

# A G E N D A

## Audit and Corporate Governance Committee

Date: **Friday, 22nd September, 2006**

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Time: **10.00 a.m.**

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Place: **Brockington, Hereford**

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

*For any further information please contact:*

*Paul Rogers, Democratic Services Officer*

*Email: [progers@herefordshire.gov.uk](mailto:progers@herefordshire.gov.uk)*

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**County of Herefordshire  
District Council**



# AGENDA

## for the Meeting of the Audit and Corporate Governance Committee

To: Councillor A.C.R. Chappell (Chairman)

Councillors Mrs. P.A. Andrews, H. Bramer, T.M. James, J.G. Jarvis,  
R.I. Matthews, Mrs. S.J. Robertson,

In Attendance: Mr T Tobin (Audit Commission) and Councillor R.M. Wilson, Cabinet Member (Resources)

	Pages
<b>1. APOLOGIES FOR ABSENCE</b>	
To receive apologies for absence.	
<b>2. NAMED SUBSTITUTES</b>	
To receive any details of Members nominated to attend the meeting in place of a Member of the Committee.	
<b>3. DECLARATIONS OF INTEREST</b>	
To receive any declarations of interest by Members in respect of items on the Agenda.	
<b>4. MINUTES</b>	1 - 6
To approve and sign the minutes of the meeting held on 30th June, 2006.	
<b>5. TERMS OF REFERENCE</b>	7 - 10
To note the Terms of Reference, attached at Appendix 1, which were approved by Council at its meeting on 28th July, 2006.	
<b>6. AUDIT COMMISSION ANNUAL GOVERNANCE REPORT</b>	11 - 38
To receive the Audit Commission's Annual Governance Report, in line with good practice.	
<b>7. CODE OF CORPORATE GOVERNANCE</b>	
To consider and approve the Council's draft Code of Corporate Governance attached at Appendix 1. ( <i>Report to Follow</i> ).	
<b>8. AUDIT CHARTER</b>	39 - 48
To approve the updated draft Audit Charter.	
<b>9. RISK MANAGEMENT POLICY</b>	
To consider the draft Risk Management Policy and its recommendations for recommendation to Cabinet. ( <i>Report to Follow</i> ).	

<b>10. UPDATE ON THE COUNCIL'S STATEMENT ON INTERNAL CONTROL</b>	49 - 52
To note the outcome of the Audit Commission's review of the Council's 2005/6 Statement on Internal Control.	
<b>11. USE OF RESOURCES IMPROVEMENT PLAN</b>	53 - 62
To note the progress in relation to the Use of Resources Improvement Plan.	

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# **COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL**

**BROCKINGTON, 35 HAFOD ROAD, HEREFORD.**

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COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

**MINUTES of the meeting of Audit Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford on Friday, 30th June, 2006 at 10.00 a.m.**

**Present:** Councillor A.C.R. Chappell (Chairman)

**Councillors:** Mrs. P.A. Andrews, H. Bramer, Mrs. J.P. French, R.I. Matthews, Mrs. S.J. Robertson.

**In attendance:** Councillor R.M. Wilson, Cabinet Member (Resources)  
Mr T Tobin (Audit Commission)

**1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors: TM James and RJ Phillips.

**2. NAMED SUBSTITUTES (IF ANY)**

Councillor Mrs. J.P. French substituted for Councillor R.J. Phillips.

**3. DECLARATIONS OF INTEREST**

There were no declarations of interest made.

**4. MINUTES**

**RESOLVED:** That the minutes of the meeting held on 7th April, 2006 be approved as a correct record and signed by the Chairman.

**5. AUDIT COMMISSION AUDIT AND INSPECTION PLAN 2006-07**

The Committee was informed by Mr Tobin of the plan of the audit and inspection work proposed for 2006/07. The plan highlights the key statutes that govern the Audit and Inspection duties and has been presented to the Corporate Management Board. The main issues of significance for the Council were in performance management work and Local Area Agreements (LAA). The performance management audit is to be carried out in September and one of the service areas to be examined is Social Care (Adults). The LAA overview is to be carried out around August this year. Members were advised that it would be based on a computerised questionnaire asking Councillors and officers how the Council is operating. At the conclusion a seminar will be presented to Members and officers outlining the results of the questionnaire. The Committee was advised that it was expected there would be little or no extra cost to the authority for this work.

With regards to proposed new governance arrangements that would link into the Local Area Agreements, the Chairman requested that the Director for Corporate and Customer Services provide a report for the next meeting.

Members agreed that proposals outlined for improvements in the Council's operation depended on the success of the Herefordshire Connects project, as it was fundamental to the Council's future plans.

**RESOLVED**

- THAT (a) the Audit and Inspection Plan be noted; and**
- (b) the Director of Corporate and Customer Services present a report on the new governance arrangements at the next meeting.**

**6. FOLLOW UP OF AUDIT COMMISSION RECOMMENDATIONS**

The Principal Audit Manager reminded Members of some of the recommendations from the Audit Commission from previous years and where clarity was needed as to whether the Council had fully addressed them. The Audit Commission has assessed the outstanding recommendations and identified those requiring action. Those identified are for action this year and the Appendix to the report highlights the items stating what needs to be done and by when. Any delay by managers in dealing with these issues would be noted and the Committee will be kept informed on progress. It was stated that in future the report would be based on exception reporting.

Members also discussed recruitment to the post of Procurement Manager and how they felt the post was essential for central procurement in order to drive down costs. Members were advised that the recruitment process was in hand and it was hoped that interviews for the post would be carried out shortly. Members expressed the view that an interim appointment to the post would be beneficial to the authority. Members went on to discuss Prince 2 project management and its use across the authority. It was requested that all Members were given further information on the programme and its use by the authority. The Chairman highlighted to Members the need to have a standing item on future agendas to follow up on External Audit Recommendations.

**RESOLVED:**

- THAT (a) the action plan on the Follow Up of Audit Commission Recommendations at Appendix 1 to the report be approved;**
- (b) interim arrangements be put in place for the post of Procurement Manager until the post is recruited to; and**
- (c) this item appears as a standing item on future agendas.**

**7. AUDIT COMMISSION REPORT - POOLED BUDGETS**

Members discussed the Audit Commission's report on Pooled Budgets and were reminded that the Council now has in place a Statement of Internal Control Assurance Framework. Part of the process involves actions arising from the Council's Annual Audit and Inspection letter and associated reports. It was noted that any lack of action on the part of the Council could have an adverse effect at the next Use of Resources assessment.

**RESOLVED: That the report be noted.**

**8. AUDIT COMMISSION REPORT - REVIEW OF THE E-GOVERNMENT PROGRAMME**

The Head of Information, Technology and Customer Services presented the report and informed Members that she had joined the Council part way through the programme. It was acknowledged that the programme was failing in some areas, but the Committee was advised that Audit Services were assisting with regular checks on progress. The Committee noted that regular meetings are being held with the various managers to update the Head of Service and make improvements to the programme. The Committee acknowledged that the programme involved partner organisations and the Committee extended their thanks to all the officers involved in turning the programme around.

**RESOLVED: That the report be noted.**

#### **9. MONITORING OFFICER REPORT 2005-06**

The Principal Audit Manager presented the report of the Monitoring Officer and advised that the report outlined the Council's performance in 2005/06 with regards to complaints to the Ombudsman, Whistleblowing and any other matters within the responsibility of the Head of Legal and Democratic Services as the Council's Monitoring Officer. This was done to ensure the Council and its elected Members acted in accordance with the law and the Council's Constitution. In addition the Monitoring Officer was responsible for any investigations carried out and reporting to the Council's Standards Committee any breaches of the Code of Conduct of Members referred to it by the Standards Board for England. The report forms part of the Council's Statement on Internal Control. The Committee noted that there were no areas of concern.

