

A G E N D A

Audit and Corporate Governance Committee

Date: **Friday, 20th June, 2008**

Time: **2.00 p.m.**

Place: **Council Chamber, Brockington, 35
Hafod Road, Hereford HR1 1SH**

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

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Herefordshire Council

AGENDA

for the Meeting of the Audit and Corporate Governance Committee

To: Councillor ACR Chappell (Chairman)
Councillor RH Smith (Vice-Chairman)

Councillors MJ Fishley, JHR Goodwin, B Hunt, R Mills and AM Toon

In Attendance: Councillor JA Hyde, Cabinet Member (Resources) and T Tobin,
Audit Commission

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

To receive any declarations of interest by Members in respect of items on the Agenda.

GUIDANCE ON DECLARING PERSONAL AND PREJUDICIAL INTERESTS AT MEETINGS

The Council's Members' Code of Conduct requires Councillors to declare against an Agenda item(s) the nature of an interest and whether the interest is personal or prejudicial. Councillors have to decide first whether or not they have a personal interest in the matter under discussion. They will then have to decide whether that personal interest is also prejudicial.

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Whether an interest is prejudicial is a matter of judgement for each Councillor. What Councillors have to do is ask themselves whether a member of the public – if he or she knew all the facts – would think that the Councillor's interest was so important that their decision would be affected by it. If a Councillor has a prejudicial interest then they must declare what that interest is and leave the meeting room.

3. NAMED SUBSTITUTES(IF ANY)

4. MINUTES

To approve and sign the Minutes of the meeting held on 4th April 2008.

5. PRESENTATION BY SECTOR

Pages

1 - 6

	To receive a presentation by Mark Swallow from Sector on the Council's Investments and Investments Strategy.	
6.	AUDIT SERVICES ASSURANCE REPORT 2007/08	7 - 28
	To provide the Audit and Corporate Governance Committee with the Chief Internal Auditors final audit assurance report for 2007/08.	
7.	ANNUAL GOVERNANCE STATEMENT 2007/08	29 - 52
	To seek the Audit and Corporate Governance Committee's approval of the draft Annual Governance Statement for 2007/08.	
8.	ANNUAL STATEMENT OF ACCOUNTS	53 - 114
	To report to the Audit and Corporate Governance Committee on the 2007/08 Statement of Accounts.	
9.	AUDIT AND INSPECTION PLAN - AUDIT 2008/09	115 - 146
	To receive the Audit Commission's audit plan for 2008/09. The external auditor will present the report to the Committee.	
10.	JOINT WORKING WITH INTERNAL AUDIT - AUDIT 2008/09	147 - 156
	To receive the Audit Commission's protocol for joint working with the Audit Services team on the 2008/09 audit.	
11.	SCHEME OF DELEGATION	157 - 188
	To approve the Scheme of Delegation.	
12.	REVIEW OF THE CODE OF CORPORATE GOVERNANCE	
	To consider and agree the reviewed and revised Code of Corporate Governance for the Council following the issuing of the new governance framework and guidelines (<i>to follow</i>).	
13.	JOINT INTERNAL AUDIT PLAN 2008/09	189 - 202
	To seek the Audit and Corporate Governance Committee's comments on and approval of a draft joint internal audit plan for the Council and Primary Care Trust (PCT) for 2008/09.	

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COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

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HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Audit and Corporate Governance Committee held at Council Chamber, Brockington, 35 Hafod Road, Hereford. HR1 1SH on Friday, 4 April 2008 at 10.00 a.m.

Present: Councillor ACR Chappell (Chairman)
Councillor B Hunt (Vice Chairman)

Councillors: MJ Fishley, JHR Goodwin, TM James, R Mills and
RH Smith

In attendance: Councillor PJ Edwards

77. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor AM Toon.

78. NAMED SUBSTITUTES(IF ANY)

Councillor T James substituted for Councillor AM Toon.

79. DECLARATIONS OF INTEREST

Councillor RH Smith declared a personal interest in item 9 on the Agenda, Minute No. 85 refers, being a Member of the Board of Herefordshire Housing Limited.

80. MINUTES

RESOLVED: that the Minutes of the meeting held on 29 February 2008 be confirmed as a correct record and signed by the Chairman subject to the following amendment:

(ii) the words ' the Constitution and' being deleted from Resolution (ii) to Minute No.73.

81. DATA QUALITY REPORT

The Committee considered a report which requested approval of a response to the data quality report from the Audit Commission.

Tony Geeson, Head of Policy and Performance, presented the report. He emphasised that there had been a fundamental change to the approach by the Audit Commission and other regulators over the previous three years. Details of the new approach were set out in paragraph 3 of the report. He also made reference to paragraphs 3.1 and 3.2 of Appendix 1 of the report. Following despatch of the Committees agenda, amendments had been made to the overall responsibility and accountability and these were included in the forthcoming report to Cabinet that now differed from the report in front of the Committee. He drew Member's attention to the Commission's recommendation R12 in Appendix 3 to the report and that the officers disagreed with the recommendation. It was the officer's view that the IPFR was a key strategic performance management document but not a replacement for the more

operational reports used on the Directorates to manage their own improvement. The Audit Commission had been informed of this view during consultation on the draft recommendations but had apparently not changed their view.

Councillor RH Smith was of the view that the words 'taken for granted' in the first sentence of the Reasons paragraph on page nine of the report gave a too optimistic impression of data quality currently in the Council. They should be replaced with the words 'that made the Council's current, unsatisfactory, score 2 out of 4 clear. He also requested that any reference to individuals in reports should in future have explanations attached indicating their job title and their aim. He made particular reference to Appendix 3, and that dates should be set out showing dates for commencement, planned dates for achievement, and progress towards the achievement dates.

Tony Geeson assured the Committee that in future, reports would give the details required. He informed Members that the dates in the final column of Appendix 3 were set in January 2008. These had proved too optimistic given the scale of some of the tasks required particularly the need to identify staff responsibilities, corporate and Directorate procedures as well as all relevant contacts and data sharing partners. Some dates had slipped from initial projected achievement dates. He tabled an updated version to Members showing amended dates.

Chris Bull, Chief Executive, noted Councillor Smith's comments and informed the Committee that the current reporting format of reports was being reviewed and that he would report the revised reporting protocols to the Committee in due course.

RESOLVED: that the response to the data quality audit report as set out in Appendix 3 to the report be approved on the basis of a working document with some scope for improvement.

82. AUDIT STRATEGY 2008/09

The Committee considered a report containing the 2008/09 Audit Strategy.

Tony Ford, Chief Internal Auditor, presented the report. He referred to Appendix 1, the Internal Audit Control Matrix, and emphasised that the percentage weighting for the areas shown from (a) to (k) was achieved by the risk factor to the Council of each area failing. Hence, Financial Standards being high on the list. He further informed Members that the Council's Audit Plan follows the same order as the Matrix and that the Audit Commission considers that Financial Standards are top priority.

Councillor R Mills made reference to the need to have arrangements in place to track the financial processes attached to planning applications.

Sonia Rees, Director of Resources, advised that the Audit Plan contains an element to investigate procedures and arrangements. She made particular reference to the recruitment underway to appoint to a new Section 106 Monitoring Officer post and would ensure that in the case of Section 106 Agreements attached to Planning Applications, the various controls, procedures and financial accompaniments would be monitored. There was also a mechanism in place to report to the Committee detailing any procedures which were not in place.

Councillor TM James referred to the level of recommendations agreed for action by management at (j) in Appendix 1 and asked that other local authorities' arrangements in this area had been investigated.

Tony Ford advised that other authorities had not been analysed in this area but that

this area had been approved by the Audit Commission. He would however bring more detailed information to the Committee on this subject in future. He also advised that the Overall Opinion scores in Appendix 1 would be reported to a future meeting of the Committee.

RESOLVED: that the Audit Strategy for 2008/09 as set out in Appendix 1 to the report be approved.

83. AUDIT COMMISSION REPORTS

The Committee considered a report which suggested a framework to manage the process of receipt and action follow-up on all audit Commission reports received by the Council.

RESOLVED: the framework for the control of Audit Commission reports as contained in the report be submitted to Cabinet for approval.

84. AUDIT PLAN 2008/09

Consideration was given to a report on the process used to develop the Annual Plan for 2008/09.

Tony Ford, Chief Internal Auditor, presented the report. He advised the Committee that the Audit Plan set out in Appendix 1 to the report was in line with the Audit Strategy. He drew the Committee's attention to paragraph 5 of the report and informed Members that at its meeting on 27th March 2008, Cabinet had approved the assurance framework.

RESOLVED: that the Audit Plan for 2008/09 as set out in Appendix 1 to the report be approved.

85. UPDATED INTERIM ASSURANCE REPORT 2007/08 NO.6

The Committee considered a report which set out an updated interim assurance report which provided an update on progress with the significant internal control issues identified in the assurance report for 2006/07 and identified the significant internal control issues identified to date in 2007/08.

The Committee noted that paragraph 22 of the report should refer to this Committee's meeting held on 29th February 2008.

Councillor RH Smith queried the meaning of the term 'standard met' in the Audit opinion column in Appendix 1 to the report. Tony Ford, Chief Internal Auditor, informed the Committee that the next report would include a definition of the term.

RESOLVED: that the report be noted.

EXCLUSION OF PRESS AND PUBLIC

In the opinion of the Proper Officer, the following items will not be, or is likely not to be, open to the public and press at the time it is considered.

RESOLVED; that the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in schedule 12(A) of the Act, as indicated below.

86. OFFICER ICT EXPENSES (Pages 1 - 2)

The Chairman informed the Committee that due to the information being reported, Agenda item numbers 10 and 11 would be considered as one item.

The Committee considered an Exempt oral report.

RESOLVED: that the Exempt oral report be noted.

87. ICT CONTRACTOR EXPENSES

See Minute number 86.

The meeting ended at 11.25 a.m.

CHAIRMAN

Document is Restricted

AUDIT SERVICES ASSURANCE REPORT 2007/08**Report By: CHIEF INTERNAL AUDITOR****Wards Affected**

County-wide.

Purpose

1. To provide the Audit and Corporate Governance Committee with the Chief Internal Auditor's final audit assurance report for 2007/08.

Financial Implications

2. None as a direct result of this report.

RECOMMENDATION

THAT: subject to any comments, the Committee notes the Audit Assurance Report for 2007/08 attached to this report as Appendix 1.

Reasons

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

Considerations

4. The Chief Internal Auditor's Audit Assurance Report for 2007/08 is attached as Appendix 1 to this report.
5. The Audit and Corporate Governance Committee regularly reviewed significant internal control issues identified during the year and in the 2006/07 Audit Assurance Report throughout the course of 2007/08.
6. The Audit Assurance Report for 2007/08 informs the draft Annual Governance Statement that appears elsewhere on the Committee's agenda.
7. The Chief Internal Auditor has given a satisfactory opinion on the Council's system of internal control for 2007/08.

Further information on the subject of this report is available from
Tony Ford (Chief Internal Auditor) on tel: (01432) 260425

Risk Management

8. The Chief Internal Auditor provides the Audit and Corporate Governance Committee with regular assurance reports highlighting progress with addressing identified internal control issues as the year progresses.

Appendix

Appendix 1 – Audit Assurance Report 2007/08.

Background Papers

The Chief Internal Auditor's assurance update reports to Audit and Corporate Governance Committee during 2007/08 (six in number).

Audit Services Assurance Report 2007/08**1. Introduction**

- 1.1 The Chartered Institute of Public Finance & Accountancy's (CIPFA's) Code of Practice for Internal Audit in Local Government (2006) requires the Chief Internal Auditor to formally submit an annual report to members. In line with good practice this Audit Services Assurance Report for 2007/08:
- a. Includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment.
 - b. Discloses any qualifications to that opinion, together with the reasons for the qualification.
 - c. Presents a summary of the audit work undertaken to formulate the opinion.
 - d. Draws attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the Annual Governance Statement for the year.
 - e. Summarises the performance of the Audit Services team.
 - f. Comments on compliance with the CIPFA Code of Practice on Internal Audit in Local Government (2006) (referred to as the Code in this document).
- 1.2 The Accounts and Audit Regulations 2006 bestow a duty on the Council to ensure that: its financial management arrangements are adequate and effective, its system of internal control is effective and that its risk management arrangements are effective.
- 1.3 The Use of Resources assessment confers an obligation on the Council to include an Annual Governance Statement (AGS) in its annual statements of final account. The AGS sets out the framework within which governance (including internal control) is managed and reviewed and identifies the main components of the system including the arrangements for internal audit. This audit assurance report is part of the Council's governance framework and informs the preparation of the AGS.

2. Audit & Corporate Governance Committee

- 2.1 The Council established an Audit & Corporate Governance Committee in 2005 in order to comply with the Code. The Committee's detailed Terms of Reference are set out in the Council's Constitution (Part 9, section 9.8 refers). In summary, the Committee's key responsibilities are as follows:
- a. To provide independent assurance of the adequacy of the Council's internal control systems, risk management and governance arrangements.
 - b. To provide independent scrutiny of the Council's financial reporting process.

Audit Services Assurance Report 2007/08

- c. To review the Annual Governance Statement and any significant issues arising from internal or external audit work.
 - d. To consider the Chief Internal Auditor's annual assurance report together with a summary of planned and actual audit activity.
- 2.2 The Committee continued to develop its effectiveness as an independent assurance and scrutiny function in line with its Terms of Reference during 2007/08. It provides effective leadership on audit and governance issues. The Audit Commission commented positively on the Committee's progress in their Annual Audit and Inspection Letter 2008 by stating that *'the Audit & Corporate Governance Committee has shown real signs of improvement, there is positive interaction with the Chief Internal Auditor and challenge is good.'*
- 2.3 The Audit & Corporate Governance Committee met nine times during 2007/08. Extra meetings were scheduled in order that the Committee could closely monitor the Council's progress in addressing the issues arising from the Director of Resources' special review and the Crookall review.

3. Audit Approach

- 3.1 The Audit Services team provides management with an independent appraisal of the Council's systems of internal control. It objectively examines, evaluates and reports on the adequacy of internal control systems as a contribution to the proper, economic, efficient and effective use of resources.
- 3.2 The Audit Services team acts as an aid to management and produces reports as a result of each of the reviews undertaken. It works in partnership with management to find solutions to any issues identified and seeks its agreement to any recommendations for improvement. Recommendations are developed with managers to produce action plans.
- 3.3 The Audit Services team is generally well received and helps management to achieve its objectives within a culture of strong stewardship.
- 3.4 The Audit Services team has functional links with members, the Joint Management Team, Heads of Service and other colleagues across the Council and schools. The Audit Services team would like to take this opportunity to thank all our clients for their help and co-operation during audit visits.
- 3.5 A risk assessment based approach to developing the annual audit plan is used to ensure that resources are targeted at key risk areas within the Council's overall systems of internal control. The risk assessment is undertaken in line with the Council's risk management framework.
- 3.6 The annual audit plan is developed in consultation with the Joint Management Team to ensure that all of the Council's priorities have been fully considered. The Audit & Corporate Governance Committee approved the Audit Plan for 2007/08 on 13 April 2007 and a revised Audit Plan for 2007/08 on 16 November 2007.

Audit Services Assurance Report 2007/08

- 3.7 The Terms of Reference for the Audit Services team have been formally agreed by the Audit & Corporate Governance Committee in the form of an Audit Charter. The Charter establishes the Audit Services team's independence and sets out the reporting protocols.
- 3.8 The Audit Commission has completed its review of the Audit Services team's work for 2007/08. This involved comparing audit activity with the Code. The Audit Commission has reaffirmed its ability to place reliance on the work of the Audit Services team.

4. Action Taken on 2006/07 Key Issues

- 4.1 The Audit & Corporate Governance Committee considered the Audit Services Assurance Report for 2006/07 on 29 June 2007. This report informed the preparation of the Statement on Internal Control for 2006/07. 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*:

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

The Director of Adult Social Care advises that CSCI has approved an action plan agreed by Cabinet in consultation with the scrutiny committee. Robust project management arrangements are in place with progress regularly reviewed by the Director of Adult Social Care via her management team. Formal progress reports to Cabinet and the scrutiny committee are also planned. The Council has retained its one star status following the annual review meeting with the external inspectors.

- b) Three fundamental systems were given a **marginal** audit opinion (a number of areas have been identified for improvement) in 2006/07. These were:

- i) Education Transport.
- ii) Housing Benefit Payments.
- iii) Payroll in Children & Young People's Services.

*As in previous years, work in relation to the 2007/08 audit of fundamental systems includes follow up work on recommendations made in previous years. Audit work in 2007/08 on the Education Transport and Housing Benefit Payments systems resulted in a satisfactory audit opinion. Improvements were still required for the payroll system in Children & Young People's Services and a **marginal** audit opinion was given again in 2007/08. This service transferred to the Resources Directorate during the latter part of the year.*

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

Audit Services Assurance Report 2007/08

Audit Services completed their follow-up work in relation to this audit in the early part of 2007/08. At that stage, some of the actions agreed in response to the 2006/07 audit recommendations had 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 31 March 2007. The other critical recommendation related to budget management. The Acting Head of ICT worked closely with Financial Services to ensure that expenditure for the year would be within budget after allowing for the unbudgeted revenue costs of the Siemens contract. The ICT finance team transferred to the Resources Directorate.

The Audit Services team was pleased to report a satisfactory audit opinion (minimal risk, a few areas identified where changes would be beneficial) as a result of the fundamental systems review work of these systems in 2007/08.

5. Use of Resources

5.1 The Council's overall Use of Resources score for 2007 (reported by the Audit Commission in February 2008) reduced from 3 to 2. The key reason for this was the impact of the serious financial governance issues in ICT uncovered in 2006/07 relating to the previous year of account. These issues had an adverse impact on the Council's scores for the Internal Control and Value for Money themes within the assessment. The Audit Commission has commended the Council for its detailed response to its latest Use of Resources assessment.

5.2 Comparison of the Use of Resources theme scores since 2005 is summarised in the following table:

Use of Resources Scores			
Theme	Score 2007	Score 2006	Score 2005
Financial Reporting	3	3	3
Financial Management	3	3	3
Financial Standing	2	2	2
Internal Control	1	2	2
Value for Money	2	3	3
Overall score	2	3	3

5.3 The standard scales used in the assessment are:

- 1 Below minimum requirements – inadequate performance.
- 2 Only at minimum requirements – adequate performance.
- 3 Consistently above minimum requirements – performing well.
- 4 Well above minimum requirements – performing strongly.

Audit Services Assurance Report 2007/08

6. Annual Governance Statement 2007/08

- 6.1 A separate report on the draft AGS will be presented to the Audit & Corporate Governance Committee in June 2008.

7. Summary of Audit Services Work in 2007/08

- 7.1 Delivery of the approved audit plan for the year was adversely affected by a number of issues that developed during the year. Additional audit days were required to meet the standards set out in the Department for Children, Schools & Families' (DCFS) financial management toolkit for schools. Additional audit days were required in respect of planned and ad hoc audit review work in connection with the financial governance issues identified in ICT and two other ICT related projects. A revised audit plan for 2007/08 reflecting the above was agreed by the Audit & Corporate Governance Committee on 16 November 2007.
- 7.2 Audit work that was originally planned for the year that was not completed due the pressures reported above related to non-fundamental systems. The Chief Internal Auditor advised that the slippage in the audit programme did not have an adverse impact on the level of work required for him to give a sound opinion on the Council's system of internal control for the year.
- 7.3 A summary of audits started during 2007/08 is provided at Annex 1 to this report.
- 7.4 The Audit Services team identifies those systems it considers to be fundamental to the production of accurate statements of final account or whose failure could lead to major disruption or loss of financial control. This list is agreed with the Audit Commission every year as they rely on the Audit Services team's work as part of their review activity.

Fundamental Systems Work

- 7.5 An audit review of each fundamental system is carried out at least annually. The audit opinions issued in 2007/08 for the fundamental systems in comparison to previous years are summarised in the following table:

Audit Opinion	2007/08 Number	2006/07 Number	2005/06 Number	2004/05 Number
Good	2	4	3	1
Satisfactory	14	10	10	10
Marginal	1	3	2	1
Unsatisfactory	0	1	0	0
Unsound	0	0	0	0
TOTAL	17	18	15	12

- 7.6 The Council has stated that it requires all fundamental systems to achieve at least a satisfactory audit opinion. The system that failed to achieve this target was the payroll system in Children & Young People's Services. The **marginal** opinion was given because there had been limited progress implementing agreed actions in response to the previous audit review and there was little evidence of improvement in the control environment. The service has been transferred to the Resources Directorate and has been amalgamated with the corporate payroll service. This should lead to an

Audit Services Assurance Report 2007/08

improvement in the control environment on the basis of the current audit opinion for the corporate payroll system.

Non-Fundamental Systems Work

- 7.7 An audit review of four non-fundamental systems was carried out in 2007/08. It was pleasing to note that one system was given a **good** audit opinion and the three others achieved a **satisfactory** audit opinion.

