

Audit and Corporate Governance Committee

Date: **Friday, 19th October, 2007**

Time: **10.00 a.m.**

Place: **: Committee Room 1, Shirehall,
Hereford**

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

For any further information please contact:

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**County of Herefordshire
District Council**

AGENDA

for the Meeting of the Audit and Corporate Governance Committee

To: Councillor ACR Chappell (Chairman)
Councillor GFM Dawe (Vice-Chairman)

Councillors PGH Cutter, MJ Fishley, JHR Goodwin, R Mills, RH Smith and AM Toon

	Pages
1. APOLOGIES FOR ABSENCE To receive any apologies for absence.	
2. NAMED SUBSTITUTES(IF ANY) To receive any details of Members nominated to attend the meeting in place of a Member of the Committee.	
3. DECLARATIONS OF INTEREST To receive any declarations of interest by Members in respect of items on the Agenda.	
4. MINUTES To approve and sign the Minutes of the meeting held on 21 September 2007.	1 - 8
5. PROGRESS REPORT NO.1 - DIRECTOR OF RESOURCES REPORT To provide the Audit and Corporate Governance Committee with an update on progress with implementing the action plan agreed by Cabinet in response to Director of Resources' special report on financial governance issues in ICT and Customer Services.	9 - 22
6. ANNUAL GOVERNANCE REPORT 2007 - DRAFT ACTION PLAN To present officers' draft action plan in response to the recommendations made by the Audit Commission in their Annual Governance Report 2007 for comment prior to Cabinet approval.	23 - 32
7. UPDATE NUMBER TWO ON IMPLEMENTATION OF RECOMMENDATIONS ARISING FROM SPECIAL INVESTIGATIONS To provide the Audit and Corporate Governance Committee with a further update on progress with implementing the recommendations approved by the Corporate Management Board to improve the internal control environment as a result of the lessons learned' from special investigations carried out by Audit Services in 2005/06.	33 - 36
8. UPDATE NUMBER TWO ON THE INTERIM ASSURANCE REPORT	37 - 42

2007/08

To provide the Audit and Corporate Governance Committee with a updated interim Assurance Report for 2007/08 that provides an update on progress with the significant internal control issues identified in the Assurance Report for 2006/07 and identifies the significant internal control issues identified to date in 2007/08.

9. SECTION 106 PLANNING OBLIGATIONS

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To provide the Audit and Corporate Governance Committee with a summary of audit findings on the Council's arrangements for Section 106 obligations.

10. CAR LOANS

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To provide the Audit and Corporate Governance Committee with a summary of audit findings on the Council's arrangements for employee car loans.

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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 and Corporate Governance Committee held at : The Council Chamber, Brockington, 35 Hafod Road, Hereford, HR1 1SH. on Friday, 21st September, 2007 at 10.00 a.m.

Present: Councillor ACR Chappell (Chairman)
Councillor GFM Dawe (Vice Chairman)

Councillors: MJ Fishley, JHR Goodwin, R Mills, RH Smith and AM Toon

In attendance: Mr T Tobin (Audit Commission) and Mrs L Cave (Audit Commission).

12. APOLOGIES FOR ABSENCE

There were no apologies for absence.

13. NAMED SUBSTITUTES(IF ANY)

There were no named substitutes made.

14. DECLARATIONS OF INTEREST

There were no declarations of interest made.

15. MINUTES

RESOLVED: That the Minutes of the meeting held on the 29th June, 2007 be approved as a correct record and signed by the Chairman.

16. USE OF RESOURCES ACTION PLAN

The Committee considered a report which updated Members on the Use of Resources Action Plan. The Audit Services Manager reminded Members that a detailed Action Plan had been submitted at a meeting of the Committee on 13th April 2007 which highlighted the specific actions to be taken and timescales and that it was an ongoing Plan.

The Audit Services Manager referred to paragraph 4.2 of the Action Plan attached to the report, and reported that there had been meetings with Human Resources Directorate, and meetings had been arranged with the Adult and Community Services Directorate, Environment Services Directorate and the Corporate and Customer Services Directorate and he would be reporting on the outcome of those meetings at the next meeting.

A Member referred to Paragraph 2.1 of Appendix 1 and in particular to the Asset Management Strategy project appraisals and that some appraisals were not being carried out.

The Audit Services Manager assured the Member that these projects would be added to the Action Plan.

A Member expressed concern regarding the need for the Council's Resources Directorate to be aware of Directorates utilising Central Government finance grants. The Head of Financial Services informed the Committee that government departments usually copy the Chief Finance Officer with notifications of grant awards. There were some gaps in information and the accountants continue to work on ensuring that service managers manage their gross expenditure and gross income budgets separately and not as a net position. The Capital Programme incorporates the use of resources and grant funds.

A Member asked that financial reports showed internal and external funding sources separately.

With regard to a point raised by a Member in relation to a corporate procurement approach, the Head of Financial Resources stated that a Procurement Strategy was in place across the Council to ensure consistency and compliance with Council policies.

The Audit Services Manager informed the Committee although cost coding scrutiny was in place, he would ensure that this check was incorporated into appropriate audit programmes.

RESOLVED: That the report be noted.

17. UPDATE ON IMPLEMENTATION OF RECOMMENDATIONS FROM SPECIAL INVESTIGATIONS

The Committee considered a report which provided an update on the progress with implementing the recommendations approved by the Corporate Management Board to improve the internal control environment as a result of the lessons learned from special investigations carried out by Audit Services in 2005/06.

With regard to the matter raised by the Chairman of the Committee regarding the return of office equipment such as computers, the Audit Services Manager informed Members that he would ensure that in future Members would be given a receipt in future.

A Member referred to part (e) of Appendix 1 to the report and concerns were expressed that there were other irregularities that had not been referred to in the principal report.

With regard to paragraph 5 in the report, the Audit Services Manager stated that a report would be submitted to the next ordinary meeting of the Committee setting out the dates when the work would be completed.

RESOLVED: That

- (i) the Head of Legal and Democratic Services to liaise with the Audit Services Manager with a view to broadening the brief to encompass the further irregularities referred to in part (e) to Appendix 1 of the report; and**

(ii) **the report be noted.**

18. UPDATE ON STATEMENT OF ACCOUNTS 2006/07 AND STATEMENT ON INTERNAL CONTROL 2006/07

The Committee received a report which advised on changes to the Statement of Accounts for 2006/07 resulting from the Audit Commission's review work since the Committee's last meeting. Circulated to Members was a revised final page to Appendix 1 attached to the report.

The Head of Financial Services referred to paragraph 2 of the report, and informed Members that the external auditor's view had been accepted regarding the classification of ICT related expenditure from capital to revenue expenditure. Also accepted was the reclassification of the Goodrich Voluntary Controlled School as an asset owned by the Council, referred to in paragraph 3. The apportionment of property services costs referred to in paragraph 4 of the report had also been corrected.

A Member asked for reassurance that there was a framework of for each Directorate of maintaining an adequate system of internal control.

The Director of Resources assured the Member that this was the case and that Audit Services also follow up on audit recommendations.

The Audit Services Manager reminded the Committee that an Assurance Framework had been approved eighteen months previously.

RESOLVED: That the report be noted.

19. ANNUAL GOVERNANCE LETTER

The Committee considered the Annual Governance letter received from the Audit Commission which provided a summary of the work the Commission had carried out during their 2006/07 audit of accounts for the Authority, the conclusions the Commission had reached and the recommendations made to discharge its statutory audit responsibilities to those charged with governance.

