

MEETING:	COUNCIL
DATE:	25 MAY 2012
TITLE OF REPORT:	ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE 2011- 2012
MEMBERSHIP	J STONE (CHAIRMAN), J W MILLAR (VICE-CHAIRMAN), CNH ATTWOOD, EMK CHAVE, PGH CUTTER, KS GUTHRIE, AJ HEMPTON SMITH, TM JAMES, BRIG P JONES CBE, AND PJ MCCAULL

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To inform the council of the activities of the Audit and Governance Committee during the previous year.

ANNUAL AUDIT FEE LETTER AND AUDIT WORK 2010/11

1. The Committee received a report about the work to be undertaken for the 2011/12 financial year by the Audit Commission and the Commission's total indicative fee for 2011/12. The committee noted the major areas of specific risks and the Commission's response on how each risk area would be addressed. The committee noted the content of the Annual Audit Fee Letter and the proposed outputs of the work which would cover the audit of financial statements, value for money conclusion and Government accounts aspects. A separate audit plan was issued in late 2011.

AUDIT UPDATE

2. The Committee was provided with information about changes to the Council's Audit Section following a restructure. It was noted that a procurement process had been undertaken and that KPMG LLP had been appointed as internal auditors. The company had also been assigned to provide audit and counter fraud services to Herefordshire Primary Care Trust (PCT) and Herefordshire Hospitals NHS Trust (NHS Trust).

STATEMENT OF ACCOUNTS

3. The Committee received an information report about the 2010/11 Statement of Accounts. The purpose of the Statement of Accounts was to provide information to the public, Members, employees and other interested parties, such as the Audit Commission. The Statement was a technical document which set out the Council's financial accounting information. Management accounting information was reported to Cabinet and the Scrutiny Committees throughout the year and the out-turn position was reported to Cabinet in June.2011.

Other main points noted were:

- Members had attended a seminar on the statement of accounts on 23 September, 2011;
- international Financial Reporting Standards were included in the accounts for the first time;
- the Council delivered a balanced budget for 2010/11 through the use of reserves and savings made in corporate functions;
- £70m was spent on the capital programme, with the two significant items being the Hereford Academy and the Local Transport Plan.
- the pension fund for Herefordshire has reduced significantly due to changes in the inflation rate uplift.
- increased payments to Amey Wye Valley Ltd, had arisen from extra funding from government for the road repairs arising from the hard winter weather, the transfer of staff and a number of large projects underway.

TERMS OF REFERENCE

4. The Committee noted that its main function was to review the Annual Governance Statement, review various policies and procedures such as the whistleblowing policy, and to contribute to the Council's review of the Constitution as requested.

WORK PROGRAMME 2011/12

5. A work programme was approved by the Committee for 2011/2012. The Committee noted the discussed the various elements which were contained in the programme and how they would be dealt with. The Committee also met for a briefing to receive information about the reports subsequently submitted to it for consideration about the Council's accounts. The programme had been prepared to ensure that all the areas of responsibility of the Committee were covered during the year. A further training session would be arranged for the Committee in November and the

ANNUAL INTERNAL AUDIT PLAN - 2011/12

6. The Committee approved the Annual Internal Audit Plan for 2011/12. Preparation and adoption of the Plan followed guidance contained within the CIPFA Code of Practice of Internal Audit in Local Government (2006). One of the roles of the Head of Audit was to give an opinion about the systems and controls in place and the Plan was an integral part of the process. The Plan reflected the role and objectives of internal audit, which included:-

- contributing to the improvement of the internal control environment;
- identifying opportunities for performance improvement;

- evaluating those systems which were over controlled or inefficient; and
- identifying cost saving opportunities.

ANNUAL GOVERNANCE STATEMENT

7. The Annual Governance Statement for 2010/11 was approved. The Statement is one of the two key documents for the Committee and prepared in accordance with the requirements of the Accounts and Audit Regulations 2003. Its main elements comprised of on-going improvements to the Council's governance and control processes such as risk management; key systems; and the controls which were introduced to cover the arrangements with Hoople Ltd. The Council was required to conduct a review of the effectiveness of the governance framework and the system of internal control at least annually. This is dealt with through the Statement and included within the Council's Statement of Accounts. The Statement also provided information about how the Council's governance framework and system of internal controls could be reviewed and continuously improved.