Governance Systems Work

- 7.8 Five audit reviews resulting in an audit opinion were carried out on various aspects of the Council's governance arrangements. Two were found to be **satisfactory**.
- 7.9 The Director of Children's Services requested an audit review of a project to provide schools with a virtual learning platform. A report summarising the new issues was prepared for the Director and an action plan is being agreed. The overall audit opinion for this review was **unsatisfactory**.
- 7.10 Two audit reviews resulted in an **unsound** opinion. The first relates to the review of the Use of Contractors in ICT. The scope of this planned review was extended to investigate anonymous allegations made about the financial governance arrangements in this part of the Council. The issues were reported by the Director of Resources in her special report (September 2007) and further examined by the Crookall review. Progress implementing the recommendations contained in these reports has been regularly reported to the Audit & Corporate Governance Committee and Cabinet.
- 7.11 An employee identified further concerns about the financial governance arrangements in ICT & Customer Services following publication of the Director of Resources' special report. These have been investigated thoroughly by the Audit Services team. The overall audit opinion was **unsound**. The issues not previously reported to members as part of the Director of Resources' special report or the Crookall review have been summarised in a report for the Deputy Chief Executive. An action plan in response to those issues has been drafted.
- 7.12 The Chief Internal Auditor advises that he is content with the progress being made to address the issues identified in the audit reviews of the elements of the governance system that led to an **unsatisfactory** or worse audit opinion.
- 7.13 The Audit Services team made a significant contribution to the review of the Council's Financial Procedure Rules and Contract Procedure Rules. The revised documents were considered in detail by the Audit & Corporate Governance Committee and agreed by Council in March 2008.
- 7.14 The Audit & Corporate Governance Committee was informed of the lack of progress in relation to action on recommendations by the Audit Services team as a result of special investigations carried out in 2005/06. The relevant Heads of Service attended Committee meetings to explain their lack of action. The required actions have been now completed.
- 7.15 The Council has a partnership checklist in place, which includes risk identification. Heads of Service are obliged to complete this for major partnerships.

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- 7.16 The Council has established a Standards Committee and has adopted a Code of Conduct for members incorporating the mandatory requirements of the model code. In addition, members have signed a formal declaration accepting the terms of the Code.
- 7.17 Directors, Heads of Service and other key managers have provided signed assurance statements throughout the year confirming that there are effective systems of internal control and risk management arrangements within their areas of responsibility. These officers have also provided signed confirmation that they have complied with their personal responsibilities for declaring gifts and hospitality offered whether accepted or not.
- 7.18 The Council took part in the latest National Fraud Initiative (NFI) data matching exercise. Fifty eight housing benefit cases were investigated resulting in eight formal cautions and five administrative penalties. One prosecution is complete with a further three cases pending. One case is still under investigation. Some £76,000 of overpayment was identified.

Performance Management

- 7.19 An audit review of the Council's Performance Management Framework has been completed and the draft report issued. A **satisfactory** audit opinion was given.
- 7.20 Five audit reports were produced in relation to twelve performance indicators. All the reports have been finalised with two being given a **satisfactory** audit opinion and three a **marginal** audit opinion. The findings in relation to the three receiving a **marginal** opinion are as follows:

Housing (BVPI 183a, 183b, 214 and Housing Strategy Statistical Appendix Return (HSSA))

- a. The main issue was the lack of supporting data for the figures provided. This was a particular problem for the RSL/Housing Association figures supplied for the HSSA return.
- b. The review highlighted the need for the outturn for BVPI 183a and 214 to be changed. It should be noted that the most of the errors were found to be in quarter 4 when a staff change occurred.
- c. Although not all of the data was supported, the Audit Services team was encouraged by the new checking and monitoring systems that the new Performance Improvement Manager has now put in place to prevent the same errors being repeated for 2007/08.

Pedestrian Crossings (BVPI 165)

- d. The Audit Services team was unable to verify the BVPI figure as the errors found in the sample test meant a further retest of most installations would be necessary prior to a recalculation and verification of the BVPI outturn.
- e. There was a need for procedures for carrying out inspections and the use of measuring equipment to be written. The procedure should contain a work plan to allow for supervisory checks of the inspections to be carried out.

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Cleanliness Performance (BVPI 199)

- f. The Audit Services team was able to verify the spreadsheet that formed the basis of the BVPI calculation and published BVPI figures. However there were a number of omissions and errors found within the source data. There needs to be a mechanism for the checking of survey forms and input into the spreadsheet.

Risk Management

- 7.21 The Council has an obligation under the Accounts and Audit Regulations 2006 to have sound risk management arrangements in place. This requirement is also a feature of the Use of Resources assessment. Cabinet approved a revised Risk Management Framework for the Council in October 2006. This was updated in 2008/09 to incorporate a joint approach with the PCT.
- 7.22 The Council's risk management arrangements are linked to its Performance Management Framework as there is a requirement for all service plans to identify risks and the action that will be taken to mitigate them. The Council has a Corporate Risk Manager whose role is to promote a consistent approach to risk management across the Council in line with its agreed strategy. Training has been provided and a further programme of risk management training for managers is being developed jointly with the PCT.
- 7.23 Cabinet reviews the corporate risk register as part of the bi-monthly Integrated Performance Report (IPR) process.
- 7.24 Directorate Management Teams (DMTs) are required to review their risk registers on a monthly basis in order to inform the continuous update of the corporate risk register. Not all DMT reviews were consistently documented.
- 7.25 The audit review of the Council's risk management arrangements resulted in a satisfactory audit opinion.
- 7.26 The Audit Commission's latest Annual Audit and Inspection Letter (February 2008) confirms that the Council's risk management arrangements have improved.

ICT Protocols and Controls

- 7.27 An external audit of the Council's ISO27001 accreditation was completed in November 2007. The ICT service retained their overall certification. The following summarises the external auditor's opinion on the key elements of the overall certification framework:
 - a. **Physical Security Audit:** Overall the auditor considers that there were good systems of control in place to protect the Council's equipment and data from disruption, loss and theft.
 - b. **Team Compliance Audit:** Non-compliance notes were raised where evidence could not be found to support controls that had been formalised. However, overall, the auditor found that staff were taking their information security duties and responsibilities seriously and considers that there were good systems of control and compliance in place to protect the Council's equipment and data from disruption, loss and theft.

Audit Services Assurance Report 2007/08

- c. **Business Continuity Scenario Testing:** Overall the auditor considers that there were systems of control in place to protect the Council's staff, equipment and data from serious disruption during an emergency. Where improvements could be made to the processes and continuity plans, these were highlighted as recommendations.
- d. **Risk Treatment Plan Review:** There was a formal process for logging risks and preventative and corrective action. However, improvements to the recording and monitoring of corrective action were suggested.

Establishment Audits

- 7.28 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, all 14 reports have been finalised. Five schools met the required standard. Seven are on target to meet it. Follow-up work is planned and ongoing to ensure these seven schools meet their targets for improvement. It is unlikely that two schools will meet the standard in the short term. The lessons learned from carrying out the reviews in secondary schools will be used to improve the approach in primary schools.

Verification and Probity

- 7.29 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.
- 7.30 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 had some concerns in this area and 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 the Audit Services team will be carrying out further follow up work.
- 7.31 The audit of ICT imprest accounts was undertaken at the request of the interim Head of Service who had some concerns regarding the previous management arrangements. The **marginal** opinion was given as there was a need for improvement in the administration of the imprest account. Recommendations have been made and positive action has been taken by the interim Head of Service.

Other Corporate Issues

- 7.32 Following the Director of Resources' special report, the Council commissioned an independent review of the financial governance issues identified by the Audit Services team. The Crookall review was presented to Cabinet and the Audit & Corporate Governance Committee on 15 and 16 November 2007 respectively. The principal findings of the Crookall review were:
 - a. There was poor financial governance in ICT.
 - b. There were major deficiencies in the contracting process.

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- c. There was poor management of both organisational and individual performance.
 - d. There was a lack of challenge in relation to major projects.
 - e. There was extensive delegation to directorates when tighter controls in some corporate areas were needed.
 - f. The Council's procedures and policies were not embedded.
- 7.33 Cabinet received a progress report on action taken by management as a result of the Director of Resources' special report and the Crookall review on 27 March 2008. It should be noted that a 12 month programme of policy and procedure reviews has been established to ensure that they are all fit for purpose. Future reporting arrangements are now in place with ongoing actions being incorporated into relevant service plans for 2008/09. Progress is being monitored through existing performance management arrangements, including a summary report within the bi-monthly Integrated Performance & Finance Report (IPFR) process for 2008/09.

Recommendations

- 7.34 The Audit Services team made 480 recommendations to management highlighting opportunities to improve the internal control environment identified through internal audit review. Management has agreed to action 454 or 95% of these recommendations.

Critical Recommendations

- 7.35 The Chief Internal Auditor brought all critical recommendations to the attention of the Audit & Corporate Governance Committee in line with agreed reporting protocols. These are recommendations where non-compliance is a high risk to the Council and where action is required urgently or within an agreed timescale.
- 7.36 The following critical recommendations were made in relation to the Use of Contractors in ICT:
- a. 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.
 - b. 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.
 - c. The Director of Corporate and Customer Services should ensure there is compliance with the Code of Practice for the Regulation of Contracts.
 - d. 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.

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- 7.37 The Director of Corporate and Customer Services submitted a report to the Audit & Corporate Governance Committee on 21 December 2007 outlining the action taken with regards to the critical recommendations.
- 7.38 The following critical recommendations were also made in relation to Customer Relations Management (CRM) Review (paragraph 7.11 refers):
- a. The Customer Services Strategy and business model needs to be reviewed. A report justifying future objectives and proposing options should be presented to the Council that includes a detailed analysis of the financial implications, benefits and risks. The options identified should include consideration of the links to the Herefordshire Connects programme and joint working arrangements with the Primary Care Trust (PCT).
 - b. Management should give consideration to using an independent resource to review the Customer Services Strategy to ensure complete objectivity.
- 7.39 The Deputy Chief Executive has commenced the scoping of a review of the Customer Services Strategy including consideration of the PCT's requirements and how the review will be carried out. This will enable the Council to consider relevant options over the next 6 - 9 months.
- 7.40 The following critical recommendation was made in relation to the Managed Learning Platform / Virtual Learning Environment project (paragraph 7.9 refers):
- a. The project board should seek urgent advice from Legal Services regarding the current contract negotiations.
- 7.41 Legal Services continues to meet with the contractor. The Director of Children's Services is due to meet head teachers on 19 June 2008.
- 7.42 Follow up action on the critical recommendations identified above will be carried out as part of planned audit activity in 2008/09. The outcomes will be reported to the Audit & Corporate Governance Committee in line with agreed reporting protocols.

Results of Recommendation Follow-Up

- 7.43 Recommendation follow-up featured in the audit plan for 2007/08. The outcome of this work is detailed in Annex 2 and summarised in the following table:

Summary of Recommendation Follow-Up				
Status	2007/08		2006/07	
	Number	%	Number	%
Fully/Substantially Implemented	403	73	127	66
Partly Implemented	67	12	17	9
Not Implemented	85	15	49	25
Total	555	100	193	100

Audit Services Assurance Report 2007/08

- 7.44 The number of recommendations not implemented by management has fallen to 15% compared to 25% in 2006/07. Further improvements will be required for 2008/09.

Audit Opinions

- 7.45 Most audit reviews result in an audit opinion being issued (Annex 1 refers). All audits rated as unsatisfactory or worse and any fundamental or major system found to be marginal or worse must be brought to the attention of the Audit & Corporate Governance Committee. Other than those previously mentioned there were no other audit reviews that met the above criteria.

Compliance with the CIPFA Code of Practice on Internal Audit

- 7.46 The Audit Commission has completed its review of the Audit Services team's work against the Code. Some issues around quality control and statements of auditor independence and recommendation follow-up reporting were identified. Action has been taken by the Chief Internal Auditor to address these issues.

Local Performance Indicators for the Audit Services Team

- 7.47 The Audit Services service plan for 2007/08 set out the targets for performance for the year. The following table summarises actual and planned performance for the year in comparison to 2006/07.

Local Performance Indicator Description	2007/08		2006/07	
	Target	Actual	Target	Actual
The half year assurance report is delivered to members	December 07	September 07	November 06	December 06
The end of year assurance report is delivered to members	June 07	June 07	June 06	June 06
% of service managers are satisfied with the Audit Service	90%	91.2%	90%	93.4%
% of SRDs are completed by 31st May	100	100	100%	100%
Management accepts 95% of level 1 & 2 recommendations	95	95	96%	97%
The Audit Plan is agreed by the start of the new financial year	April 07	April 07	April 06	April 06
Ensure that the Council's Statement of Internal Control for previous financial year is published	June 07	June 07	June 06	June 06

8. Audit Benchmarking

- 8.1 The Audit Services team took part in the 2007 CIPFA Benchmarking Club (Unitary Authorities) exercise. The findings are summarised below:
- a. **Pay cost per auditor** – below average.
 - b. **Overhead cost per auditor** – below average.
 - c. **Total cost per auditor** – below average.

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d. **Chargeable days per auditor** – above average.

e. **Cost per day** – below average.

9. Audit Opinion

9.1 I have used the Internal Control Audit Opinion Matrix agreed by the Audit & Corporate Governance Committee to form an objective opinion on the effectiveness of the Council's internal control environment for 2007/08. The application of the Internal Control Audit Opinion Matrix is informed by the matters I have brought to the Committee's attention in my Audit Services Assurance Report for 2007/08.

9.2 I am of the opinion that the Council's overall level of internal control was satisfactory in 2007/08.

9.3 The following table summarises the overall position for 2007/08:

Internal Control Audit Opinion	Range	Score 2007/08
Good	85 – 100	
Satisfactory	65 – 84	70
Marginal	51 – 64	
Unsatisfactory	31 – 50	
Unsound	0 - 30	

R. A. FORD
CHIEF INTERNAL AUDITOR
JUNE 2008

STATUS OF AUDITS STARTED DURING THE YEAR 2007/08

Audit	Status	Audit Opinion
Fundamental Systems		
Bank Reconciliation	Final	Good
Housing Benefit	Draft	Satisfactory
Statement on Internal Control 2006/07	Final	Satisfactory
Payroll Non-Education	Final	Satisfactory
Main Accounting System	Final	Satisfactory
Council Tax	Draft	Satisfactory
Creditors	Final	Satisfactory
ICT Financial Management System	Final	Satisfactory
Debtors	Final	Satisfactory
Supporting People	Final	Satisfactory
Schools Transport	Final	Satisfactory
NDR	Final	Satisfactory
Cash and Deposit	Final	Satisfactory
Children Services – Early Years	Final	Satisfactory
Treasury Management	Final	Good
Asset Register	Final	Satisfactory
Salaries – Children and Young People's Services	Final	Marginal
Non Fundamental Systems		
Management of Property	Draft	Satisfactory
Lifelong Learning	Final	Good
Agency Payments – Adult Services	Final	Satisfactory
Anti Money Laundering	Final	Satisfactory
Governance		
Delegations Arrangements – Directors' Responsibilities	Final	N/a
National Fraud Initiative	Ongoing	N/a
Contract Letting & Monitoring – Learning Disabilities	Final	Satisfactory
Contract – Ross-on-Wye Flood Alleviation Scheme	Final	Satisfactory
ICT – Use of Contractors	Final	Unsound
Jarvis Contract	Final	N/a
Customer Relations Management System (CRM)	Draft	Unsound
Managed Learning Platform / Virtual Learning Environment.	Final	Unsatisfactory
Officer ICT Expenses	Final	N/a
ICT Contractors Expenses	Final	N/a
Performance Management		
Housing (BVPI 183a, 183b, 214 and HSSA Return)	Final	Marginal
Household Waste Management (BVPI 82a and 82b)	Final	Satisfactory
Pedestrian Crossings (BVPI 165)	Final	Marginal
Street Cleanliness (BVPI 199)	Final	Marginal

STATUS OF AUDITS STARTED DURING THE YEAR 2007/08

Audit	Status	Audit Opinion
Libraries – Cost per visit and Library Survey	Final	Satisfactory
Performance Management System	Draft	Satisfactory
Risk Management		
Risk Management Framework	Final	Satisfactory
ICT – Council wide		
ISO 27001 – Physical Security	Final	N/a
ISO 27001 – Team Compliance	Final	N/a
ISO 27001 – Third Party Management	Work in Progress	N/a
ISO 27001 – Risk Treatment	Final	N/a
ISO 27001 – Business Continuity	Final	N/a
E-Pop Cedar E-Purchasing	Work In Progress	To be determined following client feedback
Access Controls (Payroll / Creditors / CT / NDR / HB)	Draft	To be determined following client feedback
Establishment Audits		
Kingstone High School (DfES Standard)	Final	On target to be met in the short term
John Kyrle High School (DfES Standard)	Final	Standard met
Aylestone High (DfES Standard)	Final	On target to be met in the short term.
Wyebriidge Sports College (DfES Standard)	Final	On target to be met in the short term.
Weobley High (DfES Standard)	Final	On target to be met in the short term.
Lady Hawkins High (DfES Standard)	Final	On target to be met by July 08
Wigmore High (DfES Standard)	Final	Unlikely to be met in the short term.
Queen Elizabeth High (DfES Standard)	Final	Unlikely to be met in the short term.
St. Mary's High (DfES Standard)	Final	Standard met
Whitecross High (DfES Standard)	Final	Standard met
Fairfield High (DfES Standard)	Final	On target to be met in the short term
Minster College (DfES Standard)	Final	On target to be met in the short term
Bishop of Hereford Bluecoat (DfES Standard)	Final	Standard met
John Masefield High (DfES Standard)	Final	Standard met
Verification and Probity		
Drugs Forum – Partnership Management	Final	Unsatisfactory
Local Area Agreement – Grant	Final	N/a
Drugs Forum Management	Final	Unsatisfactory
ICT Petty Cash	Final	Marginal
Travel and Subsistence Claims	Work In Progress	To be ascertained
Whitecross High – School & Sports Co-ordinator Grant	Final	N/a
Minster College – School & Sports Co-ordinator Grant	Final	N/a
Good Environmental Management (GEM)	Final	N/a

STATUS OF AUDITS STARTED DURING THE YEAR 2007/08

Audit	Status	Audit Opinion
Recommendation Follow up		
Control of ID Cards	Final	N/a
ICT FMS 2006/07	Final	N/a
Car Loans	Final	N/a
Market Fees and Charges	Final	N/a
Community Access Points (CAPS)	Final	N/a
CLIX System	Final	N/a
TALIS System	Final	N/a
Home Point System	Final	N/a
MVM & Planning 20/20	Draft	N/a
Telephones	Final	N/a

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.

RECOMMENDATION FOLLOW UP 2007/08

	Audit	Total Raised	Fully Completed	Mostly Completed	Partly Completed	Not Completed
1	Bank Reconciliation	9	6	3	0	0
2	Housing Benefit	23	10	5	3	5
3	Payroll Non-Education	14	9	0	2	3
4	FMS	12	3	3	2	4
5	Council Tax	13	9	0	0	4
6	Creditor Payments	13	4	1	2	6
7	ICT FMS	20	14	5	0	1
8	Debtors	9	6	2	0	1
9	Supporting People	12	12	0	0	0
10	Schools Transport	10	9	0	0	1
11	NDR	8	6	0	2	0
12	Cash and Deposits	2	2	0	0	0
13	Children Services- Early Years	5	4	1	0	0
14	Treasury Management	2	2	0	0	0
15	Asset Register	2	0	0	0	0
16	Salaries Children Services	21	4	0	5	12
17	Housing BVPI	7	3	3	0	1
18	Waste Management BVPI	4	3	0	0	1
19	Pedestrian Crossings BVPI	9	1	0	0	8
20	Kingstone High	8	8	0	0	0
21	John Kyrle High	17	16	0	1	0
22	Aylestone High	6	5	0	0	1
23	Wyebidge Sports College	18	17	0	1	0
24	Weobley High	37	21	0	4	12
25	Wigmore High	20	6	14	0	0
26	Queen Elizabeth	18	10	0	2	6

RECOMMENDATION FOLLOW UP 2007/08

	Audit	Total Raised	Fully Completed	Mostly Completed	Partly Completed	Not Completed
	High					
27	St Marys High	2	2	0	0	0
28	Whitecross High	11	8	0	1	2
29	Fairfield High	8	8	0	0	0
30	Minster College	26	6	0	14	6
31	Bishops	20	7	0	11	2
32	John Masefield High	29	25	0	4	0
33	Whitecross SSCO	14	10	3	1	0
34	Minster SSCO	5	4	0	0	1
35	Control of ID cards	15	4	0	4	7
36	Car Loans	3	3	0	0	0
37	Market Fees Follow Up	18	16	1	0	1
38	Community Access Points (CAPS)	8	8	0	0	0
39	CLIX System	9	8	0	1	0
40	TALIS System	23	19	0	4	0
41	Home Point System	15	15	0	0	0
42	MVM & Planning 20/20	25	22	0	3	0
43	Telephones	5	5	0	0	0
TOTALS		555	362	41	67	85

ANNUAL GOVERNANCE STATEMENT 2007/08**Report By: DIRECTOR OF RESOURCES****Wards Affected**

County-wide.

Purpose

1. To seek the Audit and Corporate Governance Committee's approval of the draft Annual Governance Statement for 2007/08.

Financial Implications

2. There are no direct financial implications relevant to this report.

RECOMMENDATIONS

- THAT:**
- (a) **the Audit and Corporate Governance Committee reviews the draft Annual Governance Statement attached as Appendix 1 to this report; and**
 - (b) **the Audit and Corporate Governance Committee approves the Annual Governance Statement for inclusion in the statement of final accounts for 2007/08.**

Reasons

3. The Audit and Accounts Regulations include requirements for all local authorities to produce an Annual Governance Statement and carry out a review of the statement at least annually. This statement must be incorporated into the 2007/08 statement of final accounts. This replaces the previous requirement to produce a Statement on Internal Control. A draft Annual Governance Statement for 2007/08 is attached at Appendix 1 for the Committee's consideration.