Members felt some clarity was needed with regards to the register of gifts and hospitality as there was a difference between the sum Members had to register and that of officers. Members felt that it should be the same and asked for clarification from the Monitoring Officer. It was also proposed that Members be reminded regularly of the need to register any gifts and hospitality, as is currently done annually for Members' Declarations of Financial and other Interests.

The Committee noted the number of hearings relating to town and parish council investigations referred to the Standards Committee by the Standards Board for England. Because of the high number of hearings Members felt the matter should be monitored, as there was a cost implication to the authority. The Committee was advised that the high percentage was partly due to the large number of town and parish councils in the County.

**RESOLVED:**

**THAT (a) the report be noted; and**

**(b) Members be reminded of the need to register any gifts and hospitality annually as they review their Declarations of Financial and other Interests.**

#### **10. AUDIT SERVICES ASSURANCE REPORT 2005/06**

The Principal Audit Manager updated Members on the progress made on the Audit Plan and highlighted the key internal control issues and areas for investigation. Two areas that had been investigated were disaster recovery, which after review, received a satisfactory audit opinion; and the adult social care overspends, which after the review also scored a satisfactory audit opinion. Two areas that scored a

“marginal” rating were Council tax and benefits. This was due to the implementation of the new Academy system. The Principal Audit Manager was confident the service managers would improve the situation promptly.

With regards to anti money laundering the key element was ensuring that staff received appropriate training. This has now been completed for staff in the benefits section and Info Shops. Members and senior managers have also received training in anti money laundering. Senior managers will notify audit when any other members of staff require training. The Principal Audit Manger advised that the libraries ‘talis’ system had had a few issues, which resulted in an “unsatisfactory” rating. These issues are being investigated and will be programmed in for a report at the next meeting of the Committee. The “critical one” recommendation that relates to the use of school mini buses, staff warrant cards and LPSA targets have now been resolved. It was stated that follow up work was to be carried out to ensure managers were putting in place the procedures needed resulting from the internal audit. It was noted 81% of managers were enforcing the required procedures. It was hoped this percentage would improve and a report is expected at the next meeting.

It was noted that overall the number of actions that needed to be taken had reduced by 25% and that a considerable amount of work had been done by the Human Resources department to achieve this. Members commended staff for their work. Members briefly discussed the definitions for the audit opinion from unsound, unsatisfactory, marginal, satisfactory and good. It was stated that to achieve good a department would have improved considerably and reached a very high level. To achieve satisfactory conveys a department is doing well and improving. It was noted that two thirds of the Council’s audit opinions were either good or satisfactory.

**RESOLVED: That the Assurance Report be noted.**

**11. APPROVAL OF THE COUNCIL'S STATEMENT OF INTERNAL CONTROL 2005-06**

The Principal Audit Manager presented the report to note the work and process followed in relation to the completion of the Council’s Statement of Internal Control. He advised that the Statement was linked to the Use of Resources and drew attention to two key areas. These being: the assurance framework being fully embedded in the Council’s business processes; and the Council’s ability to demonstrate corporate involvement in/ownership of the process for preparing the Statement on Internal Control. It was noted that the Statement draws on several different documents, which then make up the Statement of Internal Control and CPA assessment. It covers virtually everything the Council is assessed on in one document.

The Principal Audit Manger advised that he had completed the CIPFA Assurance checklist and the Council’s procedures and protocols had compared favourably with the checklist and overall had been found satisfactory. The results of the checklist are passed to the Corporate Management Board, to be signed off. It was noted this was a labour intensive task.

**RESOLVED: That the Statement of Internal Control be approved.**

**12. STATEMENT OF ACCOUNTS**

The Chairman reminded the Committee of the importance of the Statement of Accounts and that once agreed he would sign it on behalf of the Committee.

The Principal Audit Manager advised that the Statement of Accounts showed some changes compared with last year that included:

- the annual review and update of the Statement of Accounting policies;
- the various changes to the Accounting Codes of Practice requiring a number of additional notes and comments;
- an introduction from the Cabinet Member (Resources) has been added along with a glossary of terms; and
- a summary version of the statement.

He told the Committee that the Communications team was working on making the document easier to read for the public and added the report explained any changes to the balance sheet.

The Committee raised a variety of questions and were advised the rising costs in housing services was due to increased deferred charges relating to higher capital spend on affordable housing and increased use of temporary accommodation for the homeless. Regarding the increase in the debtors figure, Members were advised it was mainly due to the increase in the amount owed by the PCT at year end. Further discussion was held around the new landfill allowance, staff car loans and long term borrowing.

Thanks were extended to the accounts department for producing the document to tighter timescales than previously, and for its clarity.

**RESOLVED:**

- THAT**
- (a) **the Statement of Accounts including the final revenue and capital outturn for 2005/06 be approved;**
  - (b) **the formal signing of the Statement of Accounts by the Chairman of the Committee on behalf of the Council be approved;**
  - (c) **the redundancies and early retirements at Appendix 2 to the report be noted; and**
  - (d) **Appendix 3 to the report on bank accounts be noted.**

**13. DATE OF NEXT MEETING**

**RESOLVED: That the date, time and venue of the next meeting be amended to Friday, 22nd September, 2006 at 10.00 am at the Council Chamber, Brockington, Hereford.**

The meeting ended at 11.25 a.m.

**CHAIRMAN**



## **TERMS OF REFERENCE**

**Report By: Head of Legal and Democratic Services**

### **Wards Affected**

County Wide

### **Purpose**

1. To note the Terms of Reference, attached at Appendix 1, which were approved by Council at its meeting on 28th July, 2006.

### **Financial Implications**

2. None

### **RECOMMENDATION**

**THAT the Terms of Reference be noted.**

### **BACKGROUND PAPERS**

- Council's Constitution





## **9.8 AUDIT AND CORPORATE GOVERNANCE COMMITTEE**

### **9.8.1 Composition**

**9.8.1.1.** The Committee will consist of seven Councillors and may include one person who is not a Councillor. This person may be appointed Chairman of the Committee in accordance with Standing Order **4.3.6**

### **9.8.2 Terms of Reference**

**9.8.2.1** To consider the Principal Audit Manager'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.

**9.8.2.2** To consider summaries of specific internal audit reports as requested.

**9.8.2.3** To consider reports dealing with the management and performance of the providers of internal audit services.

**9.8.2.4** To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.

**9.8.2.5** To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

**9.8.2.6** To consider specific reports as agreed with the external auditor.

**9.8.2.7** To comment on the scope and depth of external audit work and to ensure it gives value for money.

**9.8.2.8** To liaise with the Audit Commission over the appointment of the Council's external auditor.

**9.8.2.9** To commission work from internal and external audit.

**9.8.2.10** Approve the terms of reference for the Audit Charter.

**9.8.2.11** Approve the Internal Audit strategy.

**9.8.2.12** Consider the resourcing of Internal Audit.

**9.8.2.13** To maintain an overview of the Council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.

**9.8.2.14** To review any issue referred to it by the Chief Executive or a Director, or any Council body.

**9.8.2.15** To monitor the effective development and operation of risk management and corporate governance in the Council.

**9.8.2.16** To monitor Council policies on 'Raising Concerns at Work' and the anti-fraud and anti-corruption strategy and the Council's complaints process.