MONITORING OFFICER REPORT 2010-11

8. The Committee received a report about the matters within the responsibility of the Monitoring Officer and the Council's performance for 2010-11 regarding complaints to the Ombudsman and the standards framework.

It was noted that the Monitoring Officer's activities in the period from June 2010 onwards had focused on:

- a Constitutional review programme ;
- holding all-Council and all-parish elections in May 2011 and delivering a new member training programme;
- ensuring that Law Governance and Resilience support good governance and high standards of conduct and probity as well as fulfilling the day to day functions;
- supporting the Shared Services project with emphasis on governance and developing the organisational model and heads of terms;
- dealing with all Monitoring Officer activities with emphasis on the Standards framework;
- dealing with Ombudsman complaints until October 2010 and ensuring the orderly transition of cases to the Customer Insight Team;
- the good record of the Council in respect of the number of complaints dealt with by the Local Government Ombudsman;
- the complaints which have been referred to the Standards Committee and the burden this has placed upon the resources of the Council.
- the new arrangements for dealing with ethical standards matters which will take effect from The 2011 Localism Act with effect from 1st July 2012

ANNUAL GOVERNANCE REPORT 2010/11

9. The Committee received the Annual Governance Report and noted the following key points:

- the Annual Governance Report was a key document giving a formal opinion on the Council's financial statement and the provision of value for money;
- there were no important weaknesses in internal control.
- this was the first year the accounts have been prepared under the International Financial Reporting Standards (IFRS), which created substantial additional work along with new ledger requirements.
- Contracts containing leases were substantively tested and found to be compliant with IAS17.
- the ACADEMY cash receipting system was tested with controls operating satisfactorily;.
- Advice on the impact of errors in the financial statements which had not been found to be of great significance;

The Committee agreed that:

- regular reconciliations between the ISIS system and the general ledger should be carried out;.
- in future years if any significant early retirement costs arose the actuary is asked to value those liabilities in the year they arise so that they may be reflected in the accounts in that year;
- the Authority should establish a basis for calculating a bad debt provision relating to general fund debtors; and.
- in future years consideration is given to whether any items included in provisions should be more accurately shown as creditors.

INTERNAL AUDIT PROGRESS 2011/12

10. The Committee has received regular reports about progress on the excellent work which is being undertaken by the Council's Internal Audit Team. The Committee noted the following points:

- thirteen reviews had been finalised and three reviews drafted. No significant issues had been revealed by the audits;
- a further seventeen audits were being completed and included General Ledger, IT, Creditors and a review of the balances brought forward on the Council's Agresso financial management system; and
- an internal payment fraud had been reported to Internal Audit which was under investigation. It was an extremely rare event but controls had immediately been put in place to prevent a reoccurrence.
- Audit Services was continuing to provide support, guidance and information in a number of areas to Officers in respect of specific reviews.

ANUAL AUDIT LETTER 2010/2011

11. The District Auditors presented the Audit Commission's Annual Audit Letter for 2010/11. The letter audit was comprised of two elements; the audit of financial statements and the auditor's assessment of arrangements to achieve value for money in the use of resources. In both cases the Council had received an unqualified opinion. The letter also provided confirmation that the Council had managed the implementation of International Financial Reporting Standards (IFRS) extremely well. The main points were;

- there had been a positive outcome of the audit of the Council's accounts;
- the Council's financial resilience procedures arrangements had been found to be good in the medium term and demonstrated robust management arrangements;
- the Council had been able to adequately absorb the overspend in social care had from its reserves;
- it was essential for Cabinet to be provided with regular progress reports on the savings being achieved in individual services and also for benefit cards to be more specific;
- the increasing need for supporting the elderly in Herefordshire had led to overspend - good progress had been made in developing procedures and how processes were managed but further consideration needed to be given to outcomes and adequate budgetary provision;
- the Council's financial resilience management arrangements were sound and the overspend on social care had been adequately absorbed from reserves - . there would however be increasing financial pressures and it needed to be made clear what the reserves are and what they can be used for; and
- although the reporting levels were good, monthly reports should be provided to Cabinet and the potential overspend needed to be carefully monitored and managed.