Considerations

4. The key lines of enquiry for the Use of Resources assessment for 2008 highlight the need for the Council to have arrangements in place to maintain a sound system of internal control. The criteria are as follows:

Further information on the subject of this report is available from
Tony Ford (Chief Internal Auditor) on tel: (01432) 260425

- (a) An appropriate member group has responsibility for review and approval of the governance statement, and considers it separately from the accounts statement (Level 2 – only at minimum requirement, adequate performance).
 - (b) The Council has conducted an annual review of the effectiveness of its governance framework, including the system of internal control, and reported on this in the governance statement (Level 2 – only at minimum requirement, adequate performance).
 - (c) The sources to support the governance statement have been identified and are reviewed by senior officers and members (Level 2 – only at minimum requirement, adequate performance).
 - (d) There are action plans in place to address any significant governance issues reported in the governance statement (Level 2 – only at minimum requirement, adequate performance).
 - (e) The Council has put in place an assurance framework that maps the Council's strategic objectives to risks, controls and assurances (Level 3 – consistently above minimum requirements, performing well).
 - (f) The assurance framework provides members with information to support the governance statement (Level 3 – consistently above minimum requirements, performing well).
 - (g) The assurance framework is fully embedded in the Council's business process (Level 4 – well above the minimum requirement, performing strongly).
 - (h) The Council can demonstrate corporate involvement in/ownership of the process for preparing the governance statement (Level 4 – well above the minimum requirement, performing strongly).
5. Regulation 4 of the Accounts and Audit Regulations 2006 requires the Council to conduct a review, at least once a year, of the effectiveness of its system of internal control and publish a Statement on Internal Control with its annual Statement of Accounts.
6. The Department for Communities & Local Government Circular 03/2006 and the Use of Resources 2008 assessment require a change in approach with the Council replacing the annual Statement on Internal Control with an Annual Governance Statement (AGS).
7. The Society of Local Authority Chief Executives and Senior Managers (SOLACE) and the Chartered Institute of Public Finance & Accountancy (CIPFA) have jointly published guidance on delivering good governance in local government in line with the latest regulations.
8. The Audit & Corporate Governance Committee considered a suggested framework for complying with the new regulations and guidance on 25 January 2008 and approved this framework on 29 February 2008.

9. Cabinet considered and approved the Annual Governance Framework on 27 March 2008.
10. A diagram outlining the Council's approved Annual Governance Framework is attached at Appendix 2 for ease of reference. The Annual Governance Framework identifies 9 key elements as shown in Appendix 2. The key risk areas are as follows:
 - (a) Performance management and data quality.
 - (b) Risk management.
 - (c) Legal and regulatory assurance.
 - (d) Members assurance.
 - (e) Assurances by key managers.
 - (f) Other sources of assurance.
 - (g) Financial control assurances.
 - (h) Community.
 - (i) Internal/external audit.
11. The remainder of this report provides an outline of the information taken into account when assessing the effectiveness of the controls over the 9 key risks identified above. This information has been used as the basis for drafting the Annual Governance Statement for 2007/08.

Performance Management and Data Quality

12. The Council's Operating Plan 2007-08 sets out what the Council intends to do during the year. As part of the Council's performance management arrangements, Integrated Performance Reports (IPRs) were presented to Cabinet on at least a bi-monthly basis in 2007/08. All IPRs were reviewed by the Strategic Monitoring Committee.
13. Directorate and related service plans for 2007/08 were completed, quality checked and signed off as part of the Council's performance management framework.
14. Audit Services has completed its review of the Council's performance management framework and a satisfactory opinion (minimal risk, a few areas identified where changes would be beneficial) was issued.
15. Five reports were completed by Audit Services in relation to the reviews of high risk performance indicators. There were two satisfactory (minimal risk, a few areas identified where changes would be beneficial) and three marginal (a number of areas have been identified for improvement) opinions issued.
16. The Audit Commission carried out a data quality review in 2007/08. The Council met the minimum requirements. An action plan has been agreed and a data quality policy is now in place.
17. Cabinet received a report on 21 February 2008 outlining the progress made in response to an Audit Commission report on the Council's performance management arrangements. The majority of actions have been completed. The action plan is being reviewed and updated by the Head of Policy and

Performance with a further progress report to Cabinet planned for September 2008.

18. Significant progress has been made on the Joint Area Review (JAR) action plan for Children's Services, with cessation of formal intervention by Government Office West Midlands.

Risk Management

19. Council approved the 2007-10 Corporate Plan on 16 May 2008. The plan sets out how the Council will manage the risks identified. The corporate risk register is an integral part of the bi-monthly Integrated Performance Report process.
20. Audit Services completed a review of the Council's risk management framework and a satisfactory audit opinion issued.

Legal and Regulation Assurance

21. The Monitoring Officer's report will be submitted to the Audit & Corporate Governance Committee in September 2008. The Monitoring Officer does not anticipate any issues arising that will necessitate a change to the Annual Governance Statement. A revised Annual Governance Statement will be presented to the same meeting for the Committee to consider should an amendment be necessary.

Members Assurance

22. The Audit and Corporate Governance Committee has agreed a programme of training for its members, covering Prince2, risk management, reviewing the annual statement of final accounts, corporate governance and financial awareness.
23. The Audit Commission's latest Annual Audit and Inspection Letter dated February 2008 comments that the Audit and Corporate Governance Committee has shown real signs of improvement and that there is positive interaction with the Chief Internal Auditor and challenge is good.

Assurances by Key Managers

24. Written assurances have been received from key managers. These assurances highlight areas of concern and confirm that:
 - (a) Action is being taken on recommendations from audit reviews.
 - (b) Council money is being banked promptly and that reconciliations to the Council's corporate finance systems are up to date.
 - (c) Gifts and hospitality have been declared in line with Council policy.
 - (d) Effective controls are operational in each service area.

25. Written assurances have also been received from directors and heads of service giving assurance that there are no incidents of suspected fraud or corruption within their service area.

Other Sources of Assurance

26. Partnership checklists are in place for major partnerships and are reviewed on an annual basis by key managers.
27. The Audit Commission has recommended that the Council sets a clear vision of what the scope, timing and benefits of the new joint working arrangements with the PCT will be. The Herefordshire Public Services Steering Group continues to meet.
28. The Council has responded to the recommendations made by the Audit Commission resulting from their culture inspection. They have acknowledged that there has been progress in key projects that will improve access to and quality of services for residents and visitors of the county such as the museum resource and learning centre. The Council has established a set of outcome measures to be included in the household survey in response to the culture inspection report. These outcomes, along with the new indicators from the performance framework and value for money indicators, will be incorporated into commissioning agreements for Halo and the Courtyard.

Financial Control Assurances

29. The Council's revenue budget for 2007/08 was agreed by Cabinet on 9 March 2007.
30. Strategic Monitoring Committee and Cabinet were updated on the Council's financial performance as part of the Integrated Performance Reports prepared in accordance with the Council's performance management framework.
31. The final revenue and capital outturn 2007/08 was presented to Cabinet on 29 May 2008. The overall position was an under spend of £591k compared to a final forecast of outturn for the year of an overspend of £578k.
32. The Director of Resources presented a special report to Cabinet and the Audit and Corporate Governance Committee on 20 and 21 September respectively. The report:
- (a) Highlighted issues of concern in relation to the financial governance arrangements within ICT and Customer Services.
 - (b) Outlined the actions taken and planned by senior management.
 - (c) Described the potential implications for the Council's corporate financial standing and reputation.
 - (d) Recommended an action plan to demonstrate a strong corporate response to the issues identified.

33. Following the Director of Resources' special report, the Council commissioned an independent review by Mr Crookall. The Crookall review was presented to Cabinet and the Audit and Corporate Governance Committee on 15 and 16 November 2007 respectively. The principal findings of the Crookall review were:
- (a) There was poor financial governance in ICT.
 - (b) There were major deficiencies in the contracting process.
 - (c) There was poor management of both organisational and individual performance.
 - (d) There was a lack of challenge in relation to major projects.
 - (e) There was extensive delegation to directorates when tighter controls in some corporate areas were needed.
 - (f) The Council's procedures and policies were not embedded.
34. On 27 March 2008 Cabinet was updated on action arising out of the Director of Resources' special report and the Crookall review. It should be noted that a 12 month programme of policy and procedure reviews has been established to ensure that they are all fit for purpose. Future reporting arrangements are now in place with ongoing actions being incorporated into relevant service plans for 2008/09. Progress is being monitored through existing performance management arrangements, including a summary report within the Integrated Performance Report.
35. A review of the Council's Financial Procedure Rules and Contract Procedures Rules has been completed. Three mini guides explaining the asset management, financial management and procurement processes described in the Financial Procedure Rules and Contract Procedure Rules have also been endorsed by Cabinet. Training has been provided too.
36. The Council identified 17 fundamental systems; these are systems that are likely to have a material impact on the accuracy of the annual statements of final account. Audit reviews have now been completed with two being given a **good** audit opinion (a few minor recommendations, if any). Fourteen were given a **satisfactory** audit opinion (minimal risk, a few areas identified where changes would be beneficial) and one given a **marginal** opinion (a number of areas have been identified for improvement).

Community

37. The Ofsted inspection report on the Council's fostering service has concluded that the fostering team provides a good service with some outstanding features. In consultation with young people, the fostering service has created a comprehensive health passport for each looked after child and young person to keep and share with future carers. The inspector reported this was excellent practice ensuring all children's health needs are accurately identified and understood by everyone involved.

38. Cabinet approved a Rights of Way Improvement Plan on 27 March 2008. The Council has a statutory obligation to produce such a plan to consider existing countryside access provision and the future needs of users and potential users.
39. The Council conducted a customer satisfaction survey in the autumn of 2007. The survey covered best value indicators for a number of Council provided services such as waste collection, cultural and recreational facilities, venues and complaints handling. It also tracked residents' perception of a broader range of issues including the quality of life in Herefordshire. The summary of findings are:
- (a) The response rate was 40 per cent which is fairly typical for this type of survey.
 - (b) At 44 percent the overall satisfaction with Herefordshire Council has not changed significantly since 2006.
 - (c) When considering how various aspects affecting quality of life are perceived to have changed over the past three years, the most positive aspects were education provision, sports and leisure facilities and access to nature. The worst were the level of traffic congestion, wage levels, local cost of living, affordable decent housing, and road and pavement repairs.
 - (d) Twenty percent of respondents to the survey had contacted the Council with a complaint. Of these respondents 27 percent were satisfied with the way it was handled.
 - (e) Thirty percent of respondents felt they could influence decisions affecting their local area. This has not changed significantly since 2006.
40. The health of young people is improving with the Council leading on programmes to tackle obesity, substance misuse and sexual health. In addition, good progress has been made on the provision of a comprehensive child and adolescent mental health service.
41. Improvements in the provision of services to vulnerable and older adults have been steady but sustained in 2007. The annual assessment score from the Commission for Social Care Inspection (CSCI) remained the same, but there was recognition of improvements in helping more people live at home rather than in residential centres and in signposting information schemes across the client groups.
42. Improvements have been made in the Council's priorities covering communities and the environment. The speed of planning applications has increased along with improvements in environmental health, recycling and street cleanliness. Although the Council is reducing the amount of waste collected from households, the cost has increased.

43. The Council continues to improve its benefit services. This has resulted in reduced costs and an improved Comprehensive Performance Assessment rating as the service is now assessed as good rather than fair.

Internal Audit/External Audit

44. The Audit and Corporate Governance Committee received six interim assurance reports during the year. Seven critical recommendations (action required urgently or within an agreed timescale) were made. The Chief Internal Auditor gave a satisfactory opinion on the Council's internal control environment for 2007/08.
45. The Audit Commission's Use of Resources report dated January 2008 shows that the Council's overall score has moved from a 3 (consistently above minimum requirements – performing well) to a 2 (only at minimum requirements – adequate performance). An action plan is in place to help improve the Council's overall performance.
46. The Audit Commission's Annual Audit and Inspection Letter dated February 2008 set out the Council's overall Comprehensive Performance Assessment (CPA) score card. The Council was judged to be improving adequately for the third year running.
47. The Audit Commission has carried out a review of the Council's system for making payments to social care providers and collecting client contributions. This has highlighted a number of areas for improvement including reconciliation of systems, independent monitoring and review of assessments and financial administration arrangements.
48. The Audit Commission's Annual Governance Report for 2007/08 will not be due until September 2008. Similarly, the Monitoring Officer's report for 2008 will not be available until September 2008. If either report identifies any issues that require a change to the Council's Annual Governance Statement for 2007/08 this will be considered at the Audit and Corporate Governance Committee's meeting in September 2008.

Risk Management

49. The Chief Internal Auditor provides the Audit and Corporate Governance Committee with regular assurance reports highlighting progress with addressing identified internal control issues as the year progresses.

Consultees

50. The Director of Resources (Council) consulted the Leader of the Council, Chief Executive and Assistant Chief Executive (Legal & Democratic Services) during the preparation of the draft Annual Governance Statement for 2007/08. Comments made by other members of the Joint Management Team for the Council, the Audit Commission and the Chair and Vice Chair of the Audit and Corporate Governance Committee have also been taken into consideration.

Appendices

Appendix 1 – Draft Annual Governance Statement 2007/08.

Appendix 2 – Annual Governance Statement Framework 2007/08.

Background Papers

Key Lines of Enquiry for Use of Resources 2008 assessments.

Cabinet Report dated March 2008 – Annual Governance Statement 2008.

Audit and Corporate Governance Committee reports (various dates) – assurance reports from the Chief Internal Auditor.

Draft Annual Governance Statement 2007/08**1. SCOPE OF RESPONSIBILITY**

- 1.1 Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this duty, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. These include arrangements for the management of risk.
- 1.3 The Council has adopted a code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) framework for delivering good governance in local government. A copy of the code can be obtained from the Assistant Chief Executive (Legal & Democratic Services).
- 1.4 The Annual Governance Statement for 2007/08 explains how the Council has complied with its code of corporate governance. It also explains how the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement of internal control, have been met.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems, processes, culture and values by which the Council is managed and controlled. The framework also sets out how the Council accounts to, engages with and leads the community.
- 2.2 The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost effective services.
- 2.3 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives as an individual's failure to comply with policies and procedures even when provided with comprehensive training on them can never be entirely eliminated.
- 2.4 The system of internal control is based on an ongoing process designed to:
- a. Identify the risks to the achievement of the Council's policies, aims and objectives.
 - b. Evaluate the likelihood and impact of the risks should they be realised.
 - c. Identify and implement measures to reduce the likelihood of the risks being realised and to negate or at least mitigate their potential impact.

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3. THE GOVERNANCE FRAMEWORK

3.1 The Council's corporate governance framework was approved by Cabinet on 29 March 2008. It seeks to ensure that the principles of good governance are embedded into all aspects of the Council's work. The six principles agreed by Cabinet are as follows:

- a. Focusing on the purpose of the authority, on outcomes for the community and creating and implementing a vision for the local area.
- b. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- c. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- d. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- e. Developing the capacity and capability of members and officers to be effective.
- f. Engaging with local people and other stakeholders to ensure robust public accountability.

3.2 The key aspects of the Council's governance framework subject to annual review are as follows:

- a. **Constitution** – this explains how the Council operates and how decisions are made by setting out the procedures that must be followed to make sure decisions are taken appropriately and transparently. It also sets out member and officer responsibilities and is supplemented by the Council's Standing Orders, Financial Procedure Rules, Contract Procedure Rules, Scheme of Delegation, and officer and member codes of conduct.
- b. **Corporate objectives and priorities** – these are set out in a number of key plans and strategies including the following:
 - i. Community Strategy for Herefordshire.
 - ii. Corporate Plan including the Best Value Performance Plan.
 - iii. Children and Young People's Plan.
 - iv. Crime and Disorder Reduction Strategy.
 - v. Cultural Strategy.
 - vi. Economic Development Strategy.
 - vii. Local Transport Plan.
 - viii. Unitary Development Plan / Local Development Framework.
 - ix. Youth Justice Plan.
- c. **Medium Term Financial Strategy** – sets out how the Council's revenue and capital budgets will be deployed over the next three financial years in support of corporate objectives and priorities.
- d. **Code of Governance** – the framework against which the Council's actual governance arrangements are compared.

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- e. **Financial management arrangements** – whether the Council's budget setting and budget monitoring processes are established, effective and consistently applied across all directorates.
 - f. **Performance management arrangements** – the Council's arrangements for ensuring that actual performance is in line with approved objectives, priorities and budget.
 - g. **Risk management arrangements** – the Council's arrangements for identifying, assessing and managing the risks to / new opportunities for achieving the Council's approved objectives.
 - h. **Anti fraud, anti corruption and whistle-blowing policies** – the Council's written policies and arrangements for bringing them to the attention of members and employees on a regular basis.
 - i. **Project management arrangements** – the policies for managing significant programmes and projects.
 - j. **Partnership arrangements** – the Council's arrangements for ensuring that the key risks associated with partnership working are identified, assessed and proactively managed.
 - k. **Community engagement** – the Council's arrangements for engaging with and providing leadership to the local community.
 - l. **Independent review** – the Council's arrangements for reviewing and reporting on internal control issues to those charged with responsibility for corporate governance arrangements.
- 3.3 The main independent sources of assurance on the operation of the corporate governance framework are the Council's Audit Services team, its external auditors and other external review bodies and the Audit & Corporate Governance Committee.

4. REVIEW OF EFFECTIVENESS

- 4.1 Herefordshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's reports on the audits conducted throughout the year, and also by comments made by the external auditor and other review agencies and inspectorates.
- 4.2 The process of review is continuous and results in the Chief Internal Auditor's assurance reports presented at each meeting of the Audit & Corporate Governance Committee. These reports are used to inform the Annual Governance Statement. The Annual Governance Statement is signed by the Leader of the Council, the Chief Executive, Director of Resources and Assistant Chief Executive (Legal & Democratic Services).
- 4.3 The review of effectiveness for the financial year identified that the following work had been undertaken in 2007/08 in relation to the key aspects of the Council's governance framework outlined in paragraph 3.2 of this report:

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a. Constitution

- 4.4 Elements of the Council's Constitution have been fundamentally revised in the light of the special report of the Director of Resources on the financial governance arrangements within the ICT & Customer Services (September 2007) and the subsequent independent review by Mr Crookall (November 2007).
- 4.5 The Council approved a new Budget & Policy Framework, Financial Procedure Rules and Contract Procedure Rules in March 2008, along with 'mini guides' for members and officers on the asset management, financial management and procurement issues covered in these documents.
- 4.6 A revised financial management training programme for officers incorporates the new procedures. The officer training programme was implemented in April 2008 and feedback from attendees is positive. Training for members commenced in May 2008 with an externally facilitated event designed to promote understanding of the annual statement of final accounts and the corporate governance framework. Feedback on this was also positive. Further training for members will be incorporated into the quarterly directorate training days for member development scheduled for the remainder of 2008/09.
- 4.7 The Monitoring Officer is preparing an updated Scheme of Delegation for the Audit & Corporate Governance Committee to consider at its June 2008 meeting.
- 4.8 The Monitoring Officer will lead a thorough review of the remainder of the Council's Constitution by the end of 2008.
- 4.9 Further work on HR policies and procedures and the officer Code of Conduct and the Member/Officer Protocol is planned in the remainder of the 2008 calendar year. Regular reports on progress will be provided to the Audit & Corporate Governance Committee and also to Cabinet as part of the bi-monthly Integrated Performance Report (IPR) process.
- 4.10 The role of the Monitoring Officer is a statutory office whose duties are set out in the Local Government and Housing Act 1989 and the Local Government Act 2000. The main responsibilities of the Monitoring Officer are to ensure that the Council acts with probity in accordance with the law and its Constitution.
- 4.11 The Monitoring Officer is also responsible to the Standards Committee of the Council and is required to report any complaints of breaches of the Code of Conduct of members to the Committee. The Monitoring Officer, if required by the Committee or the Standards Board for England, will appoint an investigator to carry out any appropriate investigation into an alleged breach of the Code of Conduct of Members.
- 4.12 Four decisions made by Cabinet were called in during 2007/08 as follows:
- a. Rotherwas Archaeology Options for the completion of the Rotherwas Access Road.
 - b. Wyebriidge Sports College: Academy Project.
 - c. Herefordshire Connects: Programme Update.

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d. Colwall Railway Bridge.

4.13 Cabinet responded formally to the comments made by the Strategic Monitoring Committee / relevant scrutiny committee on the above four issues as a result of their call-in work.

b. Corporate objectives & priorities

4.14 The Council revised its Corporate Plan for 2008 – 2011. The Corporate Plan 2008 – 2011 demonstrates clear links to the Community Strategy for Herefordshire. All directorate and service plans demonstrate how they support the corporate objectives and priorities set out in the Corporate Plan for 2008 – 2011. The Council's Policy & Performance team provides the assurance that the service planning arrangements within each directorate complies with agreed policies and procedures.

4.15 All other key statutory plans that the full Council is required to approve were updated in line with the statutory requirements during 2007/08.

c. Medium Term Financial Strategy

4.16 The draft Corporate Plan 2008 – 2011 informed the development of the Medium Term Financial Strategy for 2008 – 2011 and the budget setting process for 2008/09. The Medium Term Financial Strategy was developed in line with the Council's approved financial procedures. There was an integrated approach to corporate, service and financial planning processes.

4.17 In their Annual Audit & Inspection Letter dated February 2008, the Audit Commission noted that that the Council had *'made good progress over the last year in improving the quality and reliability of financial management arrangements although there were issues in ICT that were being addressed. Particularly significant is the robust Medium Term Financial Strategy which is focussed on the achievement of the Council's objectives'*.