**9.8.2.17** To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.

**9.8.2.18** To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

**9.8.2.19** To consider the Council's compliance with its own and other published standards and controls.

**9.8.2.20** To review the annual Statement of Accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

**9.8.2.21** To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

## **AUDIT COMMISSION'S ANNUAL GOVERNANCE REPORT**

**Report By: Director of Resources**

### **Wards affected**

County-wide.

### **Purpose**

To receive the Audit Commission's Annual Governance Report, in line with good practice.

### **Financial Implications**

None.

### **Recommendation**

- THAT (a) **the management's responses to the Audit Commission's recommendations be approved; and**
- (b) **the Letter of Representation be signed on behalf of the Council by the Chairman of the Audit and Corporate Governance Committee and the Director of Resources.**

### **Reasons**

1. The Audit Commission is required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Council's Audit and Corporate Governance Committee is considered to fulfil the role of those charged with governance.
2. They are also required by professional auditing standards to report to the Audit and Corporate Governance Committee certain matters before they give an opinion on the Council's financial statement.

### **Considerations**

3. The Audit Commission anticipates issuing an unqualified opinion by 30<sup>th</sup> September 2006.
4. The audit was substantially complete on 4<sup>th</sup> August, which is a significant achievement for the Council.

5. Having completed follow up work on the Use of Resources for 2005/06 .The Audit Commission anticipates being able to issue an unqualified conclusion on the Council's Use of Resources.
6. There were no uncorrected misstatements.
7. The report highlights two adjusted misstatements.
8. With regards to qualitative aspects of accounting practices and financial reporting the Audit Commission highlighted one matter in relation to Hillside.
9. There were no material internal control weaknesses identified during the Audit.
10. There were no matters to be reported in relation to other auditing standards.
11. There were two matters of governance interest these related to Pooled Budgets and severance arrangements. With regards to severance arrangements robust procedures are now in place.
12. There were no Section 8 reports in respect of the financial year 2005/06.
13. There were no Section 11 recommendations made.
14. The Audit Commission's Annual Governance Report makes three recommendations. An action plan is included at Appendix 6, which includes management 's positive response to the issues raised.

### **Risk Management**

15. Failure by the Audit and Corporate Governance Committee to consider the Audit Commission's Annual Governance Report, would mean that the Council would not have fulfilled it's governance responsibilities.

### **BACKGROUND PAPERS**

- Audit Commission Annual Governance Report – Audit 2005/06.

# Annual governance report

**Herefordshire Council Council**

**Audit 2005/06**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Authority**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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## Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Authority's Audit Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principle purposes of the report are:
  - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
  - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
  - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

## Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
  - the Authority's financial statements; and
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Relationship Manager Letter later in the year.



- 8** We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

## Key messages

### Financial statements

- 9 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 30 September 2006. The audit went very smoothly. There was an improvement in working papers and officers were more responsive to audit queries. The audit was substantially complete on 4th August which is significant achievement for the Council. The Council is keen to further improve this important process and with that in mind we will be shortly issuing a document setting out any improvements which can be made in working papers and other parts of the process. We are also issuing a memorandum which contains more detail on our findings from this audit to assist officers.

### Use of resources

- 10 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness is now completed for 2005-06. A full review was carried out during the financial year 2005-06, follow up work has been completed recently to check progress. We anticipate being able to issue an unqualified conclusion on the use of resources by 30 September 2006.
- 11 A full Use of Resource assessment will be carried out during September and October 2006 to assess your Use of Resources for the financial year 2006-07.

## Financial statements

- 12 We are required to give an opinion on whether the Authority's financial statements present fairly:
- the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended

## Status of the audit

- 13 Our work on the financial statements is now substantially complete.

## Matters to be reported to the Audit Committee

- 14 We have the following matters to draw to the Audit Committee's attention.

### Expected modifications to the auditor's report

- 15 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit report.

### Uncorrected misstatements

- 16 Excluding those misstatements that are 'clearly trivial' (as defined in professional auditing standards), there no uncorrected misstatements.

### Adjusted misstatements

- 17 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. We therefore draw your attention to the list of material and significant misstatements that management has adjusted in Table 2 below. A complete listing of all other amendments made at audit has been provided to officers.

**Table 1 Adjusted misstatements in the financial statements**

Details of material and/or significant adjustments made to the financial statements

Issue	Value of misstatement £	Impact on surplus/(deficit)
Balance Sheet: Short term borrowing	+£12m	None

<b>Issue</b>	<b>Value of misstatement £</b>	<b>Impact on surplus/(deficit)</b>
Balance Sheet: Long term borrowing	-£12m	None
Balance Sheet: Intangible Assets	-£986k	None
Balance sheet: Tangible assets	+£986k	None

### ***Recommendations***

*R1 Continue to actively review accounts prior to presentation to the auditor to ensure that the accounts presented are free from material misstatement.*

## **Qualitative aspects of accounting practices and financial reporting**

- 18 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.
- 19 We have the following matter to draw to the Audit Committee's attention:
- Assets - Hillside is included within the asset register as a non operational asset and is valued by the Council's own valuer at £1. The District Valuer has placed a value for the PCT of £2.2m. Further consideration should be given to Hillside and ensuring that it is valued on an adequate basis which is in accordance with relevant guidelines.

### ***Recommendations***

*R2 Consider further the valuation of Hillside to ensure that it reflects its operational value to Herefordshire Council.*

## **Material weaknesses in internal control identified during the audit**

- 20 We did not find any material weaknesses during our audit but have noted that the Statement of Internal Control has been changed to take into account the weaknesses which were reported on by Internal audit in relation to the Council tax and housing benefits system.

- 21 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

## Matters specifically required by other auditing standards

- 22 Other auditing standards require us to communicate with you in other specific circumstances including:
- where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.

We have nothing to report to you.

## Any other matters of governance interest

- 23 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 2 below.

**Table 2 Other matters of governance interest**

There is one other matter that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Pooled Budgets	Our recent report to the Audit Committee on pooled budgets highlighted some areas of governance interest. In addition during the financial statements audit we found that the Learning Disabilities pooled budget agreement has not been updated since 2002. There was difficulty in reconciling end of year balances between the two parties. There have been protracted delays in the PCT settling invoices with the Council. We understand that the PCT still owes £1 million from 2005/2006.	Potentially overstated debtor in the accounts although the Council assures us that only a small proportion of this amount is in dispute.
Severance Arrangements	We reviewed the severance payments	Any future redundancies will be properly approved.

Area	Auditor responsibility	Impact
	made in 2005/06 and had some concerns around the governance arrangements. The Council has now approved revised arrangements which address our concerns.	

### **Recommendations**

*R3 Review pooled budget arrangements with the PCT in particular to ensure that:*

- *Agreements are updated*
- *Reconciliation processes are tightened*
- *Outstanding debtors are paid promptly*

## **Letter of representation**

- 24 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 5.

## **Next steps**

- 25 We are drawing these matters to the Audit Committee's attention so that:
- you can consider them before the financial statements are approved and certified;
  - the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements; and
  - the Committee has the opportunity to amend the financial statements for the unadjusted misstatements/significant qualitative aspects of financial reporting issues identified above. Should you choose not to amend the financial statements, in accordance with the ISA (UK and Ireland) 260, we request that you extend the representation letter to explain why you are not adjusting the financial statements. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates, either in the body of the letter or in a document appended to it.





