption of a code dealing with the conduct that is expected of members and co-opted members of the Council	Part of Re-thinking Governance Review to be scheduled in next year's Work programme.								
c	To keep the code of conduct under review and recommend changes/replacement to Council as appropriate	Part of Re-thinking Governance Review to be scheduled in next year's Work programme.								
d	To publicise the adoption, revision or replacement of the Council's Code of Conduct	Part of Re-thinking Governance Review to be scheduled in next year's Work programme.								
e	To oversee the process for the recruitment of the Independent Persons and make recommendations to Council for their appointment	7. Remuneration of independent persons Recruitment done on an ad hoc basis and not scheduled for 2020/21 Annual Code of Conduct Report	Remuneration							
f	To annually review overall figures and trends from code of conduct complaints which will include number of upheld complaints by reference to individual councillors within unitary, town and parish councils and when a code of conduct complaint has been upheld by the Monitoring Officer or by the Standards Panel, after the option of any appeal has been concluded, promptly to publish the name of the councillor, the council, the nature of the breach and any recommendation or sanction applied.									
g	To grant dispensations under Section 33 (2)(b)(d) and (c) Localism Act 2011 or any subsequent amendment	On an ad hoc basis only and not scheduled for 2020/21								
h	To hear appeals in relation to dispensations granted under section 33 (2)(a) and (c) Localism Act 2011 by the monitoring officer	On an ad hoc basis only and not scheduled for 2020/21								
3.5.15	Accounts									
a	To review and approve the Statement of Accounts, external auditor's opinion and reports on them and monitor management action in response to the issues raised by external audit.	Statement of Accounts External Auditor Report						Statement & Report		