4.18 Further improvements to the Medium Term Financial Management Strategy were made for 2008 – 2011, including a review of the policies for the maintenance and use of balances, general reserves and earmarked reserves.

d. Code of Governance

4.19 The Council updated its governance framework during the year in line with changed requirements under the Accounts and Audit Regulations, and in order to meet new Use of Resources assessment criteria. This is the first Annual Governance Statement produced in line with the new framework. The Monitoring Officer has reviewed the Code of Governance in line with the Council's approved governance framework for members' consideration in June 2008.

4.20 The Audit & Corporate Governance Committee initially approved the Statement of Internal Control for 2006/07 at its June 2007 meeting. It approved an update at its September 2007 meeting to include further detail on the financial governance issues identified in ICT. The significant internal control issues identified in the year were as follows:

a. Services for people with Learning Disabilities were judged to be not serving people well.

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- b. Three fundamental internal control systems – those for Education Transport, Housing Benefit Payments and payroll service in the Children & Young People’s Directorate – were all given marginal opinions following internal audit review. The audit opinion for the Education Transport and Housing Benefit Payments systems has improved to satisfactory in 2007/08. The audit opinion for the payroll service in the Children & Young People’s Directorate remained marginal in 2007/08. This service has transferred to the corporate payroll team within the Resources Directorate where an effective system of internal control exists.
 - c. One fundamental internal control system – the financial management & procurement system in ICT – was given an unsatisfactory opinion following internal audit review.
 - d. Further serious concerns regarding financial governance arrangements in ICT during 2005/06 led to an unsound audit opinion being issued following a review by the Audit Services team in response to anonymous allegations received by the Council. The issues were reported to Cabinet and the Audit & Corporate Governance Committee in the Director of Resources’ special report (September 2007).
- 4.21 Progress with implementing the action plan agreed as part of the Director of Resources’ special report was reported to the Audit & Corporate Governance Committee on a regular basis. The remaining actions from the Director of Resources’ special report and those from the subsequent Crookall review were amalgamated into one action plan at the instigation of the new Chief Executive. Progress against this action plan is reported to Cabinet as part of the Integrated Performance Report (IPR) process.
- 4.22 The significant internal control issues identified in the Statement on Internal Control for 2006/07 have been addressed. However, the Audit Commission was unable to place complete reliance on the Council’s systems of internal control in ICT for 2006/07 due to the seriousness of the issues identified. The Audit Commission did some further review work that resulted in a positive Annual Audit & Inspection Letter (February 2008) in respect of the way in which the Council had dealt with this issue.
- 4.23 The recommendations made by the Audit Commission in their Annual Governance Report for 2007 have been acted upon by management. The Audit & Corporate Governance Committee considered this report at their September 2007 meeting. The Audit Commission made five recommendations, four of which related to the production of the final accounts for 2006/07. Their final recommendation was that an independent investigation of the issues within the ICT division be carried out to consider what further action might be needed in line with the Council’s own Constitution. This has been completed.
- e. Financial management arrangements**
- 4.24 As the Audit Commission has noted (see paragraph 4.17 above), the Council has made good progress improving its financial management arrangements over the last year. The Commission assessed the Council’s arrangements for producing its annual statements of final account and its financial management arrangements as good.

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- 4.25 The Council responded to the Audit Commission's Use of Resources assessment for 2008 with a detailed action plan in response to the opportunities for improvement that were identified. The actions relating to financial management have all been delivered.
- 4.26 The financial management issues in ICT have been addressed as outlined in paragraphs 4.21 to 4.23 above. However, two further issues arose in connection with ICT related projects that the Audit Services team has assisted with.
- 4.27 A review of the arrangements for procuring the technology platform to support the Customer Services Strategy was necessary following comments made by an employee under the Council's whistle-blowing policies. The Audit Services team has reported the issues not identified in previous audit reviews or covered by the action plans resulting from the Director of Resources' special report and the Crookall review to the Deputy Chief Executive. The audit opinion overall was unsound and related to the previous years of account.
- 4.28 A review of the arrangements for procuring the technology platform to support a virtual learning environment for schools was also carried out by the Audit Services team at the request of the Director. The Audit Services team has reported the issues not identified in previous audit reviews or covered by the action plans resulting from the Director of Resources' special report and the Crookall review to the Director of Children's Services. The audit opinion overall was unsatisfactory.
- 4.29 The Audit Commission has carried out a review of the Council's arrangements for making payments to social care providers and collecting client contributions. The Commission has suggested improvements to a number of aspects of the system including reconciliation procedures, the monitoring and review of assessments and financial administration arrangements. This system will be replaced by the new Corelogic system currently being implemented for the Council's social care services. The Commission's findings are however being reviewed and the results will be reported to the Audit & Corporate Governance Committee in line with agreed reporting protocols. An updated Annual Governance Statement for 2007/08 will be presented to the Audit & Corporate Governance Committee for adoption at its meeting in September 2008 if necessary.
- 4.30 Financial management training programmes have been revised and implemented to ensure a consistent approach to financial management in line with updated financial management policies and procedures by budget holders across the Council.
- 4.31 The Council delivered services just under budget for 2007/08 and achieved efficiency savings of £4.1m in the year.
- f. Performance management arrangements**
- 4.32 The Chief Executive of the Council and PCT took up post in December 2007 and has initiated a programme of organisational change for officers to address the recommendations in the Crookall review. The Leader of the Council has also initiated a development training programme for members. The action plans arising from both the Director of Resources' special report and the Crookall review have been combined into a single work plan and progress will be regularly reported to Cabinet.

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- 4.33 The Council has reviewed its performance management framework in the light of an Audit Commission review of this area of activity. Progress has been reported to Cabinet and the majority of the plan was delivered in the year. Cabinet is scheduled to receive a further update in September 2008.
- 4.34 The performance management framework encompasses the Council's arrangements for preparing directorate and service plans in support of corporate priorities. The framework also includes the Comprehensive Performance Assessment process carried out by the Audit Commission and other public inspectorates.
- 4.35 The arrangements for monitoring performance within directorates and reporting progress to members is established and culminated in the bi-monthly Integrated Performance Report (IPR) to Cabinet in 2007/08. The IPR details performance against key corporate targets and the revenue and capital budget. Each IPR is subject to rigorous challenge by the Strategic Monitoring Committee and relevant scrutiny committees.
- 4.36 Each directorate has a designated Performance Improvement Manager who works alongside the directorate management team and senior managers to ensure that performance management is embedded into directorate and service activities.
- g. Risk management arrangements**
- 4.37 The Council has a risk management strategy that has been approved by members. Risk registers are maintained and responsibility is assigned to individual officers. The terms of reference for the member responsible for risk need to be reviewed. Further work is also needed to ensure that risk registers at service, directorate and corporate levels are linked. This is being taken forward in 2008/09 as a new assurance framework and risk management arrangements for both the Council and Primary Care Trust (PCT) are implemented by the Assistant Chief Executive (Legal & Democratic Services).
- 4.38 All formal officer reports to members include an assessment of the risk management issues.
- h. Anti fraud, anti corruption and whistle-blowing policies**
- 4.39 The Council has revised and re-issued its whistle-blowing policy statements following the Director of Resources' special report (September 2007) and Crockall review (November 2007). A new leaflet outlining the key points of the policy has been produced and distributed widely amongst members and officers. This has been supported by training for employees that also covered the officer code of conduct. Corporate team briefing processes have been used to keep officers aware of the requirement for staff to follow these policies.
- i. Project management arrangements**
- 4.40 The Council has adopted the Prince 2 project management methodology for all major programmes and projects. The key principles of the Prince 2 methodology are applied to the management of less major projects. There is a Corporate Programmes team with project management responsibilities.
- j. Community engagement**
- 4.41 The Council undertook a wide range of community engagement activities in 2007/08 including strategic consultations, customer satisfaction surveys and

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joint community consultation with West Mercia Police. The feedback has informed corporate objectives and priorities and service improvements.

k. Independent review

- 4.42 The Audit & Corporate Governance Committee met nine times during the year. This includes additional meetings were held as a result of the Director of Resources' special report and the Crookall review. The Council's statutory officers with responsibility for governance issues attend Audit & Corporate Governance meetings. The Audit Commission's Annual Audit and Inspection Letter dated February 2008 states that *'the Audit & Corporate Governance Committee has shown real signs of improvement, there is positive interaction with the Chief Internal Auditor and challenge is good'*.
- 4.43 Herefordshire's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2003. This responsibility is delegated to the Director of Resources, the officer with responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.
- 4.44 The Audit Services team operates in accordance with best practice, professional standards and guidelines. The team independently and objectively reviews, on a continuous basis, the extent to which reliance can be placed on the internal control environment. This is evidenced by the opinion given on the Council's overall system of control by the Chief Internal Auditor which is given as satisfactory for 2007/08.
- 4.45 The Audit & Corporate Governance Committee receives interim and annual reports on internal audit activity and approves the annual audit plan and Audit Strategy.
- 4.46 The Audit Commission's Annual Audit and Inspection Letter dated February 2008 informed the Council that the Audit Services team's work conformed to the CIPFA Code of Practice on Internal Audit and that reliance could be placed on their work.
- 4.47 The Audit & Corporate Governance Committee has been advised of the implications of the result of the review of the effectiveness of the governance framework. The Committee will monitor progress with plans to address the weaknesses that have been identified in order to ensure that systems are continually improved.

5. SIGNIFICANT GOVERNANCE ISSUES

- 5.1 Progress with developing the Council's governance arrangements has been mixed in 2007/08.
- 5.2 A significant improvement in some key services is evident. Positive comment from the Audit Commission confirms improvements in the Council's arrangements for financial management, risk management and financial reporting. Services were provided within budget for the year and the annual efficiency target was also exceeded. Major elements of the Council's Constitution have been overhauled and an organisational development programme has been initiated. All but one of 17 fundamental system reviews for the year resulted in an audit opinion of satisfactory or better in line with the Council's minimum requirements.

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- 5.3 Progress in the year was inevitably overshadowed by early concerns about financial governance arrangements within ICT. Whilst serious, they must be kept in context as the Council moves forward. The difficulties were identified by the Audit Services team and not an external auditor or inspector, demonstrating the effectiveness and independence of the Council's in-house review processes. The way in which the Council responded to the Director of Resources' special report and Crookall review demonstrates the strength of the Council's commitment to good corporate governance by dealing with such matters in an open and transparent way. The Council's response also demonstrated its determination to address the issues promptly and effectively.
- 5.4 The following significant governance issues have been identified as a result of the annual review of the Council's governance arrangements:
- a. Complete the review of the Constitution and implement the remaining actions from the Director of Resources' special report and the Crookall review (Deputy Chief Executive, Assistant Chief Executive (Legal & Democratic Services) and Assistant Chief Executive (HR)).
 - b. Produce the Corporate Plan for 2010 – 2013 in accordance with the agreed timetable (Deputy Chief Executive).
 - c. Review and update the Medium Term Financial Strategy regularly in line with the agreed approach to integrating corporate, service and financial planning (Director of Resources).
 - d. Review the Code of Governance in line with the approved governance framework (Assistant Chief Executive (Legal & Democratic Services)).
 - e. Continue to promote improvement of the Council's financial management arrangements in line with the Use of Resources assessment criteria, audit reviews and the newly updated Constitution (Director of Resources and other Joint Management Team members with Council responsibilities).
 - f. Implement the remaining elements of the improvement plan for the Council's performance management arrangements and report progress to Cabinet in September 2008 (Deputy Chief Executive).
 - g. Implement the new assurance framework and risk management arrangements for 2008/09 and improve linkages between corporate, directorate and service risk registers (Assistant Chief Executive (Legal & Democratic Services)).
 - h. Continue to promote the Council's anti fraud, anti corruption and whistle-blowing policies, keeping them under regular review (Assistant Chief Executive (Legal & Democratic Services) and Director of Resources).
 - i. Continue to promote the Council's adopted approach to managing major programmes and projects (Deputy Chief Executive and other members of the Joint Management Team with Council responsibilities).
 - j. Continue to develop the Council's community engagement arrangements including strategic consultation on corporate objectives, priorities and budget allocations (Deputy Chief Executive and Director of Resources).

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- 5.5 Plans are already in place to address the above matters in order to further enhance the Council's governance arrangements. Progress with these plans will be monitored by Cabinet and the Audit & Corporate Governance Committee through established reporting procedures during the coming year.

Cllr Roger Phillips
Leader of the Council

Signed:
Date:

Chris Bull
Chief Executive & Head of Paid Services

Signed:
Date:

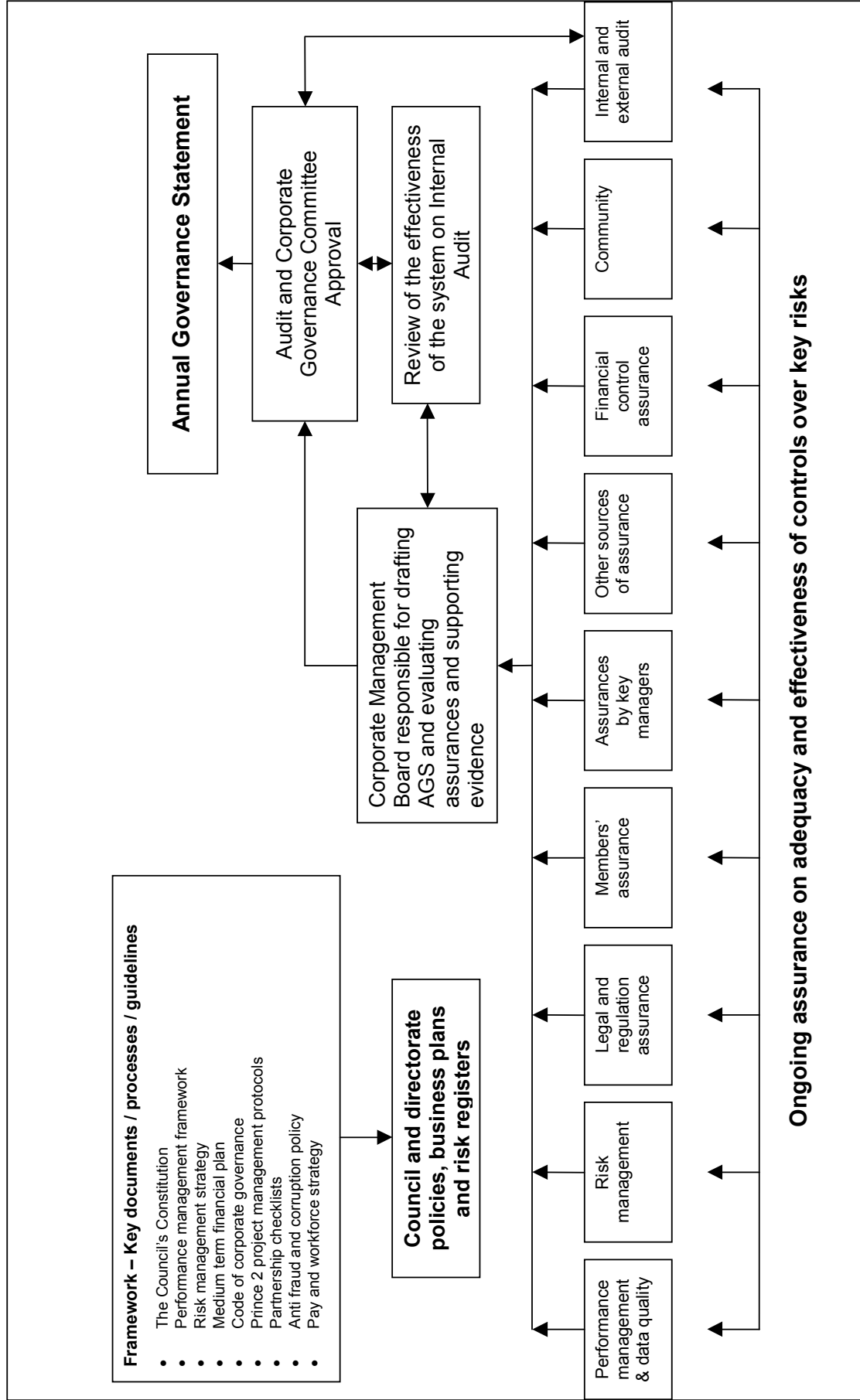
Sonia Rees
Director of Resources & Section 151 Officer

Signed:
Date:

Alan McLaughlin
Assistant Chief Executive & Monitoring Officer

Signed:
Date:

ANNUAL GOVERNANCE STATEMENT FRAMEWORK 2007/08



APPENDIX 2

ANNUAL GOVERNANCE STATEMENT FRAMEWORK 2007/08

STATEMENT OF ACCOUNTS 2007/08

Report By: DIRECTOR OF RESOURCES

Wards Affected

None.

Purpose

1. To report to the Audit and Corporate Governance Committee on the 2007/08 Statement of Accounts.

Financial Implications

2. These are outlined in the report.

RECOMMENDATION

THAT the Audit and Corporate Governance Committee approve the 2007/08 Statement of Accounts.

Reasons

3. The Accounts and Audit Regulations 2003 place a legal obligation on councils to approve their annual statement of accounts by 30 June.

Considerations

4. The purpose of the Statement of Accounts is to give electors, members, employees and other interested parties (including the Audit Commission) clear information about the council's finances.
5. The statement has been drawn up in accordance with the Accounts and Audit Regulations, the CIPFA Best Value Accounting Code of Practice 2007 and the CIPFA Code of Practice on Local Authority Accounting in Great Britain; A Statement of Recommended Practice 2007/08 (2007 SORP). The 2007 SORP consolidates the statutory requirements and accounting standards that the council is legally required to follow.
6. The Statement of Accounts comprises:
 - a. An Explanatory Foreword.
 - b. A Statement of Accounting Policies.
 - c. A Statement of Responsibilities for the Statement of Accounts.
 - d. The Accounting Statements.

Further information on the subject of this report is available from
David Powell, Head of Financial Services on 01432 383173

- e. Notes to the Accounts.
7. The core statements have to be presented in a particular order and supported by a consolidated set of notes as specified in the 2007 SORP. The statements and their order of presentation are:
- a. Income and Expenditure Account.
 - b. Statement of Movement on the General Fund Balance.
 - c. Statement of Recognised Gains and Losses.
 - d. Balance Sheet.
 - e. Cash Flow Statement.
8. In addition there is a supplementary statement on the Collection Fund, that shows the transactions relating to council tax and non-domestic rates.
9. The 2007 SORP introduced two main changes to the accounts as follows:
- a. There were changes to the way we classify and measure loans and investments and significant new disclosure requirements.
 - b. There is now a requirement to establish and maintain a Revaluation Reserve, representing the amount of net assets arising from Revaluations, with a starting point of zero as at 1 April 2007. Consequently, the former Fixed Asset Restatement Account and Capital Financing Account have merged into a new Capital Adjustment Account.

Income and Expenditure Account

10. The account brings together all income receivable and expenditure incurred in delivering services during 2007/08. The transactions are accounted for on an accruals basis meaning that they are represented in the period to which they relate. For example, this means that if income for a service supplied by the council in 2007/08 was received after the end of the financial year it was still included in the 2007/08 financial year. In some cases precise amounts are not known at the year-end and figures are included on an estimated basis using the best information available at the time.
11. The Income and Expenditure account includes all day-to-day expenses, related income and transactions covering the value of the council's fixed assets consumed. It also includes the value of retirement benefits earned by employees in 2007/08.
12. The Statement of Accounts contains expenditure on Dedicated Schools Grant (DSG). The funding is now covered by the £82.5m DSG and included in the income analysis of education services rather than Revenue Support Grant.
13. The Income and Expenditure account shows a net deficit of £12.975m in 2007/08 as compared to a deficit of £6.821m in 2006/07. This figure does not take into account a number of items which are included or excluded from the final position on revenue (as explained in paragraph 14). There was an overall net underspend of £0.6m in 2007/08 on the revenue account, that was used to set up an accommodation reserve.

Statement of Movement on General Fund Balance

14. This statement confirms the General Fund balance carried forward is £6.728m. The reduction in balance is largely explained by the budgeted use of reserves in 2007/08.
15. The statement reconciles the differences between the council's deficit of £12.975m on the Income and Expenditure account and the transfer from General Fund balances of £1.295 million. In effect this statement shows how financial performance (Income and Expenditure Account) compares with all amounts required to be debited or credited to the General Fund. Paragraph 10.3 of the Statement of Accounts provides a detailed analysis.

Statement of Total Recognised Gains and Losses

16. The statement brings together in one place all the gains and losses of the council for 2007/08 so that the aggregate position is shown. In 2007/08 there was an overall decrease (loss) of £41.643m including three key areas:
 - a. A £12.975m deficit on the income and expenditure account.
 - b. A £14.104m surplus arising from the revaluation of fixed assets.
 - c. A £41.825m loss on pension fund assets and liabilities.
17. The 2007/08 position compares with a £15.656m increase in net worth for 2006/07 when the total was largely made up of a surplus arising from the revaluation of fixed assets and actuarial gains on pension fund assets. The main movement this year relates to the pension fund revaluation. Details can be found at paragraph 10.29 of the Statement of Accounts.