## Use of resources

### Value for money conclusion

- 26** The Code requires us to issue reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 27** We completed our work in relation to the use of resources and reported this to the Council. There are no further matters which we wish to draw to the attention of the Audit Committee. We anticipate being able to issue an unqualified conclusion on the use of resources by 30 September 2006.

## Use of auditors' statutory powers

- 28 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 5 below.

**Table 3 Use of statutory powers**

Insert text

<b>Issue</b>	<b>Auditor responsibility</b>	<b>Impact</b>
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Authority's 2005/2006 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

## Closing remarks

- 29 This report has been discussed and agreed with the Director of Resources. A copy of the memorandum will be presented at the Audit Committee on 22 September 2006.
- 30 The report makes only three recommendations. An action plan is included at Appendix 6, which includes responses from management and indicative target dates for the implementation of that recommendation.
- 31 The Authority has taken a very positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

**Elizabeth Cave**  
**District Auditor**

September 2006

# Appendix 1 – Audit responsibilities and approach

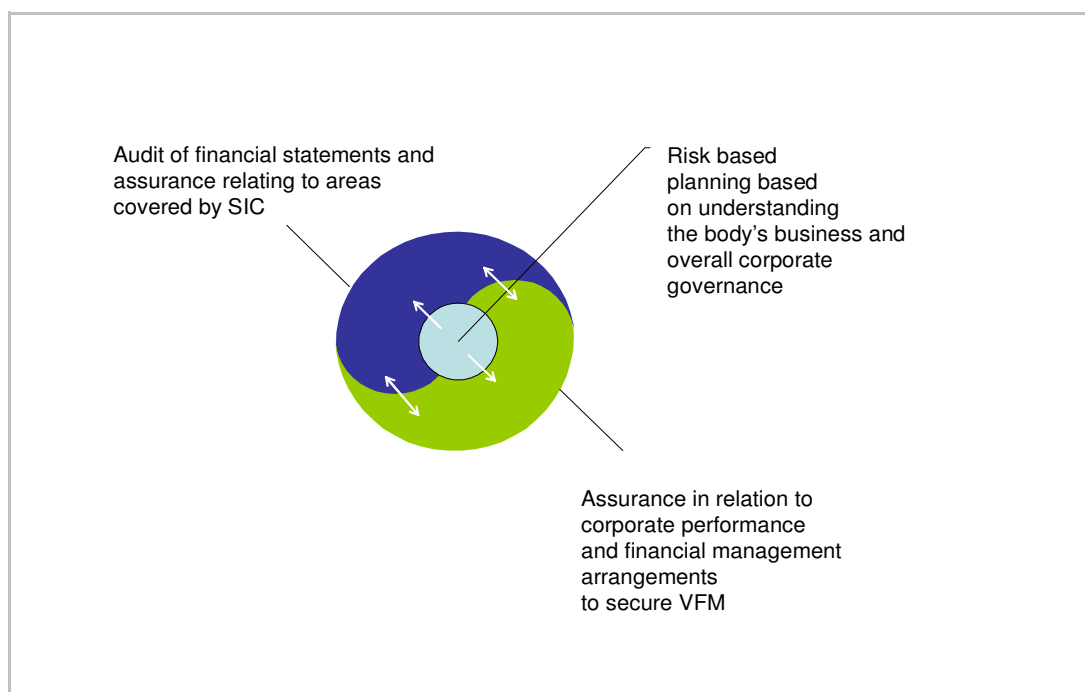
## Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

---

**Figure 1 Code of Audit Practice**

Code of practice responsibilities



## Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
  - the standard of the overall control environment and internal controls;
  - reliance on internal audit;
  - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
  - any changes in financial reporting requirements; and
  - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements. The keys risks that we identified include:
  - Risk of misstatement due to the new Academy system implementation; and
  - Risk of misstatement due to the valuation of assets as non operational.

## Approach to audit of arrangements to secure value for money

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
  - corporate performance management; and
  - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

- 6 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7 The potential sources of assurance when reaching the value for money conclusion include:
  - the Authority's whole system of internal control as reported in its statement on internal control;
  - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
  - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
  - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
  - other work necessary to discharge our responsibilities.

## Appendix 2 – Audit reports issued

**Table 4**

<b>Planned output</b>	<b>Planned date of issue</b>	<b>Actual date of issue</b>	<b>Addressee</b>
Audit and inspection plan	15 May 2006	15 May 2006	Management
Interim audit memorandum	4 August 2006	4 August 2006	Management
Annual governance report	22 September 2006	22 September 2006	Audit Committee
Opinion on financial statements	28 September 2006		The Authority
Value for money conclusion	28 September 2006		The Authority
Final accounts memorandum	22 September 2006	22 September 2006	Management
Use of resources assessments	December 2005	December 2005	Management
Pooled budgets	May 2006	May 2006	Audit Committee
E-government	May 2006	May 2006	Audit Committee

## Appendix 3 – Fee information

**Table 5**

<b>Fee estimate</b>	<b>Plan 2005/06</b>	<b>Actual 2005/06</b>
Audit		
Accounts	122,000	122,000
Use of resources	53,100	53,100
Total audit fees**	175,100	175,100
Voluntary improvement work*	0	0

\*\* The outturn on inspection and grant certification fees will be reported in the Relationship Manager Letter



## **Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity**

- 1** We are required by the standard to communicate following matters to the Audit Committee:
  - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2** We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

## Appendix 5 – Letter of representation

Resources

Director: Mrs Sonia Rees CPFA

Mrs L. Cave,  
District Auditor,  
Rooms 13-18 and 24,  
The Business Centre,  
Blackpole Road,  
Worcester.  
WR3 8SQ  
30th August, 2006

Your Ref:

Our Ref:

Please ask for: Mrs Sonia Rees

Direct Line / 01432 383519

Extension: 01432 340189

Fax: srees@herefordshire.gov

E-mail: .uk

Dear Liz,

### **LETTER OF REPRESENTATION AUDIT FOR THE YEAR ENDED 31ST MARCH, 2006**

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other officers of the Authority, the following representations given to you in connection with your audit for the year ended 31st March, 2006.

#### **Related party transactions**

There are no other material transactions with related parties, other than those which have been properly recorded and disclosed in the financial statements.

#### **Contingent liabilities**

There are no other contingent liabilities, other than those which have been properly recorded and disclosed in the financial statements. In particular:

- There are no significant pending or threatened litigation, other than those already disclosed in the financial statements.
- There are no material commitments or contractual issues, other than those already disclosed in the financial statements.

#### **Law, regulations and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finance or operation of the Authority.

#### **Post balance sheet events**

Since the date of approval of the financial statements by Members of the Council, there have been no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

### **Specific representations**

I draw your attention to the Private Finance Initiative contracts that the Council has entered into jointly with Worcestershire. I would make the following points:

#### **Waste Management**

As you are aware, this contract is currently subject to renegotiation. I have reviewed the disclosure included in the accounts on Page 8 of the Statement of Accounts and I am satisfied that this sufficiently reflects the position as at the date of this letter.

Further to the outcome of these negotiations it may be necessary to review the accounting and balance sheet treatment of the renegotiated PFI deal.

I am satisfied that the Council has earmarked sufficient reserves to meet potential liabilities under the existing contractual arrangements as at 31st March, 2006 and has appropriate plans in place to ensure sufficient budgetary provision in its financial strategy for the future.