Mrs L Cave, District Auditor, presented the letter. She reported that since the letter had been issued, there had been a significant change regarding their value for money opinion due to the financial governance issues highlighted in ICT and Customer Services. As a consequence, a revised conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources had been drafted and was circulated to Members at the meeting, a copy of which is attached to the official Minute book copy of the Minutes. She referred to the adverse conclusion in the final paragraph of the additional circulated paper, and recognised that the Council had identified these concerns.

Mr Tobin, Audit Commission, expressed his thanks to the Council's finance staff for their help and assistance during their audit, noting in particular the improvement in the quality of working papers.

The Director of Resources stated that a report would be submitted to the next meeting detailing the action that will be undertaken as a consequence of the Audit Commission's recommendations. She also referred to the appointment of Head of Asset Management, a new post, who would be taking forward the Asset

Management Plan and Key Objectives which had been approved by Cabinet.

A Member expressed concern about schools and their position with regard to the Asset Management Plan.

The Director of Resources stated that a corporate approach was needed in respect of Asset Management including schools and highways infrastructure, and that the Director of Children and Young Peoples Services was currently assessing the School Assets situation.

RESOLVED; That

- (i) the Audit Commission's recommendations be approved; and**
- (ii) the Letter of Representation be signed on behalf of the Council by the Director of Resources.**

20. INTERIM ASSURANCE REPORT 2007/08

The Committee considered a report which provided Members with a first interim Assurance report for 2007/08 that provides an update on progress with significant internal control issues identified in the Assurance report for 2006/07, and identifies the significant internal control issues identified to date in 2007/08.

The Audit Services Manager informed Members that with regard to the first bullet point in paragraph 2 of the report, the Committee would be updated on progress. In regard to the second bullet point, the Council has a commitment to report on progress on the issues referred to.

In reply to a Member's reference to paragraph 7 in the report and in particular to the Drugs Forum and the quantum of monies involved, the Audit Services Manager undertook to provide further information to the Member.

RESOLVED: That the report be noted.

21. SPECIAL REPORT FROM THE DIRECTOR OF RESOURCES

The Committee considered the Section 151 Officer's special report regarding the financial governance arrangements within the ICT and Customer Services division. The report referred to a recent audit investigation into travel and subsistence expenses within the division together with a review on the use of contractors which has been recently drawn to a close.

The report summarised the key issues of concern in relation to the financial governance arrangements within ICT and Customer Services, it outlined the actions taken and planned by senior management to address the issues identified, described the potential implications for the Council's corporate financial standing and reputation, and recommended an action plan to demonstrate a strong corporate response to the issues identified in the report.

The Committee was further informed that Cabinet had received the report at its meeting on 20th September 2007 and had agreed the recommendations and action plan set out in the report.

A copy of the Director of Resources presentation is attached to these Minutes.

The Chief Executive made reference to Cabinet and its recent response which is to ensure that the review of the situation is conducted independently. With this in mind, Cabinet had agreed to request the Local Government Association (LGA) to undertake the selection of an independent party to conduct the review for this Council.

The Leader of the Council stated that the Committee would be notified of the person nominated by the LGA to conduct the review but referred to the fact that if it became necessary the LGA offered to address Members on an appropriate approach to such a review. He indicated that whilst it would not be appropriate to circulate the Terms of Reference for the independent review he had agreed that the Terms of Reference be made available to the Chair of the Audit and Corporate Governance Committee and he would be willing to discuss with the Chair possible amendments. He emphasised that the Terms of Reference would ultimately have to be negotiated with the independent appointee to undertake the review and he was asking Mr McLaughlin as the Council's Monitoring Officer to undertake the role. The Committee was informed that the review would be thorough and full with employees being encouraged to give statements. It was emphasised however, that personal identification of employees giving such statements would be confidential and not passed on to Members.

The Chairman of the Committee assured Members that the Leader would be keeping him updated of the timetable of the review and its processes and there would also be additional meetings of the Audit and Corporate Governance Committee called on 19th October, 16th November and 21st December 2007 with appropriate update reports. The Chairman also noted Member's concerns regarding the possible implication of officers during the review process and that the officers would take due regard of such issues when reports are prepared for the Committee.

The Chief Executive assured the Committee that all employees of ICT had been reassured of their freedom of actions and views in respect of the forthcoming review.

The Head of Legal and Democratic Services informed Members that the police were currently reviewing the internal audit working papers with a view to deciding whether there was a need for police action.

A Member referred to the ICT Scrutiny Review carried out in 2006 and suggested that some elements of it would give some guidance to the independent investigation, It was noted that the Herefordshire Connects programme was outside this scrutiny review investigation. The Chairman of the Committee assured the Member that the Independent Investigator's attention would be drawn to the document referred to by the Member.

Bearing in mind the contents, Members queried whether a Member should sit on the Hereford Connects Project Board as an observer. Following discussion, this suggestion was withdrawn. It was also put forward that the Audit Services manager should be in attendance .

The Chief Executive reminded the Committee that two key officers, the Audit Services Manager and the Head of Legal and Democratic Services were in attendance at meetings in respect of the Herefordshire Connects Programme and report appropriately. The Head of Legal and Democratic Services stated that it was important to distinguish between the Managerial role that properly belonged to officers of the Council and the role of Audit.

With reference to a Member's enquiry on several issues relating to payments pending within the Action Plan, the Committee was informed that the Employees Code on the various issues was being reviewed.

The Director of Resources informed the Committee that senior officers and key Managers claims in relation to travel and subsistence were currently being investigated and that it was not viewed by management as a consistent problem throughout the Service.

The Chairman of the Committee informed Members that all employees had been reminded of their responsibilities regarding the Code of Conduct for Employees.

The Audit Services Manager reminded the Committee that a Travel and Subsistence review was in the Audit Plan, which had been approved in April 2007 by the Audit and Corporate Governance Committee, and that this Plan had been brought forward in the light of the current situation.

Members expressed their sincere appreciation to the Director of Resources and her team for the way in which the situation has been approached and currently being managed.

The Chairman stated that it was important that the officers and Members were circumspect with regard to the report before them and that the officers should be congratulated in this respect.

RESOLVED: that

- (i) implementation of the recovery plan as detailed and attached to the special report is prioritised in line with the timetable indicated within it;**
- (ii) the dates for additional meetings of this Committee to take place on 19th October, 16th November and 21st December 2007 to receive updates with regard to the special investigation.**
- (iii) the Director of Corporate and Customer Services to urgently complete the re-assessment of the Community Network Up grade contract she has initiated; and**
- (iv) finance governance compliance testing is prioritised in line with the timetable indicated within it;**

The meeting ended at 12.35 p.m.
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CHAIRMAN

PROGRESS REPORT NO.1 – DIRECTOR OF RESOURCES’ SPECIAL REPORT

Report By: Director of Resources

Wards Affected

None.

Purpose

To provide the Audit & Corporate Governance Committee with an update on progress with implementing the action plan agreed by Cabinet in response to Director of Resources’ special report on financial governance issues in ICT & Customer Services.

Financial Implications

There are no financial implications arising as a direct result of this report. Enhancements to the corporate governance framework and greater compliance with it will ensure that the Council optimises its use of resources.

RECOMMENDATION

THAT the Audit & Corporate Governance Committee notes the progress made to date.

Reasons

To provide the Audit & Corporate Governance Committee with assurance that the action plan in response to the special report on financial governance issues in ICT & Customer Services.

Considerations

1. This is an initial update on progress given the short period between the Cabinet approving the action plan and agenda despatch for this meeting.