Balance Sheet

18. The Balance Sheet summarises the council's assets, liabilities and other balances at the end of the financial year.
19. The overall position sees the council's total assets exceed liabilities by £103.279m with this being financed by various sources, the largest of which is the Capital Adjustment account at £182.850m. This is not a cash reserve, but includes amounts set aside to finance capital expenditure and revaluation of assets for prior years. From 2007/08, amounts arising from revaluation of assets are credited to a separate Revaluation Reserve.
20. The council's long-term assets increased from £338.39m to £378.77m during the year. This was mainly due to increases in fixed assets such as land and buildings as well as infrastructure. Current assets saw a slight increase in the amount owed to the council and an increase in our short-term investments.
21. The current liability position increased to £58.45m largely as a result of an increase in the council's creditors of £4.297m. A large element of this increase relates to grants received in advance of being used, which have been carried forward to fund future expenditure. The balance sheet also confirms the long-term borrowing of the council has increased to fund its capital programme. The council had £105.9m loan debt at 31 March 2008 compared with £93.9m at 31 March 2007.
22. A longer-term liability of £132.88m reflects the underlying commitments the council has over the longer term to pay employee retirement benefits. This arises because

employees are eligible to join the Local Government Pension Scheme administered by Worcestershire County Council. The deficit on the scheme will be made good by increased contributions over future years as assessed by the pension scheme's actuary.

Cash Flow Statement

23. The cash flow statement summarises all cash flowing in and out of the council arising from transactions with third parties. It excludes all internal transactions between the various parts of the council.
24. In 2007/08 cash outflows totalled £409.96m compared with cash inflows of £418.29m on revenue activities. The cash outflow includes the payments for operational activities whilst the cash inflow includes central government grants to fund council services (in addition to Revenue Support Grant and grant for housing benefits). Our revenue (day to day activity) cash flow saw £8.33m more cash received than we spent. However, our servicing of finance covering interest payments, interest received, and purchase of assets as well as sales of assets saw an £11.1m net cash outflow.
25. In summary, there was an overall increase in the net cash position of £909,000.

Collection Fund

26. Herefordshire is a billing authority and as such is statutorily required to establish and maintain a separate fund covering the collection of distribution of amounts due in respect of council tax and national non-domestic rates (NNDR).
27. In 2007/08 the total income on the Collection Fund was £130.36m representing an increase of £5.67m on the previous year. The income was also collected on behalf of West Mercia Police Authority, Hereford and Worcester Fire Authority, Parish Councils and the national pool for non-domestic rates.
28. The net position on the Collection Fund was a deficit of £136,000 compared to the previous year's deficit of £223,000.

Risk Management

29. The requirement to approve the Statement of Accounts by end of June is not only a legal requirement but also a Use of Resources assessment issue directly feeding into the Comprehensive Performance Assessment process. Further risk management activity is addressed by providing high quality working papers and officer time to help external auditors form an appropriate judgment on the Statement of Accounts by 30 September 2008.

Appendix

Appendix 1 – Statement of Accounts 2007/08.

BACKGROUND PAPERS

None.



HEREFORDSHIRE COUNCIL

STATEMENT OF ACCOUNTS

2007-2008

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1. INTRODUCTION

- 1.1 The 2007/08 financial year was a challenging one for the council. We continued to see increasing demand for our services and as noted in previous statements of accounts an increased level of statutory responsibilities has to be met by councils. To help meet these challenges the 2007/08 budget added just over £3.5 million to meet the pressures of increased demand for social care services by redesigning the way our services are delivered.
- 1.2 The council's accounts show a sound financial performance at this challenging time. The final position for our directorates' day to day expenditure was that we were able to deliver an overall under spend and we have added this to our reserves.
- 1.3 We continue to challenge the way we present our financial information. It is important that we are transparent about our finances so that our customers have understandable information. This is particularly important to the council as our gross expenditure of £361 million shows how significant our impact is on the Herefordshire community. For the third year we will also publish a bite-sized summary of the accounts. Copies will be placed in all our public offices.
- 1.4 Our financial performance is a key part of demonstrating that we provide value for money.

Cllr Harry Bramer
Cabinet Member for Resources

June 2008

2. EXPLANATORY FOREWORD

2.1 Introduction

2.1.1 The following Statement of Accounts for Herefordshire Council present the overall financial position for the Authority for the year ended 31st March 2008 and have been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, a statement of recommended practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2 Revenue Expenditure and Income

Summary

2.2.1 The overall position on the council's revenue account was an under spend of £591,000. The table below demonstrates that the under spend is overwhelmingly the result of corporate activity. The directorate over spend is largely accounted for by the cost of the community network upgrade within the former Corporate and Customer Services Directorate. The directorates' outturn has been significantly assisted by the allocation of £3.5m to help service improvement in 2007/08 and by applying the £1.3m central contingency for social care:

	£000
Directorate over spends	900
Treasury management including interest received	(804)
Additional central government funding	(581)
Other changes	(106)
Total under spend	<u>(591)</u>

2.2.2 The net under spend of £591,000 has been used to create an accommodation reserve, resulting in a final break-even position against budget. The actual transfer from revenue balances was £1.295 million, as budgeted.

Service Area Overspends

2.2.3 The net over spend for the council's directorates of £900,000 was made up as follows:

	Budget *	Actual *	(Under)/Over
	£000	£000	Spends
			£000
Directorate			
Adult & Community Services	58,256	58,278	22
Children and Young People's Services	32,430	32,430	0
Corporate and Customer Services	2,799	3,975	1,176
Environment	33,740	34,160	420
Human Resources	22	7	(15)
Resources	443	(142)	(585)
Central Services	7,380	7,262	(118)
Total	<u>135,070</u>	<u>135,970</u>	<u>900</u>

* These figures include reallocated support services, overheads and capital charges.

2.2.4 The position is the net result of a number of under and over spends. The most significant of these were:

a. Adult and Community Services

Over spending on adult services of £3.092 million, of which £2.274 million related to learning disabilities.

Over spending on Strategic Housing (£33,000) and Community Services (£324,000), offset by savings on Commissioning and Improvement of £182,000. The Directorate overspend was offset by the application of a central contingency (£1.054 million) and Invest to Save funding (£2.712 million). £521,000 was spent on Needs Analysis to support service change.

b. Children and Young People's Services

The Directorate central budget was over spent by £134,000. This included an over spend on schools' redundancy costs of £466,000 and savings on school transport of £575,000. Cost pressures on children's safeguarding and assessment services resulted in an over spend of £536,000. The Directorate out-turn was brought to a balanced position through the application of Invest to Save and contingency funding of £1.029 million.

c. Corporate and Customer Services

An under spend on ICT projects of £325,000 was realised after reducing the number of contractors and freezing vacancies. An over spend in Legal and Democratic Services of £160,000 arose in part due to the purchase of new computers and training for members following the election. The community network upgrade resulted in an over spend of £1.1 million after contributions from schools.

d. Environment

Environmental Health and Trading Standards budgets under spent by £917,000, the most significant area being within waste disposal (£693,000), which arose from the delay in agreeing the new contract. Planning services over spent by £417,000, mainly due to reduced fee income, ICT spending and legal costs. Highways and transportation over spent by £920,000 including £360,000 on flood damage. Other areas of over spend included winter maintenance (£175,000), car parking (£158,000) and street lighting (£177,000).

e. Human Resources

The under spend is due to less costs incurred for corporate training.

f. Resources

The under spend resulted from higher than budgeted housing benefit subsidy due to improved performance and some anticipated costs not materialising.

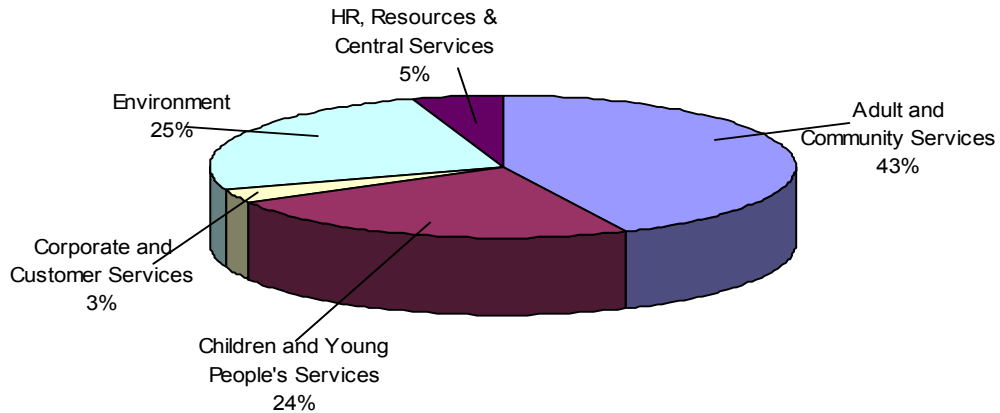
g. Central Services

Savings were realised on corporate subscriptions, insurance, audit commission fees and Environment Agency levies.

2.3 Analysis of Revenue Expenditure and Income

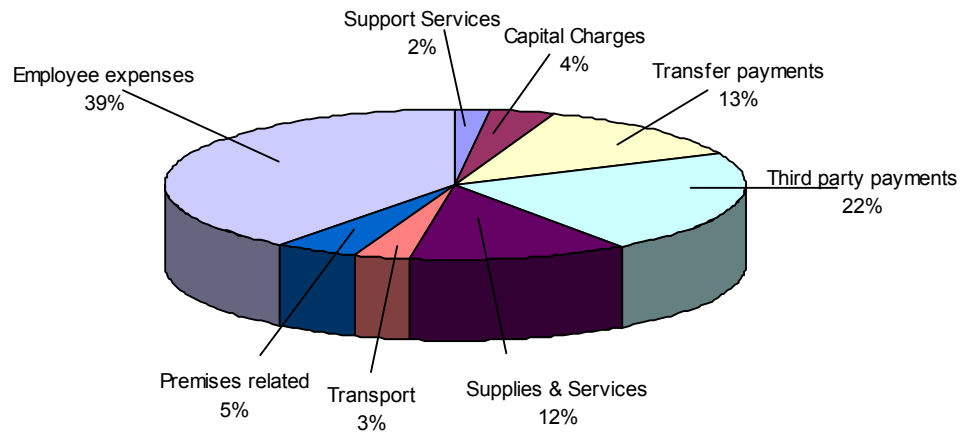
2.3.1 The net cost of services within the Income and Expenditure Account is £135.5 million, made up of the following directorates:

Analysis of Net Expenditure by Directorates



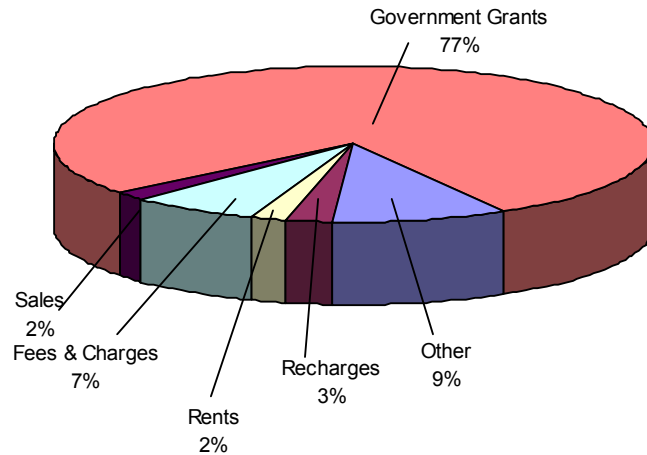
2.3.2 The gross cost of services was £360.6 million, spent on the following types of expenditure:

Analysis of Gross Service Expenditure



2.3.3 The gross income for the year for services was £225.1 million and came from the following sources:

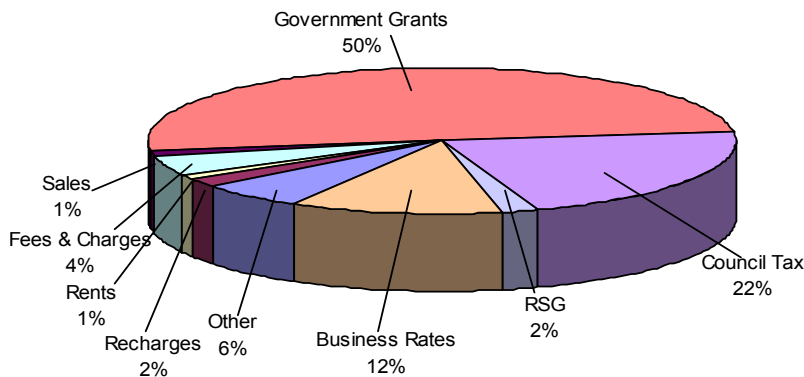
Analysis of Income within Services



2.3.4 The figure for government grants includes £82.5 million Dedicated Schools Grant. This commenced in 2006/07 and previously schools' funding was provided as part of the Revenue Support Grant outside of the education service accounts. The grants figure also includes £41.7 million in respect of the payment and administration of housing and council tax benefits.

2.3.5 In addition to income generated by services and service specific grants, the council received £6.8 million Revenue Support Grant and £40.8 million in redistributed non-domestic rates towards financing the council's net expenditure. Council tax income totalled £76.5 million in 2007/08 plus £0.25 million from the Collection Fund

Total Revenue Income



2.4 Capital Programme

2007/08 Out-turn

2.4.1 With regard to capital spending some £54.2 million was incurred compared to the original forecast of investment in the council's assets of £65 million. The difference was caused by programmes being delayed (slippage) with the main area being Herefordshire Connects, the council's transformation project, which was originally budgeted to spend £19.3 million in 2007/08 but was suspended subject to review with only £0.3 million spent in the year.

2.4.2 Herefordshire Council utilised supported borrowing of £10.0 million, capital receipts reserve funding of £7.1 million, grants of £26.5 million, revenue contributions of £3.2 million and prudential borrowing of £7.4 million to fund capital expenditure in 2007/08.

Summary of Capital Expenditure

2.4.3 Capital expenditure for the year is summarised as follows:

	£000
Highways, footways and bridges	17,626
Education new build, refurbishment and improvements to existing schools	12,077
Ross on Wye Flood Alleviation	5,237
Affordable Housing Grants and Private Sector Renewal	4,179
Hereford Flood Alleviation	2,172
Purchase of Properties, Hereford	1,965
New Livestock market, Hereford	1,868
New Crematorium, Hereford	1,125
Friar St Museum and Resource Centre	1,021
Other schemes	6,930
	<u>54,200</u>

2.4.4 Prudential Borrowing

When the usual sources such as grants and supported borrowing cannot fund a scheme in full then the use of unsupported prudential borrowing can be considered. In 2007/08 the council utilised £7.4 million of prudential borrowing to fund the capital programme. The table below summarises the out-turn position against planned prudential borrowing:

	£000	£000
2007/08 Planned Prudential Borrowing		16,988
Add: Slippage from 2006/07		16,288
Less: Slippage into future years	(24,735)	
No longer required	(1,181)	(25,916)
		<u>7,360</u>

2.4.5 Included in the £24.7 million slippage into future years is £19 million for Herefordshire Connects.

Future years' capital programme

2.4.6 The council maintains as a minimum a full three-year rolling capital programme reflecting commitments, links to strategic plans and estimated sources of capital funding. The forecast capital programme detailed by the sources of funding is as set out below.

	2008/09	2009/10	2010/11
	£000	£000	£000
Sources of funding			
Grants and Contributions	19,961	31,466	27,249
Prudential Code Borrowing	14,911	9,256	9,740
Capital Receipts Reserves	10,104	1,347	745
Supported Borrowing	12,750	13,567	13,230
Revenue Funded	170	-	-
	<u>57,896</u>	<u>55,636</u>	<u>50,964</u>

2.5 The Council's Borrowing

2.5.1 The council's borrowing strategy is determined each year within the Treasury Management Strategy, which is approved as part of the budget process. External borrowing is taken out to support the council's capital programme and borrowing limits are set in accordance with the Prudential Code for Capital Finance in Local Authorities.

2.5.2 In 2007/08 £12.5 million of new loans were taken out as follows:

Date	Amount £	Period of loan	Rate of Interest
27/11/2007	5,000,000	34 years	4.48%
7/1/2008	5,000,000	30 years	4.42%
13/3/2008	2,500,000	4 years	3.99%

2.5.3 The council had a total of £105.9 million outstanding loan debt at 31st March 2008 of which £12.5 million was repayable within 12 months.

2.6 The Council's Reserves

2.6.1 The council retained a minimum level of general reserves of £3 million as a contingency against unforeseen emergencies and events. At the end of 2007/08 the council held general reserves of £6.7 million compared with a position of £8 million in 2006/07. Specific reserves totalled £16.6 million (£19.8 million in 2006/07), which are detailed in paragraph 10.20 to the Statements.

2.7 Pensions

2.7.1 In accordance with Financial Reporting Standard 17 on Retirement Benefits (FRS 17), Paragraph 10.29 to the Statements sets out the council's assets and liabilities in respect of the Local Government Pension Scheme (LGPS). Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund. The net deficit shown as at 31st March 2008 is £132.9 million, which is approximately 70% of the market value of the assets (43% at 31st March 2007). Whilst this deficit does not have to be met immediately from the council's reserves, action must be taken over a period of years to eliminate it. The pension fund position is reviewed every three years and was last revalued as at 31st March 2007. Further to the revaluation, the council's employers' contribution will increase from 18.2% of pensionable pay in 2007/08 to 20.4% by 2010/11, with phased increases over that period.

2.8 The 2007/2008 Statement of Accounts

2.8.1 The council's accounts are detailed in the following pages and comprise:

a. The Income and Expenditure Account

This account brings together all income receivable and expenditure incurred in delivering the Authority's services during 2007/08.

b. The Statement of Movement on the General Fund Balance

This reconciliation statement shows the differences between the outturn on the Income and Expenditure Account and the amount required to be transferred to or from General Fund balances.

c. The Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the council for the year.

d. The Balance Sheet

This shows the authority's financial position for the year ended 31st March 2008, and represents the value of all assets and liabilities.

e. Cash Flow Statement

This represents a summary of all cash flowing in and out of the council arising from transactions with third parties. All internal transactions between the various accounts maintained by the council are excluded.

f. Notes to the Statements

The notes to the core financial statements provide further information on the financial activities of the council.

g. The Collection Fund

This statement shows all income collected from council taxpayers and business ratepayers (NNDR). Expenditure includes precept payments to the West Mercia Police Authority and Hereford & Worcester Fire Authority, representing income collected from council taxpayers on their behalf, and NNDR contributions payable to central government.

2.8.2 The Statement of Accounts was authorised for issue on 20th June 2008 by the Director of Resources, Mrs Sonia Rees.

2.8.3 Further information about the council's finances is available from the Director of Resources, Herefordshire Council, Brockington, 35, Hafod Road, Hereford, HR1 1SH.

**Mrs Sonia Rees CPFA
Director of Resources
June 2008**

3. STATEMENT OF ACCOUNTING POLICIES

3.1 General Principles

3.1.1 The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice. This Code is recognised by statute as representing proper accounting practice.

3.2 Accruals of Income and Expenditure

3.2.1 Revenue and capital transactions are accounted for on an accruals basis. Customer and client receipts are accounted for in the period to which they relate. The cost of supplies and services are accrued and accounted for in the period during which they were consumed or received. Interest payable on external borrowings and interest income is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Debtors and creditors are included in the accounts on an actual basis where known, or on an estimated basis where precise amounts are not established at the year-end.

3.3 Reserves and Provisions

3.3.1. The council maintains a number of provisions and earmarked reserves to cover future expenditure.

3.3.2 Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged to the cost of services when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are made they are charged to the provision set up in the balance sheet. The largest and by far the most material provision is the insurance provision, which has been subject to an independent evaluation.

3.3.3 The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund. When expenditure to be financed from a reserve is incurred it is charged to the appropriate revenue account and included in the net cost of services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no charge against council tax for the expenditure.

3.4 Grants

3.4.1 Revenue and capital grants are accounted for on an accruals basis. Revenue grants are matched in service revenue accounts with the expenditure to which they relate, except for grants covering general expenditure (e.g. Revenue Support Grant), which are credited to the Income and Expenditure Account after Net Operating Expenditure. Capital grants are credited to the Capital Contributions Deferred account and released to service revenue accounts in line with the depreciation on the assets to which the grant relates.

3.5 Pensions

3.5.1 Employees of the council are members of two separate pension schemes;

- a. The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF)

- b. The Local Government Pension Scheme administered by Worcestershire County Council.
- 3.5.2 Both schemes provide defined benefits to members, earned as employees work for the council.
- 3.5.3 However, the arrangements for the Teachers' scheme mean that the liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to the Teachers' Pensions Scheme in the year.
- 3.5.4 The Local Government Pension Scheme is accounted for as a defined benefits scheme as follows:
- a. The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees.
 - b. Liabilities are discounted to their value at current prices
 - c. Assets are included in the Balance Sheet at their fair value
 - d. The change in the net pensions liability is analysed into seven components;
 - i. **Current service cost:** The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the Income and Expenditure Account.
 - ii. **Past service cost:** The increase in liabilities arising from current year decisions whose effect relates to service earned in earlier years is debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
 - iii. **Interest cost:** The expected increase in the present value of liabilities during the year as they move one year closer to being paid is debited to Net Operating Expenditure in the Income and Expenditure Account.
 - iv. **Expected return on assets:** The annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return, is credited to Net Operating Expenditure in the Income and Expenditure Account.
 - v. **Gains/losses on curtailments:** The results of actions to relieve the council of liabilities or events that reduce the expected future benefits of employees is included in the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
 - vi. **Actuarial gains and losses:** Changes in the net pensions liability that arise because events have not coincided with assumptions previously made by the actuaries is included in the Statement of Total Recognised Gains and Losses.

vii. Contributions paid to the pension fund: Cash paid as employer's contributions to the pension fund.

3.5.5 Statutory provisions limit the council to raising council tax to cover amounts payable by the council to the pension fund in the year. In the Statement of Movement on the General Fund Balance there is an appropriation to or from the Pensions Reserve to replace the notional costs of retirement benefits with the amounts payable to the pension fund in the year.