Yours sincerely,

**SONIA REES (MRS)**  
**DIRECTOR OF RESOURCES**

## Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 Continue to actively review accounts prior to presentation to the auditor to ensure that the accounts presented are free from material misstatement	2	Management	Yes	'The District Auditor found two items that needed adjustment in the draft Statement of Accounts presented for audit. This small number of changes demonstrates that existing procedures for reviewing the draft Statement of Accounts is effective. The Director of Resources will continue to ensure that the draft Statement of Accounts is actively reviewed prior to being presented for audit.'	September 2006
9	R2 Consider further the valuation of Hillside to ensure it reflects its operational value to Herefordshire Council	2	Management	Yes	'Herefordshire Council and District Audit staff spent a considerable amount of time in detailed technical discussion of the appropriate treatment of the Hillside property in the Council's accounts in both this and previous audits. Unfortunately, accounting codes of practice do not explain how assets that are deployed in the provision of pooled budget services should be valued for accounting purposes. The District Auditor plans to carry out further research during the	September 2006

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					course of 2006/07 to see how other councils deal with this situation and the view taken by their auditors. This may or may not lead to further discussion on the accounting treatment for this asset in the future	
12	<p>R3 Review pooled budget arrangements with the PCT in particular to ensure that:</p> <ul style="list-style-type: none"> <li>• Agreements are updated</li> <li>• Reconciliation processes are tightened</li> <li>• Outstanding debtors are paid promptly</li> </ul>	3	Management	Yes	<p>Action has already been taken to address these issues. The finance team for Adult &amp; Community Services has been transferred to the Resources Directorate. Additional support in this area has been provided by the Assistant County Treasurer (Financial Policy &amp; Audit). The new Head of Financial Services has now taken up post and will be providing further support to the team with a view to updating the agreements and ensuring reconciliation of year end figures with the PCT.</p> <p>'The Director of Resources requested that the PCT make a significant contribution to the outstanding debtors position on 7th September 2006 pending resolution of any queries they have with the debtor accounts in question.'</p>	September 2006



## AUDIT CHARTER

**Report By: Principal Audit Manager**

### Wards affected

County-wide

### Purpose

To approve the updated draft Audit Charter.

### Financial Implications

None.

### Recommendation

**THAT the Audit Charter be adopted.**

### Reasons

All principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations (Amendment)(England) Regulations 2006 should make provision for Internal Audit in accordance with the CIPFA Code of Practice.

### Considerations

1. The Audit and Corporate Governance Committee has included in its terms of reference the requirement to approve the terms of reference for Internal Audit.
2. Cabinet approved the previous terms of reference in April 2002.
3. Since approval there have been a number of changes to the approach on internal control and corporate governance within the Council. The main one is the adoption of an Audit Committee, which had its first meeting in September 2005 and has now been, renamed the Audit and Corporate Governance Committee.
4. The Code of Practice for Internal Audit states that 'the purpose, authority, and responsibility of Internal Audit must be formally defined by the organisation in terms of reference consistent with the Code'.

### Risk Management

5. If the Council does not review and update its Audit Charter in line with good practice it could impact adversely on the Councils aspirations to improve its Use of Resources Internal Control score.

### BACKGROUND PAPERS

- Code of Practice for Internal Audit 2006





**AUDIT SERVICES CHARTER****Introduction**

1. The purpose of this Charter is to establish the authority and responsibility conferred by the Council on the Audit Services Team with respect to carrying out internal audit functions.

**Statutory Background**

2. The need to maintain an internal audit function is implied by Section 151 of the Local Government Act 1972 under which local authorities are required to make proper arrangements for the administration of their financial affairs and to delegate responsibility for those arrangements to one of their officers. The Accounts and Audit Regulations 2003 amended by the Accounts and Audit (Amendment)(England) Regulations 2006 are explicit about the requirement to maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal Control.

**The Nature of Audit Services**

3. The Audit Services Team is an assurance function that provides an independent and objective opinion to the Council on risk management, control and governance by evaluating their effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a proper economic, efficient and effective use of resources.

**Audit and Corporate Governance Committee**

4. To facilitate the work of the Audit and Corporate Governance Committee the Principal Audit Manager will:
  - attend its meetings, and contribute to setting the agenda;
  - ensure that it considers its own remit and effectiveness;
  - ensure that it receives, and understands, documents that describe how internal audit will fulfil its objectives (e.g. the audit strategy, annual work programmes, progress reports);
  - report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks to issues it needs to address;
  - establish if anything arising from the work of the committee requires consideration of changes to internal audit's programme, and vice versa; and

## AUDIT SERVICES CHARTER

- present an Annual Assurance report including an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.

### Internal Controls

5. This is the whole system of controls, both financial and otherwise, established by the Council in order to provide reasonable assurance that:
  - business risks are identified, assessed and managed effectively;
  - operations are effective and efficient;
  - there are sound systems of internal financial control;
  - there is compliance with laws and regulations;
  - assets are safeguarded from unauthorised use; and
  - proper accounting records are maintained and the financial information used for business purposes or for publication is reliable.

### The Role of Audit Services

6. The role of the Audit Services Team is to understand the key risks to which the Council is exposed and to contribute to the improvement of the internal control environment - it is not a substitute for it. The Audit Services Team is therefore not directly responsible for the ensuring that adequate and effective internal controls are established to manage the key risks – that responsibility lies with senior management.

### Values of Audit Services

7. The Council expects the Audit Services Team to carry out their function in accordance with the following operational values to:
  - demonstrate integrity in all aspects of their work;
  - be impartial in discharging all responsibilities, and not allow bias, prejudice or undue influence to limit or override objectivity;
  - apply knowledge, skills and experience to their work, seeking additional advice and support where necessary to ensure work is carried out competently;
  - safeguard all information received and ensure no unauthorised disclosure of information unless there is a legal or professional requirement to do so;
  - be client focused at all times;

**AUDIT SERVICES CHARTER**

- offer constructive comments and practical solutions;
- be proactive in approach;
- adopt a professional attitude to all tasks; and
- be responsive to requests for advice.

**Aim of Audit Services**

8. The Audit Services Team aims to add value by contributing towards the improvement of the Council's activities by promoting effective control at reasonable cost in relation to the identified risks.

**Functions of Audit Services**

9. The functions of the Audit Services Team are to:
- assist the Council in the accomplishment of its objectives by bringing a systematic and disciplined approach to the evaluation and improvement of risk management, corporate governance and internal control processes;
  - assist the Council in the effective discharge of its functions by providing independent analysis, appraisal, advice and recommendations on the activities subject to internal audit review;
  - review, appraise and report on the adequacy and effectiveness of the systems of financial and internal control;
  - review, appraise and report on the relevance, integrity and reliability of financial and other management information;
  - review, appraise and report on the level of compliance with the policies, plans, procedures, statutory requirements and regulations that could have a significant impact on the Council's activities;
  - review, appraise and report on the arrangements for protecting assets from loss resulting from theft, fraud, fire or misuse and, as appropriate, verifying their existence;
  - review and appraise the economy, efficiency and effectiveness with which resources are deployed and recommend improvements in procedures and systems that will reduce wastage, extravagance and fraud;
  - review service delivery arrangements and projects to ascertain whether the activities are being carried out as planned and the results are consistent with the Council's established policies;

## AUDIT SERVICES CHARTER

- maintain a programme of development, review and assessment of the Council's risk management processes in order to provide assurance on their integrity;
- carry out any ad hoc appraisals, inspections, investigations, examinations or reviews requested by senior management or the political executive;
- act as the liaison with the Council's external auditors and coordinate audit effort with the Audit Commission in order to avoid duplication of effort and increase audit coverage;
- develop shared audit protocol with colleagues in partner organisations in order to avoid duplication of effort and maximise internal audit coverage;
- maintain technical competence through continuing education and active participation in professional activities;
- adhere to the code of ethics, standards and guidelines of the relevant professional institutes and the Auditing Practices Board;
- utilize the resources designated for use by the Audit Services Team to maximise the efficiency and effectiveness of the internal audit function; and
- serve on internal working groups as appointed by senior management.