Travel & Subsistence Claims

2. The action plan agreed by Cabinet for improving the systems of internal control across the Council in respect of officer travel and subsistence claims is attached (Appendix 1) for ease of reference.
3. A review of the Employee Code of Conduct has not yet started. The Interim Head of HR took up appointment on 8th October, 2007. The Director of Resources will brief the Interim Head of HR as a matter of urgency the actions logged to her can be planned and carried out promptly.

Further information on the subject of this report is available from
Sonia Rees, Director of Resources on tel: (01432) 383519

4. The HR team has started a review of travel and subsistence policy and guidance to officers. The aim is to make the Council's policy very specific for avoidance of doubt in interpretation by claimants and authoring officers alike. The redrafted policy will need to be agreed by the Interim Head of HR.
5. The Payroll Manager has issued an e-mail to all staff as a reminder on the need to ensure all travel and subsistence claims are supported by VAT receipts, that they need to be submitted in a timely fashion and that exceptional items need to be approved by the Head of Service and Director.
6. The Head of Benefit & Exchequer Services has reviewed the declaration both claimant and authorising officer are required to make on the travel and subsistence claim form. No changes are deemed necessary.
7. The Head of Legal & Democratic Services has arranged to remind officers twice a year for the future on the need to comply with the Council's rules on declaring gifts and hospitality. He will report to Corporate Management Board if officers fail to declare a return, even if it is a 'nil' one.
8. The Audit Services Manager has arranged for the biannual assurance statement confirmations currently sent to Corporate Management Board members and Heads of Service to be sent to all Key Managers. He will report to the Corporate Management Board if officers fail to make a return.
9. The Audit Services Manager has arranged for the travel and subsistence audit programme to include a crosscheck of claims paid to the register of gifts and hospitality.
10. The Payments Manager will arrange to notify officers with payment authorising responsibilities to ensure that invoices from consultants itemise expenses incurred and being charged.
11. The Audit Services team has begun the extended review on Key Managers' travel and subsistence claims. There is nothing to suggest based on the work carried out so far that the issues identified in the special audit investigation are replicated elsewhere.

Governance Framework

12. The action plan agreed by Cabinet in response to the Director of Resources' special report is attached for ease of reference (Appendix 2).
13. The Director of Resources' main focus of activity since Cabinet agreed the action plan has been reviewing the relevant sections of the Council's Constitution.
14. The Constitution Review Working Group has agreed that technical adjustments to the Constitution agreed by the Head of Paid Services, the Monitoring Officer and the Chief Finance Officer can be presented direct to Council for approval.

Further information on the subject of this report is available from
Sonia Rees, Director of Resources on tel: (01432) 383519

15. The Director of Resources' management team plus Strategic Procurement & Efficiency Review Officer has met with the Head of Legal Services to identify the technical elements of the Council's Constitution that need review to fulfil the requirements of the action plan.
16. The following table identifies the technical elements of the Constitution that will be reviewed in response to the action plan and comments on how the review will be conducted:

Reference	Description	Method of Review
Part 5.8	Agendas and Reports for Committees	Head of Legal Services will need to redraft to reflect the new Scheme of Delegation that will cover officers' responsibilities for consulting the Statutory Officers amongst others on draft reports before they are sent to Democratic Services for despatch.
Part 11	Joint Arrangements	Redrafted for Council in January 2008. Needs updating to include the Local Area Agreement and the Use of Resources key lines of enquiry on partnership working.
Part 12	Officers' Responsibilities	Redrafted by the Director of Resources for presentation to Council on 2nd November. The replacement will be a Scheme of Delegation. This element of the Constitution will see major change.
Part 13.6	Decision Making by Officers	Consider for deletion as will be covered by the new Scheme of Delegation.
Appendix 3	Policy Framework and budget Rules	Redrafted by the Director of Resources for presentation to Council on 2nd November. This element of the Constitution will see some change.
Appendix 4	Financial Procedure Rules	Redrafted by the Resources Directorate Management Team and Strategic Procurement & Efficiency Review Officer for presentation to Council on 2nd November.
Appendix 5	Contract Procedure Rules	Redrafted by the Strategic Procurement & Efficiency Review Officer for presentation to Council on 2nd November.
Guide	Members and Officers Handbook	Redrafted by the Head of Legal & Democratic Services by January 2008.

17. The Resources Directorate Management Team will arrange for extensive publicity on the new Scheme of Delegation, Contract Procedure Rules and Financial Procedure Rules. The new documents will be issued to all relevant staff once approved by Council with a requirement for those officers to sign to say they have received them. A

Further information on the subject of this report is available from
 Sonia Rees, Director of Resources on tel: (01432) 383519

series of 'road show' type activities is also being planned to include seminars for Members, presentations to Directorate and other team meetings and the Leadership Forum, and communication via the corporate News & Views team briefing system. The Council's financial policies and procedures – and the need to comply with them – will also be reinforced through the employee induction process and in-house financial training provision.

18. The Director of Resources and Director of Children & Young Peoples Services have agreed that the accountancy and payroll staff in the latter Directorate's finance team will transfer to Resources on 1st November, 2007. The Directors have written a joint letter to the staff affected by this change in line management arrangements. The Head of Financial Services and Head of Benefit & Exchequer Services are working with the staff concerned to effect a smooth transition.
19. The Director of Resources and Director of Environment have agreed the transfer of a now vacant accountancy post to the Financial Services team. This post will shortly be advertised.
20. The Audit Services Manager has commenced a restructuring exercise for his team that will result in an increase in the establishment. The Resources Directorate is funding this from efficiency gains elsewhere within the Directorate.
21. The Head of Financial Services is developing proposals for enhancing capacity for strategic procurement advice. It is envisaged that resources across the Council would be more effectively utilised under the professional guidance of the Strategic Procurement & Efficiency Review Manager.
22. The Audit Services team are currently investigating further issues connected with the financial governance concerns identified in ICT & Customer Services. Usual reporting protocols will be followed if there is anything to report.
23. The Director of Corporate & Customer Services is reviewing the financial position for ICT and Customer Services on a fortnightly basis. Work to ensure ICT and Customer Services' expenditure is in line with the budget for 2006/07 is well advanced. Work is continuing between the Acting Head of ICT & Customer Services and Head of Financial Services on future requirements for the base budget and investment (action number 3 in Appendix 2 refers).
24. The Director of Corporate & Customer Services confirms that the Acting Head of Service arrangements for ICT & Customer Services is in place until the end of February 2008. Work is progressing to benchmark and set out proposals in relation to future management through discussion with like authorities (action number 4 in Appendix 2 refers).
25. The Director of Corporate & Customer Services is working with the Corporate Programmes Manager to develop a principles paper on the approach to and arrangements for delivery of project management services (action number 5 in Appendix 2 refers).

Further information on the subject of this report is available from
Sonia Rees, Director of Resources on tel: (01432) 383519

Risk Management

The action plan is designed to enhance the Council's existing corporate governance framework in the light of the issues identified in the Director of Resources recent special report. The Corporate Management Board, Cabinet and Audit & Corporate Governance Committee are closely monitoring implementation of the action plan. Support from these bodies for the successful implementation of the action plan is essential if the Council is to demonstrate to the Audit Commission their commitment to resolving the serious issues that have been identified.

Background Papers

The Director of Resources' Special Report on the financial governance issues in ICT & Customer Services considered by Cabinet on 20th September 2007 and Audit & Corporate Governance Committee on 21st September 2007 refers.