3.5.6 Further information on accounting for the pension fund is set out in paragraph 10.29 to the Statements.

3.6 VAT

3.6.1 Income and expenditure excludes any amounts relating to VAT as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

3.7 Overheads and Support Services

3.7.1 The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2007. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- a. **Corporate and Democratic Core:** The costs relating to the council's status as a multi-functional, democratic organisation.
- b. **Non Distributed Costs:** The cost of discretionary benefits awarded to employees retiring early and capital charges on non-operational assets.

3.7.2 The two categories are accounted for as separate headings in the Income and Expenditure Account as part of Net Cost of Services.

3.8 Intangible Fixed Assets

3.8.1 Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one year. The balance is amortised to revenue over the economic life of the investment to reflect the pattern of consumption.

3.9 Tangible Fixed Assets

3.9.1 Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition

3.9.2 Expenditure on the acquisition, creation and enhancement of a fixed asset is capitalised on an accruals basis providing that it yields benefits to the council for more than one year.

Measurement

3.9.3 In accordance with Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS), fixed assets are included in the Balance Sheet on the following basis:

- a. **Operational land, properties and other operational assets:** The lower of net current replacement cost and net realisable value in existing use.

- b. **Infrastructure and community assets:** Depreciated historical cost.
- c. **Non-operational land, properties and other non-operational assets:** The lower of net current replacement cost and net realisable value.

3.9.4 Contrary to the CIPFA capital accounting guidance, tenanted farms will continue to be disclosed as non-operational assets (Investment Properties) in the 2007/08 accounts, as these properties do not contribute to service objectives of the council.

Revaluations

3.9.5 When an asset is included in the Balance Sheet at current value, it is formally revalued at intervals of not more than five years and the revised amount is included in the Balance Sheet. Increases in valuations are credited to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

3.9.6 The Revaluation Reserve contains revaluation gains recognised since 1 April 2007. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Disposals

3.9.7 When an asset is disposed of, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Receipts are appropriated to the Usable Capital Receipts Reserve from the Statement of Movement on the General Fund Balance.

3.9.8 The written-off value of disposals is not a charge against council tax. Amounts are therefore appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

Depreciation

3.9.9 Depreciation is charged on all fixed assets with a finite useful life excluding freehold land and non-operational investment properties. The council depreciates its fixed assets on a straight-line basis over the estimated expected useful life (applying a maximum 50 years limit) and after allowing for any residual value of the asset. The council's valuer makes an informed assessment of the appropriate rate of depreciation dependent on the suitability and age of the asset. Land and buildings are valued separately to enable depreciation to be charged on buildings only. New assets are not subject to a depreciation charge in the year of acquisition.

3.9.10 Revaluation gains are also depreciated by an amount equal to the difference between current value depreciation charged on assets and the depreciation chargeable on historical cost. Depreciation on revaluation gains is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Impairment

3.9.11 Where impairment is identified this is accounted for in the relevant service revenue account when it is clearly attributable to the consumption of economic benefits by a service. In other cases impairment is written off against any revaluation gains attributable to the Revaluation Reserve, with any excess being charged to the relevant service revenue account.

3.9.12 Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

3.10 Charges to Revenue for Fixed Assets

3.10.1 Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year;

- a. Depreciation attributable to the assets used by the relevant service.
- b. Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- c. Amortisation of intangible fixed assets attributable to the service.

3.10.2 The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make prudent provision from revenue towards debt repayment. For supported borrowing the council sets aside 4% per annum for debt repayment and for prudential borrowing the principal is repaid over the life of the asset. Depreciation, impairment losses and amortisations are therefore replaced by a revenue provision in the Statement of Movement on the General Fund Balance through an adjustment to the Capital Adjustment Account.

3.11 Deferred Charges

3.11.1 Deferred charges represent expenditure that may be capitalised under statutory provisions but does not result in the creation of a tangible asset. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. A transfer to the Capital Adjustment Account reverses out the amounts charged in the Statement of Movement on the General Fund Balance so that there is no impact on the council tax.

3.12 Leases

3.12.1 Rentals for operating leases are charged to revenue on an accruals basis.

3.13 Financial Liabilities

3.13.1 Financial liabilities are initially measured at fair value and carried at amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument. For most of the borrowings that the council has, the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement. However, the council has two stepped interest rate loans, where the effective interest rate differs from the loan agreement.

3.13.2 Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted

from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

3.13.3 Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over the future years. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

3.13.4 There were no premiums or discounts in the 2007/08 accounts.

3.14 Financial Assets

3.14.1 All financial assets have been classified as 'loans and receivables'. These are assets that have fixed or determinable payments but are not quoted in an active market.

3.14.2 Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable is based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and the interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

3.14.3 Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

3.14.4 Any gains or losses that arise on the de-recognition of the asset are credited/debited to the Income and Expenditure Account.

3.15 Stocks and Work-in-Progress

3.15.1 Stock has been included in the accounts at current cost.

3.16 Amey Wye Valley Limited

3.16.1 During 2007/08 Amey Wye Valley Limited took over a long term contract that Herefordshire Jarvis Services had entered in to with Herefordshire Council in 2003. In accordance with the accounting treatment set out in FRS 9 (Associates and Joint Ventures) no group accounts are required for the partnership with Amey Wye Valley. This is conducted as a contractual arrangement with the transactions included in the Income and Expenditure account and capital accounts.

3.17 Private Finance Initiative

3.17.1 Private Finance Initiative (PFI) contracts are agreements to receive services where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor.

3.17.2 Under FRS 5, assets employed in the provision of services under PFI contracts are recorded on either the Balance Sheet of the council or the service provider, depending on which party has access to the benefits and risks associated with the assets.

3.17.3 The council has two PFI contracts, one in partnership with Worcestershire County Council for the provision of waste management services and the other for the provision of a secondary school at Whitecross. The assets employed in the provision of services under both contracts are deemed to be the service operator's assets under the provisions of FRS 5. Accordingly they are not recorded as Fixed Assets in the council's Balance Sheet.

3.17.4 However under FRS 5 it is appropriate to recognise the residual value of the assets that will transfer to the council's ownership at the end of the PFI contract. The assets are valued and an annual sum is calculated on a straight-line basis over the duration of the PFI contract. The sum is transferred from the revenue PFI payment to the Balance Sheet to be accrued as a Long Term Debtor. At the end of the PFI contract the Long Term Debtor is transferred to a Fixed Asset category.

3.18 Landfill Allowances Scheme

3.18.1 The Landfill Allowance Trading Scheme (LATS) is a 'cap and trade' scheme, which allocates tradable landfill allowances to each waste disposal authority (WDA). The scheme gives rise to:

- a. An asset for allowances held.
- b. LATS grant income.
- c. A liability for actual landfill usage.

3.18.2 Landfill allowances, issued free by the Department for Environment, Food and Rural Affairs (DEFRA), are treated as a government grant in revenue and recognised as a current asset in the Balance Sheet. As landfill is used a liability is recognised by creating a provision, which is discharged by using allowances or paying a cash penalty to DEFRA. Allowances can be traded between WDAs. Paragraph 10.31 to the Statements provides details of the 2007/08 usage.

3.19 Estimation Techniques

3.19.1 Where precise amounts are not known at the year-end, figures are included in the accounts on an estimated basis using the best information available at that time.

3.19.2 The Housing Benefit Subsidy figures are included in the accounts on the basis of an estimated claim form, as the claim is completed and audited at a later date.

3.19.3 An estimate has been included in the 2007/08 accounts in respect of Local Partnership Service Agreement reward grant. The estimate is based on an assessment of the reward grant the council will receive for our performance against the targets the council agreed with Government Office West Midlands.

3.19.4 There are no estimates in the 2007/08 accounts which would materially affect the fair presentation of the accounts had a different estimation technique been applied.

4. STATEMENT OF RESPONSIBILITIES

4.1 The Council's Responsibilities

4.1.1 The council is required to:

- a. Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Resources.
- b. Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- c. Approve the statement of accounts.

4.2 The Director of Resources' Responsibilities

4.2.1 The Director of Resources is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. The Statement of Accounts is required to set out fairly the council's financial position as at 31st March 2008 and its income and expenditure for the financial year.

4.2.2 In preparing this statement of accounts, the Director of Resources has:

- a. Selected suitable accounting policies and then applied them consistently.
- b. Made judgements and estimates that were reasonable and prudent.
- c. Complied with the Code of Practice.

4.2.3 The Director of Resources has also:

- a. Kept proper accounting records which were up to date.
- b. Taken reasonable steps for the prevention and detection of fraud and other irregularities.

4.3 Certificate of the Director of Resources

4.3.1 I certify that the Statement of Accounts present fairly the financial position of Herefordshire Council at 31st March 2008 and its income and expenditure for that period.

Mrs Sonia Rees CPFA
Director of Resources
20th June 2008

5. INCOME AND EXPENDITURE ACCOUNT

5.1 This account reports the costs of all the functions for which the council is responsible and shows how they have been financed from central government grants and income from local taxpayers. It includes all day-to-day expenses and related income as well as transactions measuring the value of fixed assets consumed and the real projected value of retirement benefits earned by employees in the year.

5.2 The Income and Expenditure Account for 2007/08 is set out below:

2006/07 Net £000	Note	2007/08 Expenditure £000	2007/08 Income £000	2007/08 Net £000
Directorate				
55,312		98,603	40,325	58,278
28,637		151,916	119,725	32,191
2,840		5,999	2,024	3,975
31,578		49,656	15,496	34,160
41		143	136	7
(435)		46,781	46,923	(142)
4,368		7,588	518	7,070
122,341		360,686	225,147	135,539
(1,352)				(594)
2,141				2,217
1,224				0
4,058	10.18			4,348
233				40
(11,871)	10.29			(14,060)
14,339	10.29			15,876
(2,736)	10.18			(3,234)
128,377				140,132
Sources of Finance				
(1,417)				(1,581)
0				(1,148)
(73,244)				(76,524)
(500)				(256)
(7,610)				(6,847)
(38,767)				(40,801)
(121,538)				(127,157)
6,839				12,975
(Surplus) or Deficit for the year				

5.3 The net cost of services is shown above analysed by the council's directorates, in line with the way the council's budgets are compiled and monitored. The directorate figures shown in paragraph 2.2.3 include some items which are

required to be shown after the net cost of services in the Income and Expenditure account.

- 5.4 The Accounting Code of Practice requires that service expenditure analysis should be shown in accordance with the Best Value Accounting Code of Practice (BVACOP) for consistency and comparability among local authorities. The BVACOP analysis is set out below:

2006/07 Net £000		2007/08 Expenditure £000	2007/08 Income £000	2007/08 Net £000
BVACOP Analysis of Services				
1,609	Central services	14,466	11,744	2,722
209	Court services	235	0	235
27,511	Cultural, environmental and planning services	50,436	18,080	32,356
29,084	Children and Educational services	153,360	120,906	32,454
15,174	Highways, roads and transport services	23,240	8,827	14,413
6,049	Housing services	43,162	38,224	4,938
36,942	Adult Social Care	64,696	25,265	39,431
3,919	Corporate and democratic core	4,643	362	4,281
906	Non-distributed costs	3,438	0	3,438
938	Other services	3,010	1,739	1,271
122,341	Net Cost of Services	360,686	225,147	135,539

- 5.5 In both versions of the Income and Expenditure account the net cost of services is shown after support services have been recharged, so that the recharged cost is reflected only in the accounts of the service receiving it. This is also a requirement of BVACOP.

- 5.6 Under the BVACOP analysis of the Income and Expenditure Account:

- a. **Central Services** includes local tax collection, registration of births, deaths and marriages, elections, emergency planning, and local land charges.
- b. **Corporate and Democratic Core** includes two categories of expenditure, Democratic Representation and Management (DRM) and Corporate Management Costs. DRM includes all aspects of members' activities and Corporate Management includes activities that provide the infrastructure that allows services to be provided e.g. the Chief Executive, external audit, corporate level financing and treasury management.
- c. **Non-distributed costs** include costs relating to retirement benefits and capital charges for non-operational assets.

6. STATEMENT OF MOVEMENT ON GENERAL FUND BALANCE

6.1 The Income and Expenditure Account shows the council's performance in terms of the resources consumed and generated during the year. However, the authority is required to raise council tax on a different accounting basis with additional amounts of income and expenditure credited or charged to the General Fund.

6.2 The main differences are:

- a. Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- b. The payment of a share of housing capital receipts to the Government is a loss in the Income and Expenditure Account, but is met from capital receipts rather than council tax.
- c. Retirement benefits are charged as amounts become payable to pension funds rather than as future benefits are earned.
- d. The movement on the General Fund balance also takes into account movements to and from earmarked reserves.

6.3 This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund balance.

2006/07	2007/08
£000	£000
6,839 (Surplus)/Deficit on the Income and Expenditure Account	12,975
(337) Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(11,680)
6,502 Decrease /(Increase) in General Fund Balance for the Year	1,295
(14,525) General Fund Balance brought forward	(8,023)
(8,023) General Fund Balance carried forward	(6,728)

6.4 Paragraph 10.3 to the accounts provides a detailed analysis of the differences between the Income and Expenditure Account and the movement on the General Fund balance.

7. STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

7.1 This statement brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus or loss generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

7.2 The Statement of Total Recognised Gains and Losses in 2007/08 is set out below.

2006/07	2007/08
£000	£000
6,839 (Surplus)/Deficit for the year on the Income and Expenditure Account	12,975
(8,656) Surplus arising on revaluation of fixed assets	(14,104)
0 Prior year adjustment – Financial Instruments	504
822 Movement on Collection Fund balance	443
(14,643) Actuarial (gains)/losses on pension fund assets and liabilities	41,825
(15,638)	41,643

7.3 The prior year adjustment for Financial Instruments represents the re-stated Financial Liabilities balance as at 31st March 2007. The balances recognise the adjustment made to the amortised costs as at 1st April 2007 for two Lenders Option-Borrowers Option (LOBO) loans, which have been adjusted using the Effective Interest Rate.

7.4 An analysis of the actuarial gains and losses is shown in paragraph 10.29.16.

8. BALANCE SHEET AS AT 31ST MARCH 2008

31.3.07		Note	31.3.08	31.3.08
£000			£000	£000
	Fixed Assets	10.13,10.15		
3,908	Intangible Fixed Assets	10.12	2,037	
	Tangible Fixed Assets			
	Operational Assets			
209,125	- Land and buildings		219,955	
4,204	- Vehicles, plant, furniture and equipment		4,794	
76,920	- Infrastructure assets		95,706	
1,790	- Community Assets		2,560	
41,908	Non-operational Assets		53,075	
<u>337,855</u>				378,127
519	Long-term debtors			624
14	Long-term investments	10.18		14
<u>338,388</u>	Total Long-term Assets			<u>378,765</u>
	Current Assets			
173	Stocks and work-in-progress		206	
21,384	Debtors	10.26	22,500	
40,985	Short-term Investments	10.18	41,703	
921	Landfill Allowance	10.31	238	
2,677	Cash and bank		3,536	
<u>66,140</u>				68,183
	Current Liabilities			
33,466	Creditors	10.25	37,763	
13,412	Short term borrowing	10.18	14,079	
6,658	Cash overdrawn		6,608	
<u>53,536</u>				58,450
<u>350,992</u>	Total Assets less Current Liabilities			<u>388,498</u>
81,389	Long-term borrowing	10.18	94,264	
33,066	Capital contributions deferred		55,630	
7	Debt liability		6	
88,851	Pensions liability		132,878	
2,762	Provisions	10.19	2,441	
<u>206,075</u>				285,219
<u>144,917</u>	Total Assets less Liabilities			<u>103,279</u>
	Financed by;			
183,068	Capital adjustment account	10.1,10.20		182,850
0	Revaluation reserve	10.1,10.20		12,592
0	Financial instruments adjustment account	10.20		(501)
(88,851)	Pensions reserve	10.20,10.29		(132,878)
22,426	Usable capital receipts	10.20		17,945
332	Deferred credits			269
145	Collection Fund			(298)
19,774	Earmarked reserves	10.20		16,572
8,023	Revenue balances	10.20		6,728
<u>144,917</u>	Total net worth			<u>103,279</u>

9. CASH FLOW STATEMENT

2006/07 £000		2007/08 £000	2007/08 £000
	Revenue Activities		
	Cash outflows		
125,409	Cash paid to and on behalf of employees	131,810	
163,464	Other operating cash payments	191,527	
28,562	Housing Benefit paid out	30,216	
36,508	National non-domestic rate payments to national pool	38,822	
252	Payments to the Capital Receipts Pool	174	
16,554	Precepts paid	17,412	
370,749			409,961
	Cash inflows		
(79,134)	Council Tax income	(83,079)	
(38,767)	National non-domestic rate receipts from national pool	(40,801)	
(36,725)	Non domestic rate receipts	(37,244)	
(7,609)	Revenue Support Grant	(6,847)	
(27,968)	DWP grants for benefits	(28,435)	
(139,086)	Other government grants	(154,292)	
(57,641)	Other operating cash receipts	(67,595)	
(386,930)			(418,293)
(16,181)	Revenue Activities Cash Flow		(8,332)
	Servicing of Finance		
	Cash outflows		
3,896	Interest paid	4,222	
	Cash inflows		
(2,258)	Interest/discount received	(2,712)	
1,638			1,510
	Capital Activities		
	Cash outflows		
27,551	Purchase of fixed assets	42,405	
11,777	Other capital cash payments	9,618	
39,328			52,023
	Cash inflows		
(6,583)	Sale of fixed assets	(3,269)	
(7,848)	Capital grants received	(26,735)	
(1,853)	Other capital cash receipts	(4,097)	
(16,284)			(34,101)
8,501	Net cash (inflow)/outflow before financing		11,100
	Management of Liquid Resources		
2,770	Net decrease in short term investments		166
	Financing		
	Cash outflows		
8,443	Repayments of amounts borrowed	464	
	Cash inflows		
(20,000)	New loans raised	(12,639)	
(11,557)			(12,175)
(286)	Net decrease/(increase) in cash		(909)

9.1 Further information can be found in paragraph 10.32 to the Statements.

10. NOTES TO THE CORE STATEMENTS

10.1 Prior Period Adjustments

10.1.1 The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006/07 to accommodate the implementation of the Revaluation Reserve (see the fixed asset accounting policy, paragraph 3.9). The Revaluation Reserve replaces the Fixed Asset Restatement Account (FARA). The credit balance of £121.8 million on the FARA at 31 March 2007 has been written off to the Capital Financing Account (£61.2 million credit) to form the new Capital Adjustment Account with a credit balance of £183 million. The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2008 therefore only shows revaluation gains accumulated since 1 April 2007.

10.2 Trading Operations

10.2.1 The council has a number of trading units where the service manager is required to operate in a commercial environment and generate income from external customers.

10.2.2 Significant trading accounts are summarised as follows:

		2007/08 £000	2007/08 £000
Markets The council owns and manages open and closed markets, generating income from permanent and temporary letting of premises and market stalls. The surplus in 2006/07 was £245,000.	Turnover	(731)	
	Expenditure	560	
	Surplus	<u> </u>	(171)
Industrial & Commercial Estates The council owns and manages a number of industrial and commercial estates in the County. The surplus in 2006/07 was £1.02 million.	Turnover	(1,992)	
	Expenditure	541	
	Surplus	<u> </u>	(1,451)
Retail Properties The council owns retail premises in Hereford City centre from which it receives commercial rents. The surplus in 2006/07 was £262,000.	Turnover	(603)	
	Expenditure	32	
	Surplus	<u> </u>	(571)

10.2.3 In previous years ICT Services has been treated as a trading account, but in 2007/08 they have been treated as a support service within the Corporate and Customer Services Directorate.

10.3 Breakdown of the amounts in addition to the Income and Expenditure Accounts required to be debited or credited to the General Fund for the year

10.3.1 The Income and Expenditure Account shows the financial performance for the year measured by resources consumed and generated over the year. However, the amount required to be raised from council tax is calculated on a different basis with additional items charged or credited to the General Fund as follows:

2006/07	2007/08
£000	£000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	
(1,807) Amortisation of intangible fixed assets	(2,176)
(8,310) Depreciation and impairment of fixed assets	(13,915)
3,755 Government Grants deferred amortisation	2,292
(4,284) Write down of deferred charges to be financed from capital resources	(3,274)
0 Effective Interest Rate adjustment	3
1,478 Surplus or loss on the sale of fixed assets (non-revenue)	633
<u>(11,727)</u> Net charges made for retirement benefits in accordance with FRS17	<u>(12,145)</u>
(20,895)	(28,582)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year	
5,378 Statutory provision for repayment of debt	6,950
0 Capital expenditure charged to the General Fund Balance	3,251
(233) Transfer of usable capital receipts to meet payments to the Housing Capital Receipts Pool	(40)
8,847 Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	9,943
<u>13,992</u>	<u>20,104</u>
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	
5,832 Net transfer to/(from) earmarked reserves	(3,202)
734 Voluntary provision for repayment of debt	0
<u>(337)</u>	<u>(11,680)</u>

10.4 Section 137 of the Local Government Act 1972

10.4.1 Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds and not-for-profit bodies. The council spent £507,445 in 2007/08 under these powers.

10.5 Publicity

10.5.1 Section 5 of the Local Government Act 1986 requires local authorities to record expenditure on publicity. In 2007/08 the total was £1,054,000 split as set out below.

2006/07		2007/08
£000		£000
511	Recruitment advertising	398
22	Other advertising	30
458	Other publicity	626
<u>991</u>		<u>1,054</u>

10.6 Building Regulations Charging Account 2007/08

10.6.1 The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control section cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control function divided between the chargeable and non-chargeable activities.