### **Independence of Audit Services**

10. The Principal Audit Manager reports direct to the Director of Resources. The Director of Resources is the Council's Responsible Financial Officer under the terms of Section 151 of the Local Government Act 1972.
11. The Principal Audit Manager is responsible for the day to day management of the Audit Services Team. The Principal Audit Manager has the freedom to report to any level of management (officers and Members as appropriate) on audit findings without censure.

### **Authority of Audit Services**

12. This Charter and the Council's Standing Orders and Financial Regulations confirm the authority conferred on the Audit Services Team by the Council.
13. The Principal Audit Manager and the Audit Services Team have the authority to:
  - decide on the nature, scope and timing of audits;
  - access all records, documents and correspondence relating to any financial and other transactions of the Council;

## AUDIT SERVICES CHARTER

- enter any of the Council's premises;
  - request that any employee produce and surrender cash, stores or any other Council property under the employees control;
  - have discussion with the Council's line managers and other employees; and
  - request any officer to provide the information and explanations needed to be able to form an opinion on the adequacy of and compliance with the internal control system.
14. The Council's officers are required to assist the Audit Services Team in the performance of their audit duties and to respond promptly to any requests for information, explanation, discussion, entry to premises or access to documents.

### Scope of Audit Services

15. The risk of financial loss is not the sole concern of the Audit Services Team. The scope of audit activity encompasses the whole range of internal controls employed by the Council – both financial and non-financial.
16. The scope of the audit function is therefore sufficiently comprehensive to meet the Council's needs. It extends to cover all areas of the Council and its controlled entities and may involve working with colleagues in partner organisations.

### Audit Protocol

17. The Audit Services Team is required to observe the following protocol in carrying out their internal function:
- Provide advance notice to the manager of each service area to be audited. An annual audit plan will be established after securing input from the Directors and Heads of Service and approval of the plan by the Corporate Management Board and the Audit and Corporate Governance Committee;
  - Conduct a preparatory meeting with the nominated manager of the service being audited to discuss the nature of the audit, the length of engagement and the coordination of the review around operational constraints. The detail of the audit programme will be reviewed at that meeting with the nominated manager in order to ensure proper and thorough audit coverage;
  - Conduct interim meetings with the nominated service manager as appropriate to discuss progress with the review and findings as they arise;
  - Preparation of a written draft internal audit report following the conclusion of the audit;

**AUDIT SERVICES CHARTER**

- Conduct a final meeting with the nominated service manager to discuss the draft report and confirm the accuracy of the audit findings and the appropriateness of the audit recommendations;
- Agreed amendments to the draft report will be reflected in the final report along with the nominated service manager's response to the recommendations. Final copies of the report will be distributed as appropriate;
- The Head of Service is responsible for making sure that the action plan included in the audit report is implemented.

**The Audit Plan**

18. A annual plan providing for the review of significant Council activities will be prepared for approval by the Corporate Management Board and the Audit and Corporate Governance Committee at the start of each financial year. The plan will be based on an assessment of the risk pertaining to the achievement of the Council's objectives.
19. The plan will form the basis of the annual operational plan for the Audit Services Team. An annual report on progress against that plan is required for the Corporate Management Board and the Audit and Corporate Governance Committee before the end of June following the end of the relevant financial year.

**Audit Reporting**

20. The Audit Services Team are required to submit timely reports on all significant issues arising from the internal audit plan to the service manager, the Responsible Financial Officer and senior management as appropriate.

**Audit Standards**

21. The Council requires Audit Services Team to follow the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

**Deterring and Detecting Fraud**

22. Managing the risk of Fraud and Corruption and the deterrence of fraud is a responsibility of management. The Audit Services Team is responsible for examining and evaluating the adequacy and effectiveness of actions taken by management to fulfil this obligation.
23. The Audit Services Team shall be trained to recognise the potential indicators of fraudulent activity. If sufficient control weaknesses are detected, the Audit Services Team will carry out additional tests in order to confirm or otherwise an acceptable level of propriety and probity.
24. The Audit Services Team will not and can not, however, be as skilled in the detection of fraud as individuals whose sole purpose is to detect and investigate fraud – the remit of the internal audit function is much wider than prevention of

**AUDIT SERVICES CHARTER**

fraud as set out in this Charter. Service managers must also be clear that auditing procedures alone, no matter how professionally they are carried out, cannot guarantee that fraud will be detected.

25. The Audit Services Team will assist in the investigation of fraud in order to:
- Determine if controls need to be implemented or strengthened;
  - Design audit tests to help disclose the existence of similar frauds in the future; and
  - Meet the internal auditor's responsibility to be able to recognise fraud.
26. A written report will be issued at the conclusion of each investigation. It will include all findings, conclusions, recommendations and corrective action to be taken.

**August 2006**





## **UPDATE ON THE COUNCIL'S STATEMENT ON INTERNAL CONTROL**

**Report By: Principal Audit Manager**

### **Wards affected**

County-wide

### **Purpose**

To note the outcome of the Audit Commission's review of the Council's 2005/6 Statement on Internal Control.

### **Financial Implications**

None

### **Recommendation**

**THAT the report be noted and the actions endorsed.**

### **Reasons**

1. The CPA Use of Resources highlights the criteria for judgement in relation to the Statement of Internal Control as follows:
  - An appropriate member group has responsibility for review and approval of the Statement of Internal Control (SIC) and considers it separately from the accounts. (Level 2)
  - The Council has conducted an annual review of the effectiveness of the system of internal control and reported on this in the Statement of Internal Control. (Level 2)
  - The sources of assurance to support the Statement of Internal Control have been identified and are reviewed by senior officers and members. (Level 2)
  - There are action plans in place to address any significant internal control issues reported in the Statement of Internal Control. (Level 2)
  - The Council has put in place an assurance framework that maps the council's strategic objectives to risks, controls and assurances. (Level 3)
  - The assurance framework provides members with information to support the Statement of Internal Control. (Level 3)
  - The assurance framework is fully embedded in the Council's business process. (Level 4)

- The Council can demonstrate corporate involvement in/ownership of the process for preparing the Statement of Internal Control. (Level 4)

## Considerations

2. The Corporate Management Board at their meeting on 19<sup>th</sup> June 2006 reviewed and commented on the evidence used to support the Council's Statement on Internal Control. The Board endorsed the Statement on Internal Control and recommended its signing off by the Leader of the Council, the Chief Executive and the Director of Resources and its presentation to the Audit Committee.
3. The Council's Statement on Internal Control was presented to and approved by the Audit Committee on 30th June 2006.
4. Following the Corporate Management Board's review of the Council's Statement on Internal Control there were four areas identified for improvement:

- **The Council does not have a code of Corporate Governance in line with best practice;**

*The draft Code of Corporate Governance has been submitted to the Audit and Corporate Governance Committee for consideration.*

- **There is now a need to embed risk management at Key Manager level to ensure consistency across the Council;**

*A staff survey has been completed and the results are being used to develop the required level of training. A revised Policy has been submitted to the Audit and Corporate Governance Committee for comments and submission to Cabinet for approval.*