ACTION PLAN FOR TRAVEL & SUBSISTENCE ARRANGEMENTS				APPENDIX 1	
Audit finding	Internal control mechanism	Suggested action	Responsible officer(s)	Date	
Claims paid and pending for entertaining suppliers, Council employees and Council contractors.	Code of Conduct for Employees	Review the Code of Conduct for Employees to ensure the Council's expectations on the required standard of conduct on giving hospitality are clear.	Head of HR	Sept 2007	
Claims paid and pending for alcoholic beverages for meetings with suppliers, employees and contractors during office hours.	Code of Conduct for Employees	Review the Code of Conduct for Employees to ensure the Council's expectations on the required standard of behaviour in relation to consumption of alcohol during office hours and whilst representing the Council after office hours is clear.	Head of HR	Sept 2007	
Claims paid for mileage following business meetings at which significant amounts of alcohol were purchased.	Code of Conduct for Employees	Review the Code of Conduct for Employees to ensure the Council's expectations on the standard of behaviour regarding working under the influence of alcohol is clear.	Head of HR	Sept 2007	
Claims paid and pending for overnight accommodation costs within the Council's area without prior authorisation or clear business need.	Travel & Subsistence Policy Terms and Conditions of Employment	Revise guidance on travelling claims to require separate confirmation by attaching a signed memorandum that the line manager certifies overnight stays within the Council's area. Payroll to reject all claims for overnight stays in the Council's areas that are not accompanied by separate written authorisation by Head of Service and Director.	Head of HR	Sept 2007	

ACTION PLAN FOR TRAVEL & SUBSISTENCE ARRANGEMENTS			APPENDIX 1	
Audit finding	Internal control mechanism	Suggested action	Responsible officer(s)	Date
Failure to supply VAT receipts for over half of the claims made.	Terms and Conditions of Employment	Payroll to reject all claims that do not have the correct supporting documentation.	Payroll Manager	Immediate
Failure to submit claims in a timely manner.	Travel & Subsistence Policy	Revise guidance on travelling claims to require monthly submission of travel and expenses claims within a month of the period they relate to. Payroll to reject claims that are received after the deadline indicated in the Councils' Travel & Subsistence Policy.	Head of HR	Sept 2007
Claims authorised for payment although incomplete and in contravention of the Council's policies.	Travel & Subsistence Policy Travel & Subsistence Claim Form	Payroll to reject claims that are incomplete and in contravention of the Council's policies unless all exceptions are individually certified by the relevant Head of Service and Director in writing. Travel & Subsistence Claim Form to be reviewed to ensure the disclaimer the claimant and authorising officer make on signing the form is clear that failure to comply with the Council's policies on travel & subsistence could lead to disciplinary action.	Head of HR Head of Benefit & Exchequer Services	Sept 2007

ACTION PLAN FOR TRAVEL & SUBSISTENCE ARRANGEMENTS			APPENDIX 1	
Audit finding	Internal control mechanism	Suggested action	Responsible officer(s)	Date
Failure to declare hospitality received in line with the Council's policies.	Code of Conduct for Employees	Reminders from the Head of Legal & Democratic Services to all Key Managers to be issued biannually. Head of Legal & Democratic Services to confirm 100% return rate to include nil returns.	Head of Legal & Democratic Services	Sept 2007
Discrepancies between claims for overnight stays and subsequent declarations of hospitality.	Travel & Subsistence Policy Code of Conduct for Employees	Biannual assurance statements to be extended to all Key Managers and to include confirmation that systems are in place to promote compliance with the Council's policies on the declaration of gifts and hospitality offered whether accepted or not. Audit Services Manager to ensure test checks are carried out as part of planned audit work on travel & subsistence.	Audit Services Manager	Sept 2007
Questionable value to the Council of a three-day conference attended by an agency & contracted member of staff in Paris that was run by a Council supplier. Costs reimbursed included travel, accommodation and entertaining expenses.	Travel & Subsistence Policy	Travel & Subsistence policy to be revised to so that all overseas trips are authorised at Director level.	Head of HR.	Sept 2007
Claims for travel and subsistence expenses made by Council contractors not itemised in detail in their invoices.	Contract arrangements.	Contractors should support charges for travel and subsistence included in their invoices with a completed travel and subsistence claim form where the contract allows for reimbursement of costs as incurred.	Key Managers.	Sept 2007

CORPORATE GOVERNANCE IMPROVEMENT PLAN				APPENDIX 2	
Issue to address	Comments	Suggested corporate response	Responsible officer(s)	Date	
1. Regular review on the progress implementing this corporate response.	The plan needs to be implemented effectively and to timetable.	CMB to monitor on a monthly basis and report to Cabinet. Report to each Audit & Corporate Governance Committee meeting.	CMB DoR	Ongoing	
2. Ensure the corporate response to the travel and expenses audit review is implemented effectively and to timescale.	Recommendations on the corporate response to the travel and subsistence audit review are relevant to this action plan, e.g. reviewing induction training.	CMB to consolidate the corporate responses to the travel and subsistence review and the corporate response to this report into one action plan.	DoR MO	Following discussion at CMB on 7.9.07	
3. Work to establish the cost of existing ICT and Customer Services operations and future investment needs to be urgently concluded to inform the Performance Improvement Cycle.	The audit and financial management reports have been highlighting the budget issues, quantifying them where possible to do so.	Director of C&CS to lead with support from Financial Services.	DC&CS HoFS	30.09.07	
4. Permanent managerial arrangements for ICT and Customer Services need to be established.	Much progress has been made by the Acting Head of Service.	CMB to discuss and agree proposals from DC&CS.	DC&CS CMB	October 2007	

CORPORATE GOVERNANCE IMPROVEMENT PLAN				APPENDIX 2	
Issue to address	Comments	Suggested corporate response	Responsible officer(s)	Date	
5. Review approach to and arrangements for the delivery of project management services. All post implementation reviews must include a technical and financial appraisal.	CMB has discussed this issue on a number of occasions. Need to conclude as part of the Performance Improvement Cycle.	CMB to discuss and agree proposals from DC&CS.	DC&CS CMB	October 2007	
6. Review of the financial and legal elements of the Council's constitution to ensure clarity and consistency.	The Council's Constitution is not as clear as it could be, nor as robust as it could be in support of the Section 151 Officer's and Monitoring Officers' statutory roles compared to exemplar authorities.	Working group to carry out a review and make recommendations in the first instance to CMB. Need to report to Audit and Corporate Governance Committee and other appropriate decision-making and scrutiny functions prior to being agreed at Council.	DoR HoLDS HoFS CIA HoBES HoHT	Council in November 2007	
7. Council's Constitution and Financial Regulations to be reviewed to ensure the requirement to secure financial and legal advice on all formal reports is explicit.	CMB needs to rigorously police the reports produced in their areas to ensure Financial Services has completed and signed off the financial implications and Legal Services has signed off the legal implications. This will ensure financial and legal advice is available to support all decisions.	CMB to insist on the highest standard in all aspects of report writing, including financial and legal implications. CMB to ensure there are no exceptions to the policy of all formal reports being cleared by the Head of Paid Services, the Monitoring Officer and the Section 151 Officer.	All report authors	Council in November 2007	
8. Audit Services and the Monitoring Officer need to be granted access to staff, records and feeder systems if required to fulfil their statutory obligations.	Key Managers responsible for feeder systems must ensure appropriate licence arrangements are in place in the event access is requested. Key Managers must assist with training if needed.	Incorporate into the review of the Constitution. Re-affirm current provision in the Council's Constitution on audit access.	DoR HoLDS HoFS CIA HoBES HoHT	Council in November 2007	