Total Building Control 2006/07 £000		Chargeable 2007/08 £000	Non-Chargeable 2007/08 £000	Total Building Control 2007/08 £000
Expenditure				
564	Employee Expenses	411	137	548
37	Transport	24	8	32
15	Supplies & Services	15	5	20
346	Support Services	314	35	349
<u>962</u>	Total Expenditure	<u>764</u>	<u>185</u>	<u>949</u>
Income				
(710)	Building Regulation Charging	(712)	0	(712)
<u>252</u>	(Surplus)/Deficit for the Year	<u>52</u>	<u>185</u>	<u>237</u>

10.7 The Local Authority (Goods and Services Act) 1970

10.7.1 The Act empowers local authorities to provide goods and services to other public bodies. In 2007/08 services were provided to the following organisations:

2006/07 £000	Organisation	2007/08 £000
14	Hereford College of Art & Design	2
6	Hereford College of Technology	5
71	Hereford and Worcester Fire Brigade	73
<u>91</u>		<u>80</u>

10.8 Partnership Schemes Under Section 75 of the Health Act 2006

10.8.1 There are seven Section 75 agreements between the council and Primary Care Trust (PCT).

10.8.2 Three are hosted by the PCT:

- Mental Health.
- Hillside Intermediate Care.
- Blanchworth Contract, Kington.

10.8.3 The four agreements hosted by the council are:

- Learning Disabilities.
- Integrated Community Equipment Store (ICES).
- Free Nursing Care (FNC).
- Joint Agency Management for Out of County Placements.

Mental Health

10.8.4 This Section 75 agreement is the integrated mental health and social care service. This service is available to all residents within the county of Herefordshire.

10.8.5 The main partners in this pooled budget and their contributions were:

- Herefordshire Primary Care Trust - £15.9 million.
- Herefordshire Council - £4.9 million.

10.8.6 Gross income and expenditure for the year is summarised below:

2006/07 £000		2007/08 £000	
(19,120)	Gross Income	(20,828)	
20,920	Gross Expenditure	24,234	
<u>1,800</u>	Net over / (under) spend	<u>3,406</u>	

10.8.7 The council's gross over spend for mental health was £1,119,605.

Hillside Intermediate Care

10.8.8 Hillside is a residential intermediate care service provided as a partnership between Herefordshire Council and Herefordshire Primary Care Trust. Its aim is to promote independence and enable individuals to maximise their potential allowing them to return home quickly as possible following an episode of ill-health.

10.8.9 The main partners in this pooled budget and their contributions were:

- Herefordshire Primary Care Trust - £847,247.
- Herefordshire Council - £353,383.

10.8.10 Gross income and expenditure for the year is summarised below:

2006/07 £000		2007/08 £000	
(1,225)	Gross Income	(1,201)	
1,383	Gross Expenditure	1,241	
<u>158</u>	Net over / (under) spend	<u>40</u>	

10.8.11 The council's gross overspend for Hillside intermediate care was £11,757.

Blanchworth Contract, Kington

10.8.12 The main partners in this pooled budget and their contributions were:

- a. Herefordshire Primary Care Trust - £510,515.
- b. Herefordshire Council - £348,610.

10.8.13 Gross income and expenditure for the year is summarised below:

2006/07		2007/08	
£000		£000	
(838)	Gross Income	(859)	
838	Gross Expenditure	859	
<u>0</u>	Net over / (under) spend	<u>0</u>	

Learning Disabilities

10.8.14 This Section 75 agreement is the integrated learning disabilities health and social care service. This service is available to all residents with a learning disability within the county of Herefordshire.

10.8.15 The main partners in this pooled budget and their contributions were:

- a. Herefordshire Primary Care Trust - £3.3 million.
- b. Herefordshire Council - £8.8 million.

10.8.16 Gross income and expenditure for the year is summarised below:

2006/07		2007/08	
£000		£000	
(11,491)	Gross Income	(12,171)	
12,609	Gross Expenditure	14,441	
<u>1,118</u>	Net over / (under) spend	<u>2,270</u>	

10.8.17 The council's gross overspend for integrated Learning Disabilities service was £2,274,297 (PCT under spend was £4,297).

Integrated Community Equipment Service

10.8.18 A joint equipment store service is provided as a partnership between Herefordshire Council and Herefordshire Primary Care Trust. Its aim is to promote independence and enable individuals to remain in their home.

10.8.19 The main partners in this pooled budget and their contributions are:

- a. Herefordshire Primary Care Trust - £118,444.
- b. Herefordshire Council - £550,012.

10.8.20 Gross income and expenditure for the year is summarised below:

2006/07		2007/08	
£000		£000	
(604)	Gross Income	(668)	
548	Gross Expenditure	668	
<u>(56)</u>	Net over / (under) spend	<u>0</u>	

Free Nursing Care

- 10.8.21 The agreement is a payment and recharge mechanism. Herefordshire Council pays free nursing care payments to service providers on behalf of Herefordshire Primary Care Trust. These payments are recharged to Herefordshire Primary Care Trust.
- 10.8.22 The main partner in this pooled budget is Herefordshire Primary Care Trust and their contribution was £1,261,784.
- 10.8.23 Gross income and expenditure for the year is summarised below:

2006/07 £000		2007/08 £000	
(958)	Gross Income	(1,261)	
1,003	Gross Expenditure	1,207	
<u>45</u>	Net over / (under) spend	<u>(54)</u>	

- 10.8.24 The council's gross under spend for Free Nursing Care was £54,281.

JAM Out of County Placements

- 10.8.25 Herefordshire Council and the PCT have signed a Section 75 agreement for the Joint Agency Management (JAM) of Out of County Placements for Children with complex educational, social and medical needs. The agreement pools spending in agreed proportions and spending is not separately allocated, but each child with these complex needs is funded directly from the pool irrespective of specific needs.
- 10.8.26 Gross income and expenditure for the year is summarised below:

2006/07 £000		2007/08 £000	
	Gross Funding		
(157)	Herefordshire PCT	(199)	
(732)	Herefordshire Council (DSG)	(597)	
(646)	Herefordshire Council	(597)	
<u>(1,535)</u>	Total Funding	<u>(1,393)</u>	
1,575	Total Expenditure	1,393	
<u>40</u>	Net over / (under) spend	<u>0</u>	

10.9 Involvement in a Local Area Agreement (LAA)

- 10.9.1 The council is a participant in an LAA – a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007/08, the LAA completed the second year of its three-year agreement.
- 10.9.2 The purpose of the LAA is to agree with central government indicators and targets that will encourage partners to work together to improve the quality of life for those living and working in Herefordshire. The focus of the LAA is to encourage partnership activities utilising pooled and aligned funding streams, in order to gain efficiencies and enhanced service provision from multi-agency working.
- 10.9.3 The LAA partners are Herefordshire Council, Learning Skills Council, Children's Trust, Community and Drugs Partnership, West Mercia Constabulary, Fire and Rescue Service, Chamber of Commerce, Business Link, Primary Care Trust, the Voluntary and Community Sector and Herefordshire Association of Local Councils.

- 10.9.4 Herefordshire Council acts as the accountable body for the LAA. This means being responsible for managing the distribution of grant paid by the Government Office to the partners involved, but the council does not determine which bodies are due payments. This is determined either by the Government Office or the Herefordshire Partnership.
- 10.9.5 The total amount of LAA Grant received by the Local Strategic Partnership (LSP) in 2007/08 was £2.3m. The council received £2.1m of this total to fund its own services.
- 10.9.6 As accountable body, the council is potentially responsible for repaying to the Government any element of grant that is found to have been misused by its partners or where spend is lower than the percentage allowed to carry forward. Systems are in place for distributing grants that are designed to limit the possibility that this will happen. There is a carry forward of £109,000 which was not spent in 2007/08. It has not been necessary to recognise any contingent liabilities for possible repayments and no provisions have been made for any such eventuality.

10.10 Members Allowances

- 10.10.1 Allowances are paid to members under the Local Authority [Members Allowances] [England] Regulations 2003. In 2007/08 members were paid a total of £647,678 under these regulations (£609,158 in 2006/07). This was made up of £398,572 basic allowances, £204,830 special responsibility allowances and £44,276 for travelling and subsistence.

10.11 Employees remuneration

- 10.11.1 The Accounts and Audit Regulations 2003 require authorities to disclose the number of employees whose remuneration in the year, excluding employer pension contributions, was £50,000 and above, shown in bands of £10,000 as set out below. Remuneration is defined as all amounts paid to or receivable by an employee, expense allowances chargeable to tax and the money value of benefits.
- 10.11.2 In previous years the remuneration figure has been shown excluding employees pension contributions as the guidance suggested the use of annual P60 form information for the note (which excludes these figures). The guidance on the 2007 Accounting Code of Practice has now clarified that P60 information may not be a reliable indicator of gross pay and that salaries should not be netted down to exclude employees' contributions. The comparative numbers for 2006/07 below have been adjusted to reflect the change in definition.

Remuneration band	No. of Employees	
	2007/08	2006/07
£50,000 - £59,999	53	37
£60,000 - £69,999	16	16
£70,000 - £79,999	13	7
£80,000 - £89,999	1	3
£90,000 - £99,999	1	2
£100,000 - £109,999	5	5
£110,000 - £119,999	1	0
£120,000 - £129,999	0	0
£130,000 - £139,999	1	0
£140,000 - £149,999	0	1

10.11.3 The following table summarises the redundancies which occurred in 2007/08:

2007/08	Teachers	Others	Total
Number	22	20	42
Total Cost	£370,234	£196,971	£567,205
Average	£16,829	£9,849	£13,505

Where appropriate the figures include compensation payments under the Local Government Compensation for Redundancy Regulations, which came into force in 1996.

10.12 Intangible Assets

10.12.1 Movement in Intangible Fixed Assets in the year were:

	Software	Other	Total
	£000	£000	£000
Net book value at 31st March 2007	3,879	29	3,908
Additions	304		304
Amortisation for year	(2,168)	(7)	(2,175)
Net book value at 31st March 2008	2,015	22	2,037

10.12.2 Software is being written off over a useful life of 3 years. Other Intangible Fixed Assets relates to capital expenditure for Leominster Railway Station leased from Rail Track on a 20-year lease with 4 years useful life remaining.

10.13 Summary of Capital Expenditure and Fixed Asset disposals

10.13.1 The following tables summarise the movements on fixed assets, capital expenditure and capital financing in the year.

Movement on Fixed Assets

	<i>Operational assets</i>				<i>Non-operational assets</i>			<i>Intangible assets</i>	<i>Total</i>
	Land and buildings	Vehicles plant and equip	Infra-structure assets	Comm-unity assets	Held for Invest-ment	Under Constr-uction	Surplus Assets		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net book value at 31st March 2007	209,125	4,203	76,920	1,790	35,933	2,469	3,505	3,908	337,853
Additions	9,128	2,095	22,905	567	2,363	6,830	10	304	44,202
Disposals/deletions	(350)				(1,118)		(474)		(1,942)
Revaluations (incl. Impairments)	5,503				3,817		(175)		9,145
Reclassifications	(118)			203	218	(744)	441		0
Depreciation	(3,333)	(1,504)	(4,119)						(8,956)
Amortisation for year								(2,175)	(2,175)
Net book value at 31st March 2008	219,955	4,794	95,706	2,560	41,213	8,555	3,307	2,037	378,127

Capital Expenditure and Financing

2006/07 £000		2007/08 £000
	Capital Expenditure	
5,210	Other land and buildings	9,128
12,971	Roads and infrastructure	22,905
250	Community assets	567
6,060	Investment and non operational assets	9,203
1,173	Vehicles, plant and equipment	2,095
2,083	Intangible assets	304
27,747		44,202
183	PFI asset prepayment	141
11,795	Deferred charges	9,857
39,725		54,200
	Financing of Capital expenditure	
13,152	Borrowing – Supported Capital Expenditure (Revenue)	9,963
8,128	- Prudential Borrowing	7,360
14,405	Grants and Contributions	26,554
4,040	Capital Receipts	7,071
0	Revenue contribution	3,252
39,725		54,200

10.14 Significant Commitments Under Capital Contracts

10.14.1 The significant commitments in respect of capital contracts due to be met in 2008/09 are as follows:

Scheme	2008/09 £000
Various affordable housing grants including Extra Care Housing Development, Hereford (September 2008)	3,745
Riverside Junior and Infant School Amalgamation (to November 2009)	2,844
Rotherwas Access Road (to May 2008)	2,255
New Crematorium, Hereford (to March 2009)	1,781
Social Care Solution (to January 2009)	1,632
Ross On Wye Flood Alleviation (to September 2008)	1,153

10.15 Fixed Assets

10.15.1 The major fixed assets held by the council as at 31st March 2008 includes:

	31.03.08
Children and Young People's Services	
Primary Schools	75
Secondary Schools	14
Special Schools	4
Pupil Referral Units	3
Other Educational Establishments	5
Children and Family Centres	4
Youth Centres	7

Adult and Community Services

Homes for older people	6
Day Centres	5
Other Social Services Establishments	7
Libraries	6
Heritage, Museums & Galleries	5
Leisure Centres	6
Swimming Pools	4
Other Leisure/Community Facilities	4

Environment

Principal County roads	350 km
Distributor/Access roads	2,911.5 km
Cemeteries	4
Crematorium	1
Public Conveniences	29
Travellers Sites	5
Bus Stations	2
Car Parks	41
Open Markets	2
Household Waste Sites	5

Other

Smallholdings (non-operational assets)	67
General Buildings and Offices	30
Operational Depots	5
Registrars	2
Other Non operational Assets	239
Other Community Assets	277

- 10.15.2 Small open space land on various housing estates has now been designated as a community asset, which has increased the number of community assets recorded.

Valuations

- 10.15.3 For each class of fixed asset included in the Balance Sheet at current value the valuation has been carried out by Alison Hext Dip Est. Man. MRICS, an internal valuer employed by Asset Management and Property Services. The basis for valuation is set out in the Statement of Accounting Policies.
- 10.15.4 Hillside Intermediate Care Centre is run in partnership with the Primary Care Trust as a combined Health and Social Care service as an operational asset. For valuation purposes the council has a reversionary interest in the freehold value of the building at the end of the 25 year contractual period. The rent for 25 years is £5 per annum and the liabilities on the council for the structure and other outgoings mean the freehold has no current value to the council, and is in the council's Balance Sheet at a notional value of £1. As the contract nears termination the property will be revalued on the basis of any increasing net potential value to the council.

Depreciation

10.15.5 The depreciation methods used are set out in the Accounting Policies (paragraph 3.9.9). In 2007/08 the total depreciation on fixed assets was £8.96 million.

10.16 Undischarged obligations arising from long-term contracts

10.16.1 The council has a number of significant long-term contractual commitments:

a. Mercia Waste Management Ltd – waste management PFI contract

In 1998 Herefordshire Council, in partnership with Worcestershire County Council, entered into a 25 year contract with Mercia Waste Management Ltd for the provision of an integrated waste management system using the Private Finance Initiative. Under the contract the authorities are required to ensure that all waste for disposal is delivered to the contractor, who will take responsibility for recycling or recovering energy from the waste stream. In total the estimated cost of the contract over its full life is in excess of £500 million, of which around 25% relates to Herefordshire Council. The original life of the contract was 25 years with the option to extend this by 5 years and this option has been exercised. As at 31st March 2008, the waste disposal contract was subject to a standstill agreement, which temporarily suspends aspects of the contract pending negotiations to secure variations to the current contract. Because of the failure of the contractor to secure planning permission for an Energy from Waste Plant at Kidderminster and the change in government targets for recycling and the diversion of bio-degradable waste from landfill, new and significantly different arrangements for dealing with waste disposal are now not expected until 2008/09 at the earliest, assuming the negotiations on a contract variation are completed.

b. Stepnell Ltd – School PFI Contract

The Whitecross High School PFI project has delivered a fully equipped 900-place secondary school with full facilities management services. The contract with Stepnell Ltd has an overall value of £74 million and lasts for 25 years. At the end of this period the school will transfer to the council's ownership.

c. Amey Wye Valley Limited

In 2003 the council entered into a contract with Jarvis PLC for the provision of contract services of around £13 million per annum over 10 years. The contract involved establishing a joint venture company named Herefordshire Jarvis Services (HJS) with the transfer of Herefordshire Commercial services staff to the new company. On 31st August 2007 Amey Wye Valley Limited took over this contract from HJS.

d. Owen Williams

On 1st September 2003 the council also entered into a contract with Owen Williams for the delivery of technical consultancy services, with an estimated value of at least £1 million per annum over 10 years.

e. Shaw Homes

The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes except Elmhurst, which expires in 2008/09. The level of payments are dependant on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments for 2007/08 totalled £4.9 million.

10.17 Operating leases

10.17.1 The council is required to disclose the amount paid in respect of leases in the year and the amount of lease rentals received from lessees. These amounts are as follows:

2006/07		2007/08
£000		£000
	The amount of lease rentals paid to lessors	
946	Other Land & Buildings	912
670	Vehicle, Plant & Equipment	506
	Rental received in the year for operating leases	
3,017	Other Land & Buildings	2,699

10.17.2 The council was committed at 31st March 2008 to making payments of £1,226,000 under operating leases in 2008/09, comprising the following elements:

	Other Land & Buildings	Vehicles, Plant & Equipment
	£000	£000
Leases expiring in 2008/09	27	221
Leases expiring between 2009/10 and 2013/14	464	195
Leases expiring after 2013/14	319	0

10.17.3 With regards to the council's activity as a lessor, the gross value of assets held for use in operating leases was £124,838,720 as valued at 1st April 2007 and subject to £1,351,977 depreciation to 31st March 2008.

10.18 Financial Instruments Balances

10.18.1 The borrowings and investments disclosed in the Balance Sheet are made up of the following categories:

	Long-Term		Current	
	2006/07	2007/08	2006/07	2007/08
	£000	£000	£000	£000
Financial liabilities at amortised cost	81,389	94,264	12,464	12,991
Total borrowings	81,389	94,264	12,464	12,991
Loans and receivables	14	14	40,985	41,703
Total investments	14	14	40,985	41,703

10.18.2 Due to changes in accounting practice the 2007/08 figures for borrowings and investments include the year end accruals for interest receivable and payable. The Balance Sheet figures for short-term borrowing also include money invested with the council by Trust Funds.

Financial Instruments Gains and Losses

10.18.3 The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

	Financial Liabilities		Financial Assets	
	Liabilities measured at amortised cost		Loans and receivables	
	£000		£000	
	2006/07	2007/08	2006/07	2007/08
Interest charges and similar charges	(4,058)	(4,348)		
Interest and investment income			2,355	2,890
Net gain/(loss) for the year	(4,058)	(4,348)	2,355	2,890

10.18.4 The interest and investment income figure in the Income and Expenditure Account also includes West Mercia Supplies surplus re-distribution.

Fair Value of Assets and Liabilities carried at amortised cost

10.18.5 Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Where the fair value differs from the carrying amount these items are shown below. Their fair value are assessed by using the following assumptions:

- a. The fair values of Public Works Loan Board (PWLB) loans has been determined by using the PWLB rates for new loans matching the duration remaining on an existing loan maturity, as at 31st March 2008.
- b. The fair values for the council's two LOBO loans have been valued by the council's Treasury Management Advisors, Sector, using market rates for the equivalent loans as at 31st March 2008.
- c. The fair value for the council's short term investments have been valued by Sector using the market rates as at 31st March 2008, as follows:

	31 March 2008	
	£000	
	Carrying amount	Fair value
Financial Liabilities	107,255	106,393
Loans and receivables	41,703	41,696

10.18.6 The fair values of trade and other receivables are taken to be the invoiced or billed amount.

Disclosure of Nature and Extent of Risks Arising from Financial Instruments

10.18.7 The authority's activities expose it to a variety of financial risks:

- a. **Credit risk:** The possibility that other parties might fail to pay amounts to the council.
- b. **Liquidity risk:** The possibility that the council might not have funds available to meet its commitments to make payments.
- c. **Market risk:** The possibility that financial loss might arise for the council as a result of changes in such measures as interest rates.

10.18.8 The authority has adopted CIPFA's Treasury Management in the Public Services Code of Practice in setting out a Treasury Management Policy and strategies to

control risks to financial instruments. The council also has a risk register in place for Treasury Management activities.

Credit Risk

10.18.9 Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the council's customers. Deposits are not made with banks and financial institutions unless they are rated by independent agencies, such as Fitch and Moodys with the following minimum ratings: Moodys (Long-term: A, Short-term: P-1) Fitch (Long-term: A, Short-term: F1). The council has a policy of not lending more than £10 million of its surplus balances to one institution, this figure is only applicable to those with the highest possible long-term rating: (AAA,AA+,Aaa); with a sliding scale thereafter towards the minimum.

10.18.10 The following analysis summarises the council's potential maximum exposure to credit risk, based on default and uncollectability over the last three financial years, adjusted to reflect current market conditions.

	Amount at 31st March 2008	Historical experience of default	Historical experience adjusted for market conditions at 31st March 2008	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and financial institutions	41,703	Nil	Nil	Nil
Council debtors	5,421	0.16	0.16	87

10.18.11 The amount outstanding for council debtors as at 31st March can be analysed by age as follows:

	£000
Less than 3 months	3,645
3 to 6 months	372
6 months to 1 year	580
More than 1 year	824
	<u>5,421</u>

Liquidity Risk

10.18.12 As the council has ready access to borrowings from the Public Works Loan Board (PWLb), there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure that not more than an upper limit percentage of loans are due to mature within the following periods through a combination of careful planning of new loans and (where it is economic to do so) making early repayments.