THE AMEY CONTRACT

12. The Committee received a presentation about the work being undertaken by officers regarding a new contract with Amey and noted the advice that was being given by the Audit section on the procedures to be followed.

THE CONSTITUTION - NEW GOVERNANCE ARRANGEMENTS

13. At the meeting in January the Committee welcomed three new Members – Councillors PGH Cutter, AJ Hempton-Smith and TM James. Council had expanded the role of the Committee to consider and recommend any future changes that were necessary to the Council's Constitution.

The Committee considered the new arrangements and decided to deal with any proposed changes to the Constitution itself for the time being, rather than looking into the creation of a Sub-Committee or Working Group. several updates to the Constitution have been identified and these will be reported to a future meeting of Council.

The Committee will also have a significant role to play under the new arrangements which will be introduced to deal with complaints about Councillors. The following matters are under consideration and a report will be submitted to Council with more details:

- proposals for a new regime of ethical governance recently went to the Standards Committee and have received provisional endorsement from Group Leaders;
- the new arrangements are due to take effect from 1st July, 2012. The Standards Committee has suggested that a panel investigate the complaints referred by the Monitoring Officer. The Panel will then report to the Audit and Governance Committee for a final adjudication. The sanctions at the Committee's disposal will be very limited compared with those under the current regime;
- there will be a new code of conduct for Members;
- guidance is awaited from the Government about the issue of independent persons. Indications are that it will not be permissible for the Council's existing independent members to serve as independent persons under the new regime within a period of five years from their previous service;
- the timescales are now becoming quite constrained for the new system to become operational from 1st July and firm guidance is yet to be received from the Government. There will be a need for Council to approve the process to be adopted in Herefordshire and it may therefore be necessary for additional meetings of Council and the Committee to be arranged for this purpose;
- no transitional arrangements have yet been issued for current cases to continue to be dealt with under the existing legislation when the new arrangements are introduced. It is hoped that the new secondary legislation will make provision for these cases to be concluded under the present arrangements; and
- further guidance is awaited from the Government about the new legislation and how complaints received from 1st July will be dealt with.

COMMUNITY GOVERNANCE REVIEWS

14. Council has previously decided that the Committee will undertake community governance reviews when they are requested. The main aspects of these arrangements are:
 - the Audit and Governance Committee has been empowered to undertake community governance reviews and to make recommendations to Council on the matter; t
 - The Local Government and Public Involvement in Health Act 2007 makes provision for local authorities to undertake community governance reviews (CGRs). The Act provisions are intended to enable citizens and community groups to make the best use of empowerment opportunities.
 - CGRs are best handled by a small group of Members, who can then make recommendations to Council. Council has decided to expand the remit of the Committee to undertake CGRs in the future, so that expertise is built up for any future CGRs in other areas. Council has also suggested that the Committee may wish to form a Sub-Committee to deal with CGRs.

- the Council has decided to undertake a community governance review of the areas of Ross Town Council and Ross Rural Parish Council at the request of the Town council and the Rural Parish Council; and
- the review will take place after the Boundary commissions proposals for Herefordshire have been finalised – it is likely to take place in the Autumn of 2013.

UPDATE ON HEREFORDSHIRE PRIMARY CARE TRUST

15. The Committee received an update from Dr Phillip Ashurst about the reorganisation of PCT's and his role as the Locality support Member for Audit and Assurance for Herefordshire PCT.. It was noted that the PCT's of Shropshire; Telford & Wrekin; Worcestershire and Herefordshire had been amalgamated into the West Mercia Cluster. There were also moves towards a single Cluster Audit Committee rather than one for each of the constituent PCT's.

J STONE
CHAIRMAN

BACKGROUND PAPERS: Agenda for meetings of the Audit and Corporate Governance Committee held on 28 June 2011, 23 August 2011, 29 September 2011, 27 January 2012, 9 March 2012 and 11 May 2012.