CORPORATE GOVERNANCE IMPROVEMENT PLAN				APPENDIX 2	
Issue to address	Comments	Suggested corporate response	Responsible officer(s)	Date	
9. Improve the quality of working papers/files recording business activity.	Important in terms of: <ul style="list-style-type: none"> new data quality standards; service continuity planning; and ability to demonstrate a clear audit trail. 	Guidance on the standards of record keeping needs to be devised.	Information Manager C/A	December 2007	
10. Improve standards of internal control for fundamental systems.	Demonstrates a rigorous approach to improving financial and legal governance.	Minimum acceptable standard is satisfactory – this is a non-negotiable.	CMB HoHR C/A	Allow 3 months' notice for improvement	
11. Improving financial governance in ICT and Customer Services.	A top priority – needs to achieve the minimum standard of satisfactory for the fundamental systems and sign-off that action plans have been implemented for other reviews.	DC&CS to implement agreed action plans for the FMS system in ICT, travel and expenses and use of contractors audit reviews.	DC&CS DoR	January 2008	
12. Complete work in progress on internal recharging mechanisms to the agreed timetable.	This is important to ensure compliance with the Best Value Accounting Code of Practice (BVACOP) and to promote clarity and transparency in the recharging process.	Actions identified and agreed in a report to CMB on 16th August from the SMT SLA working group.	Anne Heath, Chair of SMT SLA Working Group, reporting to CMB.	March 2008	
13. All financial administration and financial management resources transfer to the Resources Directorate as soon as practical.	This principle has been previously agreed by CMB. Further progress will be demanded by the Herefordshire Connects programme. The main opportunities for minimising risk and maximising efficiencies lie within the Children and Young People's Directorate.	Identification and planning for transfer of resources to be considered by the ISS Board with exceptions reported to the Herefordshire Connects Programme Board for decision.	Mike Toney, Chair of ISS Board, reporting to Herefordshire Connects Partnership Board.	March 2008	

CORPORATE GOVERNANCE IMPROVEMENT PLAN				APPENDIX 2	
Issue to address	Comments	Suggested corporate response	Responsible officer(s)	Date	
14. Ensuring members receive complete advice from the Monitoring Officer and S.151 Officer on the legal implications and financial implications of all policy proposals.	Need to ensure the Leader and his Cabinet is fully supported by the three statutory officers identified, plus other officers as appropriate. This approach will also help improve the quality of reports, as advice to the executive is complete.	Liaison meetings with the Leader to include the Monitoring Officer and S.151 Officer to be diarised at no more than quarterly intervals.	Chief Executive DoR MO / HoLDS	Immediate effect	
15. Promote compliance with corporate financial governance arrangements by reviewing management practices and accountabilities.	Need to reinforce the importance of robust financial governance arrangements – responsibilities to stakeholders, personal protection for individual employees and organisational reputation.	Make compliance with corporate financial arrangements a non-negotiable. CMB to carry out immediate checks on contracting arrangements and authorised signatory lists.	CMB DoR	Immediate effect	
16. Enhance Key Manager's financial skills and knowledge of the Council's approved corporate governance framework, ensuring the message is constantly reinforced through effective training.	Better understanding of financial management and governance issues will improve compliance with corporate financial governance arrangements.	Make attendance on training courses a pre-requisite to getting a "licence to practise" as a manager. Attendance at refresher training courses will also be mandatory.	HoHR HoFS MO CIA	Immediate effect	
17. Ensure all capital and revenue budget proposals are identified through agreed service and financial planning processes.	Ensures resources allocated in line with longer-term priorities and encourages corporacy and effective forward planning. Also encourages service managers to prepare a robust business and financial case in support of their proposals that is evidence based.	Ensure in-year budget proposals are only brought forward in exceptional circumstances.	CMB	Immediate effect	

CORPORATE GOVERNANCE IMPROVEMENT PLAN				APPENDIX 2	
Issue to address	Comments	Suggested corporate response	Responsible officer(s)	Date	
18. Enhance Audit Services' capacity.	Early action to enhance the capacity of the Audit Services team will demonstrate commitment to strengthening corporate governance.	CMB to agree restructure proposals identified during the PIC process costing £45k. This can be met from the existing base budget for the Resources Directorate.	CMB DoR	Immediate effect	
19. Enhance strategic procurement capacity to ensure compliance with the Council's contracting policies and procedures.	Early action to enhance strategic procurement capacity will demonstrate commitment to strengthening corporate governance.	CMB to agree additional resources to centralise monitoring of contract procedures within Resources. This can be met from the existing base budget for the Resources Directorate.	CMB DoR	Immediate effect	
20. Check that issues highlighted in ICT and Customer Services are not repeated elsewhere.	Audit Services to re-focus planned activity to provide early assurance that this set of circumstances is not prevalent.	CMB needs to be prepared to respond quickly to Audit Services.	CMB	Immediate effect	
21. Ensure budget is in place before committing expenditure.	Financial Services will continue to reflect the financial implications of formal decisions in the Council's budgets – a further reason for ensuring that the financial implications section of all reports is complete and detailed. This does not absolve Key Managers from ensuring the budget is in place before entering into a financial commitment.	CMB to re-inforce the message that Key Managers need to work closely with Financial Services colleagues to ensure all appropriate permissions to spend are in place before letting a contract.	All	Immediate effect	

CIA = Chief Internal Auditor
 DoR = Director of Resources
 HoLDS = Head of Legal and Democratic Services
 HoHR = Head of Human Resources
 HoPS = Head of Paid Services
 MO = Monitoring Officer
 DC&CS = Director of Corporate & Customer Services
 HoFS = Head of Financial Services
 HoBES = Head of Benefit and Exchequer Services
 HoHT = Head of Highways & Transportation

ANNUAL GOVERNANCE REPORT 2007 – DRAFT ACTION PLAN**Report By: Director of Resources****Wards Affected**

None.

Purpose

To present officers' draft action plan in response to the recommendations made by the Audit Commission in their Annual Governance Report 2007 for comment prior to Cabinet approval.

Financial Implications

There are no financial implications arising directly from this report. The management action will however give greater certainty that the annual accounts represent as accurate a reflection as is possible to achieve the value of the Council's assets in the balance sheet. A review of the pooled budget arrangements for Section 75 services will improve systems for ensuring that value for money for health and social care services delivered in partnership with the Primary Care Trust is obtained. Improvements to the systems of internal control in ICT and Customer Services will ensure that the use of resources in this area of Council activity is maximised.

RECOMMENDATION

THAT the Audit & Corporate Governance Committee considers whether it wishes to comment on the attached draft management action plan.

Reasons

To provide the Audit & Corporate Governance Committee with an opportunity to comment on the action plan drafted by officers in response to the recommendations made by the Audit Commission in their Annual Governance Report for 2007 before it is considered by Cabinet.

Considerations

1. The Audit Commission presented their Annual Governance Report for 2007 at the Committee's last meeting.
2. The Audit Commission gave an unqualified opinion on the Council's Statement of Accounts for 2006/07 and an adverse opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources due to weak systems of internal control in ICT and Customer Services.