- **'Staying Safe' improvements within the Children and Young People Directorate raised as part of the Joint Area Review; and**

*JAR progress improvement board in place and ongoing. Additional senior resource now in place. Improvement Board overseeing the next stage of improvements, focusing on performance management and project management disciplines.*

- **ensuring the Council's Performance Management Framework is robustly and consistently followed across the Council.**

*There are regular performance review meetings between the Chief Executive and individual directors/the Head of HR. New posts of Performance Improvement Managers within directorates directly accountable to the Head of Policy and Performance. Introduction and first stages of rollout of a new performance improvement cycle, that integrates fully corporate, directorate, service and financial planning. PRINCE 2 project management underpins the Overall Performance Improvement Plan and the Business Transformation Programme.*

5. The Audit Commission has completed its review of the Council's Statement on Internal Control and it is pleasing to note their comment. *'There has been a marked improvement within the SIC for this year (2005-06). An Audit Committee came into being on 30<sup>th</sup> September and have met regularly since with attendance from the Audit Manager of the client (TT).'*
6. However the Audit Commission review did highlight two issues. The first relates to the two fundamental systems with marginal audit opinions which were previously highlighted in the Annual Assurance report. The Audit Commission is concerned that this was not included within the Council's Statement on Internal Control and that the Assistant County Treasurer (Revenues and Benefit) had not indicated these issues on his Annual Assurance return.
7. The second issue relates to the Annual Assurance return from Directors and Heads of Service. The Audit Commission felt that assurance should be obtained more frequently and should include all significant issues identified.
8. The Council's Statement on Internal Control has been updated to include the two fundamental systems with a marginal audit opinion.
9. Quarterly assurance is now requested from Directors and Heads of Service, and declaration of gifts and hospitality confirmation will now be requested twice a year, at the end of September and at the end of March.
10. In line with the request of the Audit Committee declaration of gifts and hospitality confirmation will also be requested from members.

### **Risk Management**

- 11 If the Council does not make satisfactory progress on embedding the assurance framework it could have an adverse effect on the Council's target to improve its CPA Use of Resources Judgement Assessment score.

### **BACKGROUND PAPERS**

- CIPFA guidance on the Statement of Internal Control.



## USE OF RESOURCES IMPROVEMENT PLAN

Report By: The Director of Resources

### Wards Affected

Countywide.

### Purpose

To note the progress in relation to the Use of Resources Improvement Plan.

### Financial Implications

None

### RECOMMENDATION

**THAT the report be noted.**

### Reason

The Use of Resources assessment is an assessment, which focuses on financial management with links to the strategic management of the Council. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. (VFM).

### Considerations

1. The 2005 Use of Resources assessment gave Herefordshire Council a score of 3 out of 4 (note. 1 – Lowest, 4 – Highest), which means the Council is performing well in its Use of Resources but there are areas for improvement.
2. An improvement plan (Appendix 1 refers) was presented to the Audit Committee on 7th April 2006. Good progress is being made on the current plan.
3. The Audit Commission is currently carrying out the 2006 review, the outcome of this review will be reported to the Audit and Corporate Governance Committee when the outcome is known.

### Risk Management

4. Failure to make improvements in relation to key lines of enquiry for Use of Resources could adversely effect the Council's target to improve it's assessment score.

### BACKGROUND PAPERS

- None identified.

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Further information on the subject of this report is available from Tony Ford, Principal Audit Manager  
on 01432 260425



**HEREFORDSHIRE COUNCIL**  
**USE OF RESOURCES IMPROVEMENT PLAN**

**APPENDIX 1**

**Financial Reporting**

**2005 Score 3 out of 4**

	<b>Improvements required to 2005 baseline self-assessment</b>	<b>Lead Officer</b>	<b>Progress</b>
(a)	Agree with the external auditors what is needed to meet the 'exemplary working papers' criteria.	David Keetch	<p>David Keetch discussed the issue of exemplary working papers with the new audit manager. He indicated that improved performance in the areas indicated for the Financial Reporting KLOE would facilitate an improved score of 4. The audit manager indicated that the most important area for us to concentrate on was improved challenge / analytical review.</p> <p>The audit manager acknowledged that working papers had further improved in a meeting with Director of Resources on 18<sup>th</sup> July 2006 and that there had been better analytical review in most areas on the balance sheet. Audit manager again promised a note setting out requirements to achieve exemplary standard for working papers.</p> <p>Feedback from Glyn Morgan to David Keetch also indicated that the 2005/06 audit of the draft Statement of Accounts had been even smoother on the baseline position for 2005, which was assessed as 3 out of 4.</p> <p>Herefordshire Council finance staff dealt with all external audit queries promptly.</p>
(b)	Agree consultation process for establishing the needs of stakeholders in respect of the publication of a summary of the annual accounts.	David Keetch	<p>The Council will be publishing its first summary statement of accounts leaflet by 22<sup>nd</sup> September 2006. The document has been produced in collaboration with colleagues in the Communications and Policy &amp; Performance teams. It includes an annual review of Council activities as well as an overview (subject to audit opinion) of the Statement of Accounts for 2005/06.</p> <p>The document is eye-catching and user friendly and will be widely circulated via public offices / buildings in Herefordshire. It will also be copied to key strategic partners. We also plan to make it available on the Council's website. The leaflet draws on award winning documents produced by other councils. Readers are however invited to comment on the content and format so we can improve next year's summary leaflet. The document will also form part of the agenda for Community Forum meetings in October 2006.</p>

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USE OF RESOURCES IMPROVEMENT PLAN

(c)	Publication of Summary of Accounts that are intelligible and accessible to members of the public.	David Keetch	See (b) above.
(d)	Providing more challenge/analytical review to help prevent “non-trivial errors”.	David Keetch	<p>As part of the planning work for financial year end, service accountants were briefed in detail on the requirement for challenging analytical reviews particularly in relation to debtors, creditors and bank reconciliation entries. This message was continually reinforced during the closedown process.</p> <p>The external auditor’s initial review of the draft Statement of Accounts for 2005/06 Accounts highlighted some potential errors largely between categories of assets (e.g. intangible and tangible assets, short-term and long-term borrowing). We await discussion on the auditor’s view on how trivial he considers these errors to be. The Resources Directorate intends to provide training for budget holders to improve their financial skills, including budgeting.</p>

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Financial Management

2005 Score 3 out of 4

	Improvements required to 2005 baseline self-assessment	Lead Officer	Progress
(a)	Approving a comprehensive medium term financial plan or strategy document.	Director of Resources	The Director of Resources presented a draft Medium Term Financial Management Strategy to Cabinet for approval on 13 <sup>th</sup> July 2006 as a basis for consultation within the Council and with strategic partners prior to the approval of the final document on 19 <sup>th</sup> October 2006. The service planning / budget planning timetable for the three year period covering 2007/08 to 2009/10 leading up to Council Tax setting in March 2007 are fully integrated this year.
(b)	Develop clear linkages between the medium term financial strategy and other internal strategies e.g. accommodation, pay and workforce, corporate ICT, performance management.	Director of Resources	<p>The draft Medium Term Financial Management Strategy demonstrates the appropriate links with key corporate strategies including the Community Strategy, the Corporate Plan, Hereford Connects, The Big Move, Treasury Management, Capital Strategy and significant capital projects such as Rotherwas Futures and Edgar Street Grid.</p> <p>Routine financial monitoring reports form part of the bi-monthly Integrated Performance Report to Cabinet and have been developed to include commentary on service performance relative to financial</p>



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APPENDIX 1

USE OF RESOURCES IMPROVEMENT PLAN

	Improvements required to 2005 baseline self-assessment	Lead Officer	Progress
			performance.