Further information on the subject of this report is available from
Sonia Rees, Director of Resources on tel: (01432) 383519

ACGAnnGovRep07ActionPlan1910070.doc

3. The Audit Commission made six recommendations in their report:
 - Three relate to suggested improvements to final account procedures for asset accounting (all assessed by the Audit Commission as **medium** risk).
 - One relates to a suggested review of the pooled budgeting arrangements with the Primary Care Trust (assessed by the Audit Commission as **medium** risk).
 - One relates to suggested improvements to accounting policies for fixed assets (assessed by the Audit Commission as **low** risk).
 - One relates to the need for an independent review of the financial governance issues within ICT & Customer Services given there are weak arrangements for internal control (assessed by the Audit Commission as **high** risk).
4. The appendix attached to this report sets out a draft action plan prepared by officers as a suggested management response to the Annual Governance Report 2007 for Cabinet to approve. The Audit & Corporate Governance Committee are invited to comment on the draft action plan so that Cabinet can take its advice into consideration when it approves the plan.

Risk Management

A robust response to the recommendations contained in the Annual Governance Report 2007 will demonstrate the Council's commitment to strong corporate governance as the fundamental way of managing business and reputational risk.

Background Papers

Annual Governance Report 2007 (Audit & Corporate Governance Committee Papers dated 21st September 2007 refer).

Appendix 1 – Officers’ Draft Action Plan

Ref	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
R1	Allocation of assets into the right category is the responsibility of the Chief Finance Officer. All valuations should be reviewed prior to audit to ensure the valuer has categorised the asset correctly and has provided a reasonable valuation.	2	Director of Resources	Yes	The Head of Financial Services and Head of Asset Management & Property Services will jointly review the asset register held for accounting purposes to confirm that assets have been allocated to the correct category. This will be established as a new task on the final accounts work programme for 2007/08.	May 2008 and annually thereafter.

Ref	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
R2	Asset registers should be reviewed prior to audit to ensure that values attached to disposals, additions and revaluations are reasonable.	2	Director of Resources	Yes	The Head of Financial Services and Head of Asset Management & Property Services will jointly review the asset register held for accounting purposes to ensure that the values attached to additions, disposals and revaluations are reasonable. This will be established as a new task on the final accounts work programme for 2007/08.	May 2008 and annually thereafter.

Ref	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
R3	Care should be taken when coding expenditure to ensure that tangible and intangible expenditure is coded correctly.	2	Director of Resources	Yes	The Head of Financial Services will ensure that expenditure coded to capital is tested as part of routine capital monitoring procedures and test checked as part of the final accounts process for 2007/08.	Ongoing monitoring procedures. Further test checks as part of the final accounts process in May 2008 and annually thereafter.

Ref	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
R4	<p>Review pooled budget arrangements with the PCT in particular ensure that: Governance Arrangements and Agreements are updated.</p> <p>Reconciliation processes are tightened.</p> <p>Outstanding debtors are paid promptly.</p> <p>All current agreements are reviewed to ensure that they are in fact pooled budget agreements.</p>	2	<p>Director of Adult & Community Services</p> <p>Director of Resources</p>	Yes	<p>The PST Steering Group has asked the Corporate Strategy and Resourcing Working Group (CSRWG) to review the existing Section 75 arrangements by 31st January 2008 with a view to implementing improvements from the start of next financial year. The Director of Resources chairs the CSRWG.</p> <p>A sub group has been established to carry out the review of existing Section 75 arrangements. The Interim Head of Adult Social Care chairs this sub-group.</p>	1 st April 2008

Ref	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
R5	Fixed Asset policies in relation to life expectancy of assets will need to be considered to ensure that the valuer and asset register holder within finance have similar information. Any policy decided upon in relation to the life expectancy of assets maintained within the asset register should conform with the requirements of the SORP.	1	Director of Resources	Yes	The Head of Financial Services will review the fixed asset accounting policy prior to financial year-end 2007/08.	February 2008.

Ref	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
R6	The Council independently investigate issues within the ICT section and consider any action required in accordance with their own constitution.	3	Chief Executive / Head of Legal and Democratic Services (HOLD)	Yes	The Local Government Association were asked to advise on securing an appropriate individual to initiate a review. Mr Ian Crookall, former Chief Executive of Buckinghamshire County Council, has been appointed to carry out the independent review. Mr Crookall started his review on 3 rd October and has had some preliminary meetings with officers and Members. Further meetings have been arranged, and Mr Crookall aims to	November 2008.

Ref	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
					complete his report by November. The HOLD will agree the terms of reference for the review.	

**UPDATE NUMBER TWO ON IMPLEMENTATION OF
RECOMMENDATIONS ARISING FROM SPECIAL
INVESTIGATIONS****Report By: AUDIT SERVICES MANAGER****Wards Affected**

None.

Purpose

To provide the Audit and Corporate Governance Committee with a further update on progress with implementing the recommendations approved by the Corporate Management Board to improve the internal control environment as a result of the 'lessons learned' from special investigations carried out by Audit Services in 2005/06.

Financial Implications

None directly arising from this report.

RECOMMENDATIONS**THAT:**

- (a) the updated position be noted; and**
- (b) a further update be provided at the Committee's next meeting.**

Reasons

On 21st September, 2007 the Audit and Corporate Governance Committee considered the Audit Service Manager's report on action taken by Heads of Service on the implementation of recommendations arising from special investigations. At that time there were two Heads of Service who had not replied, with one Head of Service having recommendation (c) as work in progress (Appendix 1 refers).

Considerations

1. A report by the Audit Services Manager entitled Special Investigation Report 2005/06 was presented to Corporate Management Board on 5th September, 2006.
2. Following discussion at Corporate Management Board the report presented was adopted and several recommendations agreed (Appendix 1 refers).

Further information on the subject of this report is available from Tony Ford (Audit Services Manager)
on tel: (01432) 260425

3. The report was presented to Senior Management Team on 8th September, 2006 when Senior Management Team's attention was drawn to the agreed recommendations requiring their attention.
4. As noted in the Annual Assurance Report for 2006/07 presented to the Audit and Corporate Governance Committee on 29th June, 2007, feedback from a number of Heads of Service was still outstanding.
5. Following the last update, the Audit Services Manager has informed the Director concerned and stressed the need to be able to confirm to the Audit and Corporate Governance Committee that the issues have finally been addressed.
6. The latest position is that replies have now been received from all Heads of Service confirming that they have taken the required actions other than in relation to recommendation (c), which is work in progress for two Heads of Service.

Risk Management

7. The special investigations in 2005/06 identified a risk that Council monies were not being accounted for in line with Financial Regulations. Implementing the recommendations agreed by Corporate Management Board will mitigate this risk.

Background Papers

Audit Services Manager's Special Investigation report to Corporate Management Board dated 5th September, 2006.

Further information on the subject of this report is available from Tony Ford (Audit Services Manager)
on tel: (01432) 260425

SPECIAL INVESTIGATIONS RECOMMENDATIONS FOLLOW UP ACTION

Recommendations made:

- (a) That all Key Managers are required to make a written disclosure to their Head of Service stating that they manage or do not manage directly or indirectly a spouse, partner or near relative. Heads of Service making disclosure to the Head of Legal and Democratic Services.**
- (b) Key Managers are informed that they must have arrangements in place to check that income banked appears on the relevant Cedar income code.**
- (c) Subject to agreement of (b) above checks should be backdated to 1st April 2006 and written assurance received from Heads of Service.**
- (d) Miscellaneous Income Slips become Controlled Stationery and where possible the income codes are pre-printed on the slips.**
- (e) That Audit Services procedures are updated to include the Chief Executives instruction that all cases of possible theft are passed to the police in the first instance.**
- (f) All income handed over at cash offices by members of staff should be receipted at the time of deposit with no exceptions.**
- (g) The Principal Audit Manager attends Senior Management Team and reinforces to Heads of Service their Internal Control responsibilities.**
- (h) Managers ensure that HR, Legal and Audit advice is sought at the commencement of any investigation.**
- (i) Managers undertake training in investigations, presentation and hearing of disciplinary issues (as relevant) before undertaking any of these roles**

UPDATE NUMBER TWO ON THE INTERIM ASSURANCE REPORT 2007/08

Report By: Audit Services Manager

Wards affected

County-wide.

Purpose

To provide the Audit and Corporate Governance Committee with a updated interim Assurance Report for 2007/08 that:

- provides an update on progress with the significant internal control issues identified in the Assurance Report for 2006/07; and
- identifies the significant internal control issues identified to date in 2007/08.

Financial Implications

None arising directly from this report although a sound system of financial control ensures that the Council's cash resources are wisely spent in the pursuit of agreed Council objectives.

Recommendation

THAT subject to any comments by the Committee, the report is noted.

Reasons

To comply with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

To provide the Audit and Corporate Governance Committee with an update on the significant internal control issues.

Considerations

Key Issues Identified in 2006/07

1. The Audit and Corporate Governance Committee considered the Annual Assurance report for the year ending 31st March, 2007 on 29th June, 2007. The Audit and Corporate Governance Committee also reviewed and adopted a Statement on Internal Control for 2006/07 at that meeting, and considered a revised Statement on Internal Control for 2006/07 at the meeting on 21st September, 2007.

2. The significant internal control issues identified in the revised Statement on Internal Control for 2006/07 are set out below, along with comments on progress in *italics*:

- The Commission for Social Care Inspection (CSCI) has judged the Learning Disabilities Service as not serving people well.

CSCI has approved an action plan agreed by Cabinet in consultation with scrutiny. Robust project management arrangements are in place with progress regularly reviewed by the Director of Adult and Community Services via his management team. Formal progress reports to Cabinet and scrutiny are also planned. The Annual Review Meeting with CSCI took place in early September 2007 and formal feedback is awaited.

- Three fundamental systems were given a **marginal** audit opinion in 2006/07 (a number of areas have been identified for improvement). These were:
 - Education Transport;
 - Housing Benefit Payments; and
 - Salaries in Childrens Services.

As in previous years, work in relation to the 2007/08 audit of fundamental systems will include follow up work on recommendations made in previous years. Audit work in this area has just started, but progress has been hampered due to further review work associated with the financial governance issues in ICT and Customer Services being a priority. The Audit and Corporate Governance Committee will be informed of any significant internal control issues in routine reports from the Audit Services Manager.

- One fundamental system was given an **unsatisfactory** audit opinion in 2006/07 (unacceptable risks identified, changes should be made). This relates to the financial management and procurement system in ICT.

Audit Services has completed the follow-up work in relation to this audit. Some of the actions agreed in response to the audit recommendations have been actioned. However, nine recommendations had not been actioned, two of which were ranked as critical. One of the critical recommendations related to the reconciliation of the ICT financial management and procurement system to the corporate financial management system. This was not up to date at financial year-end. The Acting Head of Service took swift action in requesting support from Financial Services and they successfully reconciled the ICT financial management and procurement system to the corporate financial management system as at 31st March, 2007. The other critical recommendation related to the budget management. The Acting Head of ICT is working closely with Financial Services to establish the ongoing base budget requirement for ICT services and an appropriate charging mechanism. The ICT finance team has recently transferred to the Resources Directorate and good progress is now being made in conjunction with the Corporate & Customer Services Directorate.

Progress with the Audit Plan for 2007/08

3. The Audit and Corporate Governance Committee approved the Audit Plan for 2007/08 on 13th April, 2007. The current status of work is set out in Appendix 1.
4. Work to assess financial management arrangements within secondary schools in line with Department for Children, Schools and Families (DCSF) standards is coming to an end. At the present time, 10 out of 14 reports have been finalised. Three schools met the required standard. Six are on target to meet it. One is unlikely to meet the target in the short term. Follow-up work is planned to ensure these six schools meet their targets for improvement. It is unlikely that one school will meet the standard in the short term. Draft reports are with the remaining four secondary schools for comment and action planning. The lessons learned from carrying out the reviews in secondary schools will be used to improve the approach in primary schools.
5. Work on a sample of 12 statutory performance indicators is in progress. Early indications are that there continues to be a need for better checking of data by managers to meet data quality standards. Corporate Management Board has been briefed and a joint report by the Head of Policy and Performance and the Audit Services Manager will be highlighting the actions necessary for improvement.
6. Following discussions with the relevant Heads of Service the timetabling of the fundamental system reviews has been completed.

Audit Opinions

7. Appendix 1 shows the current status of work carried out by Audit Services, with final audits showing an audit opinion. The unsatisfactory opinion on the Drugs Forum was given on the basis that there was a need for some form of monitoring, feedback and assurance process to demonstrate that the forums were achieving satisfactory and desirable outcomes. Not all the recommendations made will apply to all the forums as some had better systems than others.
8. An unsatisfactory opinion was also given in relation to the review on how the Council manages the Drugs Forum Partnership. It is important to note that the Service Manager who had some concerns in this area requested this review. The key issues identified were the need for improvements in the commissioning system and improved monitoring arrangements. The Service Manager has agreed the action plan and Audit Services will be carrying out further follow up work.
9. The Use of Contractors in ICT has been given an unsound audit opinion (major risks identified, changes should be made), with areas of concern highlighted in the Director of Resources' Special Report considered by the Audit and Corporate Governance Committee on 21st September, 2007.

Recommendations made

10. Under current reporting protocols, the Audit Services Manager has to bring all critical recommendations to the attention of the Audit and Corporate Governance Committee. These are recommendations where non-compliance will be a high risk to the Council and where action is required urgently or within an agreed timescale.

11. Four Critical 1 recommendations have been made in relation to the Use of Contractors in ICT. These are as follows:

- The Director of Corporate and Customer Services should ensure that the Directorate follows the formal tender process as laid down in standing orders for contractors and procurement where the estimated contract is in excess of £50,000. In order to achieve this, a strict appraisal of all business cases must be undertaken.
- The Director of Corporate and Customer Services should ensure that contracts that have an estimated value in excess of the European limit are subject to appropriate protocols. In order to achieve this, a strict appraisal of all business cases must be undertaken.
- The Director of Corporate and Customer Services should ensure there is compliance with the Code of Practice for the Regulation of Contracts.
- The Director of Corporate and Customer Services should implement a protocol to monitor the budget and actuals for major projects in line with Council Regulations and Policies.

12. Audit Services has met with the Director of Corporate and Customer Services, who has accepted the action plan. Progress will be reported to a future Audit and Corporate Governance Committee. Resources have been allocated to implement it.

Areas of concern

13. A special report by the Director of Resources was presented to the Committee on 21st September, 2007. The action plan has been adopted by Cabinet. The current position on the action plan is reported elsewhere on this agenda.

Risk Management

There is the risk that the resources needed to carry out the work needed to give an opinion on the Council's Internal Control system is not available. The Audit Services Manager keeps progress against the Audit Plan under constant review reporting progress on a monthly basis to the Director of Resources.