(c)	Prepare and gain approval by CMB of a formal scheme of budget delegation below Director Level.	David Keetch	CMB agreed a principles paper in March 2006 and appropriate changes to the Council's Constitution have been made.
(d)	Strengthen arrangements for involving budget holders in the budget setting process.	David Keetch	Financial management training for budget holders at all levels has been arranged for September / October 2006. The aim is to improve their financial management skills, including budgeting.
(e)	Develop and demonstrate clear links between the Council's various planning levels including service plans and the budget setting process.	David Keetch	The Council has devised a new approach to service planning this year that is fully integrated with the budget cycle.
(f)	Evidence that both the Medium Term Financial Plan and the annual budgets are subject to risk assessment and sensitivity analysis.	Director of Resources	The draft Medium-Term Financial Management Strategy includes a corporate financial risk assessment and is cross-referenced to the financial risk assessment included in the budget papers considered by Council in March 2006 as a basis for setting the Council Tax for 2006/07.
(g)	Ensure that relevant non-financial and financial information is reported to and used by Budget Holders.	David Keetch	Service performance information was included in the 2006/7 month 4 Integrated Performance Report.
(h)	Progress in achieving planned savings and efficiency gains is regularly reported to senior management with developed action plans.	Andrew Tanner	A statement on progress is now included for each Directorate in the regular Integrated Performance reports.

USE OF RESOURCES IMPROVEMENT PLAN

(i)	Implementing a comprehensive training programme.	Andrew Tanner	AT has co-ordinated a structured training plan with three levels. The first session for each level will take place in September / October 2006. In addition Financial Services will be running a Cedar training programme and a survey/questionnaire is in draft form for comment.
(j)	Approval of and action a qualified plan for the reduction of back log property maintenance.	Colin Birks	<p>The draft Medium-Term Financial Management Strategy sets out the need to develop a corporately funded buildings maintenance programme that will be allocated in line with maintenance needs / service priorities.</p> <p>There have been meetings between the Cabinet Member (Resources), the Director of Resources and the Property Services Manager on the comprehensive report prepared on the back log issue. An action plan with nine key issues for reducing the back log is in place.</p>
(k)	Identification of the extent to which whole life costing and option appraisal are applied.	Colin Birks	Option appraisal and whole life costing are included as fundamental elements in the bidding process for Prudential borrowing funding. Bidders are required to consider different options and put forward the best option, fully costed in terms of both revenue and capital funding over the life of the asset created. The repayment of prudential borrowing debt is over a period no longer than the life of the asset created.

Financial Standing

2005 Score 2 out of 4

	Improvements required	Lead Officer	Actions
(a)	Take action to correct the base budget	Director of Resources	The Director of Resources took steps to balance the budget as part of 2006/07 budget cycle. The draft Medium-Term Financial Management Strategy approved in July 2006 identifies further action to ensure services are appropriately funded.
(b)	Constantly maintain spending within overall budget without significant unexpected overspends or underspends.	Director of Resources	<p>The Corporate Management Board has agreed that budgets must be managed to come in at or below the approved budget for the year. This is a non-negotiable for CMB, SMT and key managers.</p> <p>Contingency funding has been established for the key financial risk in social care.</p> <p>Service accountants have assisted in developing budget management plans for each Directorate setting out how budget pressures will be managed.</p>
(c)	Demonstrate that target levels for reserves and balances are based on a thorough understanding of needs and	Director of Resources	Paragraphs 7.3.2 and 7.3.3 etc. of the draft Financial Management Strategy set out the proposed approach to earmarked and general reserves.

USE OF RESOURCES IMPROVEMENT PLAN

	risks, including the Treasury Management Strategy and that these targets are met.		
(d)	Demonstrate that monitoring information is available that evaluates the effectiveness of recovery actions, associated costs and the costs of not recovering debt	Mike Toney	Mike Toney has produced an updated response document.

Internal Control

2005 Score 2 out of 4

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	Improvements required	Lead Officer	Actions
(a)	Revise Cabinet's terms of reference to include responsibility for risk management	David Keetch	Agreed with Legal Services that this amendment will be made in the next Constitution Review. Amendment approved by Cabinet.
(b)	Develop partnership risk management arrangements	Tony Ford	A partnership risk checklist was in place by the end of August. CMB will be asked to approve recommendation that Heads of Service review existing and potential partnerships in line with the checklist.
(c)	Provide risk management training for officers and members	Andrew Tanner	Members risk management seminar has taken place. All members were invited to the training session. There was positive feedback from the attendees.  Survey sent to managers on risk management to assess training needs. Appropriate risk management training is planned for September / October 2006.
(d)	Further develop and demonstrate the quarterly risk management reporting	Andrew Tanner	Directorates advised that DMTs should review their risk registers at least quarterly.  Risk logs now prepared and attached to all major projects e.g. Herefordshire Connects, Accommodation Strategy.

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	Improvements required	Lead Officer	Actions
(e)	Develop the assurance framework, in particular mapping strategic objectives to risks, controls and assurances	Tony Ford	On 20 <sup>th</sup> February 2006 the Audit Committee approved the Statement on Internal Control Assurance Framework, which mapped objectives, risks, controls and assurances. The Audit Committee considered an update report on 7 <sup>th</sup> April 2006. As part of the final report for 2005/6 The Principal Audit Manager completed the CIPFA Assurance Checklist. The Council's procedures and protocols compared favourably with the Checklist

(f)	Develop the role of the Audit Committee to provide effective leadership on audit and governance issues	Tony Ford	Report to Audit Committee on 20 <sup>th</sup> February 2006 refers. The name of the Audit Committee has changed to the Audit and Corporate Governance Committee. The Constitution of the Committee has been changed and is now inline with CIPFA guidance.  Continuing ongoing progress has been made e.g. see Audit Committee reports. Training for Audit Committee has been provided – e.g. on money laundering and questioning the statement of accounts.
(g)	Demonstrate how business critical systems are identified and procedure notes/manuals reviewed and updated annually.	Tony Ford	Liaison with Audit Commission has taken place and the critical systems identified and agreed. These systems form part of the 2006/07 Audit Plan report to Audit Committee on 7 <sup>th</sup> April. All critical systems have annual reviews carried out by Audit Services, with procedures updated and flowcharted.
(h)	Ensure that Standing Orders and Financial Regulations are reviewed annually.	Andrew Tanner	See report to Audit Committee on 7 <sup>th</sup> April 2006.
(i)	Demonstrate how compliance with the standing orders, standing financial instructions and the scheme of delegation is monitored, breaches identified and action	Tony Ford	Links to the Council's Standing Orders and Financial Regulations and Scheme of Delegation have been evidenced by audit work as set out in the Audit Plan report presented to the Audit Committee on 7th April 2006.

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	taken		
(j)	Ensure Statement of Internal Control is a separate process throughout the year process.	Tony Ford	<p>See Statement on Internal Control report to Audit Committee on 20<sup>th</sup> February 06. A progress report was presented to Audit Committee on 7<sup>th</sup> April. A further report went to the Audit Committee on 30<sup>th</sup> June and another update to the Audit &amp; Corporate Governance Committee is planned in September 2006.</p> <p>Recommendations from the 2005/06 Statement on Internal Control already implemented e.g. written assurance statements to be obtained from managers on a quarterly basis.</p>