BACKGROUND PAPERS

Code of Practice for Internal Audit 2006

STATUS OF AUDITS STARTED DURING THE YEAR

Audit	Status	Audit Opinion
Fundamental Systems		
Bank Reconciliation	WIP	
Housing Benefit	WIP	
Statement on Internal Control 2006/07	Final	Satisfactory
Payroll Non Education	WIP	
Main accounting System	WIP	
Non Fundamental Systems		
Management of Property	WIP	
ICT - Use of Contractors	Under discussion with Client	
Lifelong Learning	Final	Good
Agency Payments - Adult Services	Final	Satisfactory
Anti Money Laundering	Final	Satisfactory
Governance		
Delegations Arrangements - Directors Responsibilities	Draft with Client	
ICT Contractors Expenses	Draft with Client	
Performance Management		
Housing (BVPI 183a, 183b, 214 and HSSA Return)	Draft with Client	
Household Waste Management (BVPI 82a and 82b)	Draft with Client	
Pedestrian Crossings (BVPI 165)	Draft with Manager	
Street Cleanliness (BVPI 199)	WIP	
Libraries- Cost per visit and Library Survey	WIP	
Establishment Audits		
Kingstone High School (DCSF Standard)	Final	On target to be met in the short term
John Kyrle High School (DCSF Standard)	Final	Standard met
Aylestone High (DCSF Standard)	Final	On target to be met in the short term.
Wyebriidge Sports College (DCSF Standard)	Final	On target to be met in the short term.
Weobley High (DCSF Standard)	Draft with School	
Lady Hawkins High (DCSF Standard)	Final	Unlikely to be met in the short term.
Wigmore High (DCSF Standard)	Draft with School	
Queen Elizabeth High (DCSF Standard)	Draft with School	
St. Marys High (DCSF Standard)	Final	Standard met
Whitecross High (DCSF Standard)	Final	On target to be met in the short term
Fairfield High (DCSF Standard)	Final	On target to be met in the short term
Minster College (DCSF Standard)	Discussing Draft	
Bishop of Hereford Bluecoat (DCSF Standard)	Final	Standard met
John Masefield High (DCSF Standard)	Final	On target to be met in the short term
Verification and Probity		
Drugs Forum - Partnership Management	Final	Unsatisfactory
Contract - Ross Flood Alleviation	Final	Satisfactory
Local Area Agreement - Grant	Final	N/a
Drugs Forum Management	Final	Unsatisfactory

STATUS OF AUDITS STARTED DURING THE YEAR

Audit	Status	Audit Opinion
Recommendation Follow up		
Control of ID Cards	Draft with Manager	
ICT FMS 2006/07	Final	N/a
Car Loans	Final	N/a
Market Fees and Charges	WIP	
Risk Management		
Risk Management Framework	Draft with Manager	

Quantification and Classification of Internal Control Levels

Control Level	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

The Audit Opinion is based on a number of factors including the number of Level 1 and, to a lesser extent, Level 2 recommendations. Weighting is given to different aspects of the Audit e.g. a high weighting for budgetary control. It is expected that larger systems and establishments will receive higher numbers of recommendations and allowance is made for this.

SECTION 106 PLANNING OBLIGATIONS**Report By: Audit Services Manager****Wards Affected**

Council-wide.

Purpose

To provide the Audit and Corporate Governance Committee with a summary of audit findings on the Council's arrangements for Section 106 obligations.

Financial Implications

Local authorities are empowered to request financial contributions or works from developers to offset the environmental issues that may arise from a new development under the Town and Country Planning Act 1990.

RECOMMENDATION

THAT the report be noted.

Reasons

A reply to a request from the Audit and Corporate Governance Committee for more information on an audit carried out by Audit Services.

Considerations

1. The previous review was completed in February 2004 as part of the 2003/4 Audit plan. It identified that the Council did not have adequate procedures in place to properly record the full details of all section 106 agreements. There was limited monitoring of trigger dates outlined in agreements, with the onus being placed on developers to pay contributions when they became due.
2. Audit follow up work was carried out in July 2005 as part of the 2005/06 Audit Plan. The Audit Report concluded that progress had been slow and that the controls with regards to recording, monitoring and reporting of Section 106 Agreements still required improvement.
3. At the time of the follow up review in July 2005 progress on the recommendations made was as follows:
 - Fully or mostly implemented 2

Further information on the subject of this report is available from Tony Ford (Audit Services Manager)
on tel: (01432 260425)

- Partially Implemented 5
 - Not Implemented 2
4. The latest audit review formed part of the 2006/07 Audit Plan approved by the Audit Committee on 7th April, 2006.
 5. The scope of the audit review covered the application of control systems in the directorates that are either beneficiaries of the agreements or parties to creating them, the monitoring of payments and the spending of contributions. The Lead client officer was the Head of Legal and Democratic Services.
 6. The Audit Opinion was marginal (Appendix 1 refers).
 7. There had been progress since the last audit to resolve the issues and to modernise the process for dealing with planning obligations. In general, controls were being applied but there was inconsistency in the application of standard formulae.
 8. One level 1 recommendation has been made requiring a single electronic system for monitoring Section 106 Agreements.
 9. Within the Audit Plan for 2007/08 there is resources allocated to carry out further follow up work, members of the Audit and Corporate Governance Committee will be updated on completion.

Risk Management

10. There was the risk that a consistent approach was not being applied across the council, with standard formulae and charges not being applied consistently, with duplication of work across the service areas. Recommendations have been made by Audit Services that will improve the Councils approach.

Background Papers

Audit Services Report -J2953

Quantification and Classification of Internal Control Levels

Control Level	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

The Audit Opinion is based on a number of factors including the number of Level 1 and, to a lesser extent, Level 2 recommendations. Weighting is given to different aspects of the Audit e.g. a high weighting for budgetary control. It is expected that larger systems and establishments will receive higher numbers of recommendations and allowance is made for this.

CAR LOANS

Report By: Audit Services Manager

Wards Affected

Council-wide.

Purpose

To provide the Audit and Corporate Governance Committee with a summary of audit findings on the Council's arrangements for employee car loans.

Financial Implications

The Council has a car loan scheme that allows eligible officers to apply for a loan on a vehicle that is intended for use in connection with their employment. The interest rate charged on the loan by the Council is set at such a rate to ensure that the Council breaks even on the cost of the loan.

RECOMMENDATION

THAT: Members of the Audit and Corporate Governance Committee note the report.

Reasons

A reply to a request from the Audit and Corporate Governance Committee for more information on an audit carried out by Audit Services.

Considerations

1. The audit review formed part of the 2006/07 Audit Plan previously approved by the Audit Committee on 7th April 2006. The client officer was the Head of Financial Services.
2. The audit review was carried out during November 2006 and the scope included consideration of the:
 - terms of the Car Loan Scheme;
 - processing of loan applications; and
 - and year end procedures.
3. The Audit Opinion was satisfactory (Appendix 1 refers).

Further information on the subject of this report is available from Tony Ford (Audit Services Manager)
on tel: (01432 260425)

ACGCarLoans1910070.doc

4. There were no Critical 1 or level 1 recommendations.
5. In summary the recommendations made highlighted the need for the terms and conditions for car loans to be updated. Audit Services can confirm that all recommendations have been actioned. New terms and conditions have been in place since May 2007.
6. The report concluded that the car loan scheme was well controlled and administered, with good reconciliation procedures carried out on a monthly basis and at year-end.

Risk Management

7. There was the risk that the loan scheme was not being applied in line with council policy. The audit review showed that the system was operating satisfactorily.

Background Papers

Audit Services Report – I 3004

Further information on the subject of this report is available from Tony Ford (Audit Services Manager)
on tel: (01432 260425)

Quantification and Classification of Internal Control Levels

Control Level	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
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