10.18.13 The maturity analysis of the loan debt is as follows:

	£000	Upper Limit Allowed by Prudential Indicators
		%
Less than 1 year	12,991	50
Between 1 and 2 years	258	50
Between 2 and 5 years	3,342	100
More than 5 years	90,664	100
	107,255	-

10.18.14 All trade and other payables are due to be paid in less than 1 year.

Interest rate risk

10.18.15 The council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates could have a significant impact on the council. For instance, a rise in interest rates would have the following effects:

- a. Borrowings at variable rates: The interest expense charged to the Income and Expenditure Account will rise.
- b. Investments at variable rates: The interest income credited to the Income and Expenditure Account will rise.

10.18.16 The authority has set Treasury Management Indicators to control key financial risks in accordance with CIPFA's Prudential Code.

10.18.17 The Treasury Management Team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and at quarterly strategy meetings with the council's treasury advisors. The council sets an annual Treasury Management Strategy including analysing future economic interest rate forecasts. This analysis will advise whether new borrowing taken out is fixed or variable, also during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

Sensitivity analysis of interest rates

10.18.18 Movement in interest rates would have had the following impact on the council's borrowings and investments in 2007/08.

	1% Increase in Interest Rates	1% Fall in Interest Rates
	£000	£000
Interest payable on new borrowing	125	(125)
Interest receivable on average investment balances	537	(537)

10.19 Provisions

10.19.1 The provisions at 31.3.08 are listed below:

2006/07		2007/08
£000		£000
22	Village focus grants	22
51	Former Hereford and Worcester liabilities	51
1,230	Insurance	1,585
556	Redundancies	545
903	Landfill Allowances liability	238
2,762		2,441

10.19.2 An insurance provision is held to cover the cost of policy excesses in relation to expected property and liability claims. The sum involved is calculated using an assessment of current notified claim reserves and potential claim costs forecasted for the next financial year. The level of provision is reviewed each year. Consequently the provision has been increased from just over £1.2 million to just under £1.6 million.

10.20 Details of Movement on Reserves

10.20.1 The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and some have been set up voluntarily to earmark resources for future spending plans.

10.20.2 The following table details the movements on reserves in 2007/08:

Reserve	1 April 2007	Net	1 April 2008	Purpose of Reserve
	£000	(Decrease)	£000	
		Increase		
		£000		
Capital Adjustment Account	183,068	(218)	182,850	Store of capital resources set aside to meet past expenditure
Revaluation Reserve	0	12,592	12,592	Store of gains on revaluation of fixed assets not yet realised through sales
Financial Instruments Reserve	0	(501)	(501)	Balancing account to allow differences in statutory requirements and proper accounting practices for borrowings and investments
Usable Capital Receipts	22,426	(4,481)	17,945	Proceeds of fixed asset sales available to meet future capital investment
Pensions Reserve	(88,851)	(44,027)	(132,878)	Balancing account to Pensions Liability in the Balance Sheet
General Fund	8,023	(1,295)	6,728	Resources available to meet future costs
Earmarked reserves	19,774	(3,202)	16,572	Set aside for specific purposes
TOTAL	144,440	(41,132)	103,308	

10.20.3 The council held the following earmarked reserves of £16.57 million at 31st March 2008.

Reserve	31.03.07	Transfer (to)/from revenue	31.3.08
	£000	£000	£000
Community buildings	64		64
Commuted sums	78		78
Schools balances in hand	8,137	(2,480)	5,657
Industrial Estates - maintenance	162	61	223
Support Services & Equipment renewals	209	67	276
Schools Balance of Risk	305	(16)	289
Winter maintenance	500		500
Planning	24		24
SRB schemes	96	(45)	51
College Hill Community Centre	180		180
Waste Disposal	2,274		2,274
LSC	32		32
Landfill Allowance scheme	18	(18)	0
Herefordshire Connects project	2,074	(1,654)	420
Wye Valley ANOB	98	(19)	79
Elections	119	(119)	0
Members ICT	30	(30)	0
Invest to Save/Initiatives fund	1,115		1,115
Budget management	1,100	(1,100)	0
Contingent liabilities	300		300
Social care contingency	1,977	(1,300)	677
Standards fund	377	(285)	92
Treasury management (LOBO)	505	(505)	0
Modernisation plans		300	300
2008/09 budget capacity		1,500	1,500
Edgar Street Grid		41	41
Whitecross school PFI		108	108
Bellwin Threshold		505	505
LPSA 2 reward grant		1,148	1,148
Herefordshire Safeguarding Children Board		48	48
Accommodation		591	591
	19,774	(3,202)	16,572

10.21 Schools Balances – Local Management of Schools

- 10.21.1 A sum of £5,657,237 is shown in reserves in respect of school revenue balances held by schools under the Local Management of Schools arrangements. Under these arrangements schools are entitled to draw on, add to, or maintain the sums held as they think fit. The balances are not available for general council use.
- 10.21.2 The council has introduced a balance claw-back mechanism, where the amount of revenue balance a school is permitted to hold is capped, in order to reduce schools balances in accordance with national government requirements.
- 10.21.3 The school balances can be split between Primary schools (£3,182,380), High schools (£2,031,015), Special schools (£20,684) and Pupil Referral Units (£46,413). Additionally a sum of (£376,745) is held for extended school activities for all schools.
- 10.21.4 From 2007/08 schools devolved capital spend has been treated as part of the council's capital programme and unspent government grant is now carried forward in the government grants deferred account, rather than the schools reserve.

10.22 Disclosure of deployment of Dedicated Schools Grant

10.22.1 The council's expenditure on schools is funded by the Dedicated Schools Grant (DSG) provided by the Department for Children, Schools and Families. DSG is a ring-fenced grant and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on a council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

10.22.2 Details of the deployment of DSG receivable for 2007/08 are as follows:

Total 2006/07 £000		Central Expenditure 2007/08 £000	Individual Schools Budget 2007/08 £000	Total 2007/08 £000
78,336	Original grant allocation to Schools Budget for the current year in the authority's budget.	8,317	73,575	81,892
(185)	Adjustment to finalised grant allocation	504	139	643
78,151	DSG receivable for the year	8,821	73,714	82,535
0	DSG brought forward	112	111	223
(220)	Transfer from DSG to Capital	0	0	0
(44)	Transfer from DSG to Sickness Reserve	(45)	0	(45)
(78,272)	Actual expenditure for the year	(8,200)	(73,120)	(81,320)
(385)	(Over)/under spend for the year	688	705	1,393
6	Planned top-up funding of ISB from council resources	45	0	45
602	Movement in schools balances		(239)	(239)
223	(Over)/under spend carried forward	733	466	1,199

10.23 Contingent Liabilities

10.23.1 When the council's houses were transferred to Herefordshire Housing Ltd a legal agreement was entered into for a stock enhancement contract, which would result in significant VAT savings of which the council should receive a share. It has been determined by the HM Revenues and Customs that this contract should be subject to Corporation Tax. The effect of this would be to negate the benefits of the VAT sharing agreement. Herefordshire Housing Ltd has now obtained charitable status, which has resolved this issue for the future. It is expected that a limited proportion of the VAT share received from Herefordshire Housing for 2003/04 and 2004/05 will be returned to them, estimated to be around £300,000.

10.23.2 As part of the arrangements for the transfer of services to Herefordshire Housing, Halo Leisure Trust, Herefordshire Jarvis Services (now Amey), and Shaw Homes, the council has given guarantees in relation to increases in pension contributions as a result of actuarial revaluations. The guarantee involves the council in meeting the cost of any increase in pension contributions over and above the level of contribution on the date of transfer, but only in respect of staff transferring on this date. The cost of these guarantees would be reflected in higher pension contributions for the council as a whole.

- 10.23.3 There is an outstanding claim against the council in respect of an alleged formaldehyde poisoning in a council property. Although the claim, which is not covered by insurance, is substantial, the council is rigorously defending itself against it. The actual liability faced by the council is believed to be very significantly less than the claim submitted.
- 10.23.4 Costs of £100,000 to £250,000 in respect of power provision may be incurred at Plough Lane to satisfy ICT disaster recovery requirements.
- 10.23.5 There is a potential claim against the council by taxi drivers in the county, that contend that the council has acted irrationally or improperly by insisting certain modifications be carried out to taxis in order to accommodate disabled passengers in absolute safety. The claim would be for alleged loss of earnings whilst the non-compliant taxis have been off the road.
- 10.23.6 The council has entered into an agreement with an software company, which has indicated that it may take proceedings against the council if the council pulls out of the contract.

10.24 Related Party Transactions

- 10.24.1 The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.
- 10.24.2 Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding in the form of grants. Details of income received from government departments are set out in paragraph 10.32 relating to the Cash Flow Statement.
- 10.24.3 Members of the council have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the council or as a private individual. Details of these interests are recorded in the Register of Members' interests, which is updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2007/08 are not material. In addition, one member was the owner of a residential care home, to which the council made payments in the year £83,000 and another the partner in a company with which the council made payments of £18,000 in relation to provision of a car park.
- 10.24.4 A number of senior officers are members of professional bodies are involved in local organisations and partnerships, such as the Chamber of Commerce, Herefordshire Communities Youth and Drugs Partnership and Connexion.
- 10.24.5 During the year the council paid £12.8 million to the Local Government Pension scheme administered by Worcestershire County Council and £10 million to the Teachers Pension Scheme. These figures include employee and employer contributions.
- 10.24.6 **Other Public Bodies**
During the year the council made payments of over £21.1 million to Worcestershire County Council, including payments to the pension scheme and for the joint waste disposal contract. The council works in partnership with the Primary Care Trust under Section 75 pooling arrangements. Payments to the PCT in 2007/08 totalled £8.6 million and invoices raised to the PCT were £14.7 million.

Significant Partners

10.24.7 The council paid £22.9 million to Amey Wye Valley under the long-term contract for the provision of services, the largest of which related to highways. Under the contract with Owen Williams for the provision of technical services the council paid £3.4 million in 2007/08. Payments of £4.9 million were made to Shaw Healthcare for the provision of care in residential homes and for day centres in 2007/08.

Other organisations

10.24.8 The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2007/08 the council paid £2.2 million to Halo Leisure Trust. In 2007/08 the council paid £460,000 to the Courtyard Trust. The council has a commissioning agreement with the Trust based on agreed outcomes. The council is represented by its elected members on the West Mercia Supplies Joint Committee. The financial advantage of bulk purchasing arrangements is reflected in the Income and Expenditure Account. Payments of £2.6 million were made in 2007/08.

10.25 Creditors

10.25.1 An analysis of creditors and receipts in advance at the year-end is as follows:

	2006/07	2007/08
	£000	£000
Directorate service areas	16,451	21,171
Joint Funding	1,254	215
Capital	1,916	2,561
Creditors System	9,348	10,594
Treasury Management	870	134
Collection Fund	2,101	1,200
Purchase Ordering System Accruals	824	1,148
Other	702	740
	<u>33,466</u>	<u>37,763</u>

10.26 Debtors

10.26.1 An analysis of debtors and payments in advance at year-end is as follows:

	2006/07	2007/08
	£000	£000
Directorate service areas	6,962	9,257
School Loan Accounts	765	0
Joint Funding	806	249
Capital	3,509	2,845
VAT	1,833	2,388
Treasury management	221	10
Leased Cars	67	56
Debtors System	4,662	4,997
Fairer Charging	116	166
Collection Fund	3,189	3,533
Other	68	50
	<u>22,198</u>	<u>23,551</u>
Provision for Bad Debts	<u>(814)</u>	<u>(1,051)</u>
	<u>21,384</u>	<u>22,500</u>

10.27 Amounts due to or from related parties

10.27.1 As at 31st March 2008 significant amounts due to and from related parties were as follows:

Related Party	Due to £000	Due from £000
Department for Communities and Local Government	5,820	3,960
Department for Works and Pensions	650	1,153
Department for Children, Schools and Families	3,798	1,265
Department of Health	55	6
Department for Food, Agriculture & Rural affairs	0	300
Countryside Council for Wales	0	78
Learning & Skills Council	1,095	104
Advantage West Midlands	1,737	1,201
Government Office For West Midlands	290	85
Home Office	2	15
Lottery	5	0
Arts Council	10	6
Teachers development agency	199	44
Teachers Pension	855	0
Worcestershire County Council	3,062	135
Herefordshire Primary Care Trust	1,939	790
Courtyard Trust	14	14
Amey Wye Valley	1,304	85
Shaw Healthcare	24	1
Halo	304	268
West Mercia Supplies	200	25
Owen Williams	678	0

10.27.2 These amounts are included in the council's debtors and creditors figures.

10.27.3 In addition, there were capital grants of £6.37 million from related parties held in the Capital Grants Deferred Account not yet applied to capital spend. Of this amount £6.32 million related to government departments and £49,000 to the Primary Care Trust.

10.28 External Audit Fees

10.28.1 The council incurred the following fees relating to external audit and inspection:

	2006/07 £000	2007/08 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	212	239
Fees payable to the Audit Commission in respect of statutory inspection	50	30
Fees payable to the Audit Commission for the certification of grants claims and returns	85	50

10.29 Pensions

10.29.1 Herefordshire Council participates in two pension schemes, the Local Government Pension Scheme and the Teachers' Pension Scheme. Both schemes provide employees with defined benefits related to pay and service, but for the purposes of FRS 17 the Teachers' Pension Scheme is treated as if it was a defined contribution scheme.

Teachers' Pensions Scheme

10.29.2 This Scheme is a defined benefit scheme administered by the Teachers Pensions Agency. Although the scheme is unfunded, a notional fund is used as a basis for calculating the employers' contribution rate. It is not possible for the council to identify its share of the underlying liabilities in the scheme attributable to its own employees, and therefore for the purposes of the statement of accounts it is accounted for on the same basis as a defined contribution scheme, that is, actual costs are included in the revenue accounts, with no assets and liabilities in the balance sheet.

10.29.3 In 2007/08 the council paid employer contributions of £6.8million in respect of teachers' pension costs, which represented 14.1% of teachers' pensionable pay. In addition, the council is responsible for all pension payments relating to added years it, or its predecessor authority, has awarded, together with the related increases. In 2007/08 these amounted to £111,492 representing 0.23% of pensionable pay.

10.29.4 At the year-end there were contributions of £845,545 remaining payable, which related to the March 2008 contributions paid to the scheme in April 2008.

Local Government Pension Scheme

10.29.5 Employees are eligible to join the Local Government Pension Scheme administered by Worcestershire County Council. This is a funded scheme, which means that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

10.29.6 Although the benefits will not actually be payable until employees retire, the council has a commitment to make the payments and this needs to be disclosed at the time the employees earn their future entitlement. Under FRS 17 the cost of retirement benefits is included in the Net Cost of Services when it is earned by employees, rather than when it is paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of the retirement benefits is reversed out in the Statement of Movement in the General Fund Balance.

10.29.7 The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

	2006/07 £000	2007/08 £000
Income and Expenditure Account		
Net Cost of services		
Current Service cost	8,406	7,762
Past service cost/(gain)	0	2,279
Curtailment cost	853	288
Net Operating Expenditure		
Interest cost	14,339	15,876
Expected return on assets in the scheme	(11,871)	(14,060)
Net charge to Income and Expenditure Account	<u>11,727</u>	<u>12,145</u>
Statement of Movement in General Fund Balance		
Reversal of net charges under FRS 17	(11,727)	(12,145)
Employer's contribution payable to the scheme	8,847	9,943
Net charge to Statement of Movement in General Fund Balance	<u>(2,880)</u>	<u>(2,202)</u>

10.29.8 The figures have been provided by the actuary to the pension scheme, using information provided by the scheme, and assumptions determined by the actuary in conjunction with the council. The fund is reviewed by the actuaries every 3 years and the latest full actuarial valuation was as at 31st March 2007. Further to the revaluation, the council's employers' contribution will increase from 18.2% of pensionable pay in 2007/08 to 20.4% by 2010/11, with phased increases over that period. The funding objective is to achieve full funding within a maximum period of 22 years. Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations are affected by uncertainties within a range of possible values.

Assets and Liabilities

10.29.9 The underlying assets and liabilities for retirement benefits attributable to the authority at 31st March are:

	31 March 2007	31 March 2008
	£m	£m
Market Value of Assets	205.1	190.6
Liabilities	<u>(293.9)</u>	<u>(323.5)</u>
Surplus/(Deficit)	<u>(88.8)</u>	<u>(132.9)</u>

10.29.10 The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The deficit on the scheme will be made good by increased contributions over future years as assessed by the scheme actuary. The increase in the deficit on the scheme is explained in paragraphs 10.29.14 to 10.29.16.

Actuarial assumptions

10.29.11 The main assumptions used in the calculations are:

	Beginning of year	End of year
Rate of inflation	3.1%	3.6%
Rate of increase in salaries	4.6%	5.1%
Rate of increase in pensions	3.1%	3.6%
Discount rate	5.4%	6.1%

Pension Scheme assets

10.29.12 The assets held by the pension scheme are split between investment categories as follows:

	31 March 2007		31 March 2008	
	£000	%	£000	%
Equities	185,165	90.3	168,855	88.6
Government Bonds	10,253	5.0	8,957	4.7
Other Bonds	7,382	3.6	7,242	3.8
Cash/Liquidity	2,256	1.1	5,527	2.9
	<u>205,056</u>		<u>190,581</u>	

10.29.13 The expected rate of return on these assets was:

	Beginning of year	End of year
Equities	7.5%	7.5%
Government Bonds	4.7%	4.6%
Other Bonds	5.4%	6.1%
Cash/Liquidity	5.25%	5.25%

10.29.14 The movement in scheme deficit during the year was due to:

2006/07		2007/08
£000		£000
(100,614)	Surplus/(Deficit) at beginning of year	(88,851)
(8,406)	Current service cost	(7,762)
8,847	Employer contributions	9,943
(853)	Past service/curtailment (cost)/gain	(2,567)
(2,468)	Net interest/Return on Assets	(1,816)
14,643	Actuarial gain or (loss)	(41,825)
<u>(88,851)</u>	Surplus/(Deficit) at end of year	<u>(132,878)</u>

10.29.15 The net liability represents the difference between the value of the council's pension fund assets at 31st March 2008 and the estimated present value of the future pension payments to which it was committed at that date (to be paid out over a period of many years).

Statement of Actuarial (gains) and losses

10.29.16 The actuarial gain or loss identified within the movements on the pensions reserve can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March:

	2003/04		2004/05		2005/06		2006/07		2007/08	
	£000	%	£000	%	£000	%	£000	%	£000	%
Difference between expected and actual return on assets	(21,352)	14.9	(5,587)	3.6	(28,731)	15	(452)	0.2	(25,363)	13.3
Gains and losses on scheme liabilities	0	-	6,507	2.5	5,468	1.9	0	0	1,034	0.3
Change in demographic and financial assumptions	0	-	41,157	16.1	22,050	7.5	(14,191)	4.8	(17,496)	5.4

10.30 Trust Funds

10.30.1 The council acts as trustee for a number of Trust Funds, which have been established for the benefit of different sections of the community, including several schools. The following summarises the movement on Trust Funds during the year:

	Balance at 1/04/07	Revenue Income	Transactions Expenditure	New funds, Investment Sales and Revaluations	Balance at 31/03/08
	£	£	£	£	£
Education (small funds)	22,930	1,192	(264)	(28)	23,830
Sylvia Short Trust	1,023,881	55,566	(37,557)	(7,498)	1,034,392
Buchanan Trust	2,477,133	117,838	(85,269)	172,010	2,681,712
Other Funds	55,921	2,953			58,874
	<u>3,579,865</u>	<u>177,549</u>	<u>(123,090)</u>	<u>164,484</u>	<u>3,798,808</u>

10.30.2 The Sylvia Short Educational Charity, administered by the council on behalf of the Trustees was established to provide children with learning experience outside the curriculum. The Buchanan Trust is invested in agricultural land around Bosbury for the benefit of tenant farmers. Other funds include the Hatton Bequest, which is available for Hatton Gallery exhibits.

10.30.3 Assets and liabilities on the funds at 31st March were:

	2006/07 £000	2007/08 £000
Fixed Assets	1,650	1,727
Investments	981	983
Cash temporarily invested with Herefordshire Council	948	1,088
	<u>3,579</u>	<u>3,798</u>
Represented by Trust Funds	<u>3,579</u>	<u>3,798</u>

10.31 Accounting for LATS

10.31.1 The council's estimated landfill usage for the year is 47,693 tonnes. The council received allowances of 46,635 tonnes for 2007/08 from DEFRA and has utilised allowances of 1,058 tonnes transferred from Worcestershire County Council at nil cost. DEFRA has advised that the average traded value for 2007/08 was £5 per tonne and therefore the balance sheet shows assets and liabilities of £238,465 at 31st March 2008.

10.32 Notes to the Cash Flow Statement

10.32.1 The reconciliation of the net deficit on the Income and Expenditure Account to the revenue activities in the Cash Flow Statement is set out below:

2006/07	2007/08	
£000	£000	£000
6,839 (Surplus)deficit on the Income & Expenditure Account	12,975	
<u>223</u> Collection Fund (surplus)/deficit	<u>136</u>	
7,062		13,111
(1,638) Interest/discount		(1,510)
Non-cash Transactions		
(207) Contributions from/(to) provisions	321	
(10,647) Capital charges	(17,073)	
(2,880) FRS 17 pension adjustments	(2,202)	
1,478 Surplus on sale of assets (non-revenue)	633	
(164) LATS adjustment	(684)	
<u>907</u> Other	<u>318</u>	
(11,513)		(18,687)
Items on an Accruals basis		
42 Increase/(Decrease) in stocks and WIP	33	
(5,646) Increase/(Decrease) in revenue debtors	1,452	
<u>(4,488)</u> (Increase)/Decrease in revenue creditors	<u>(2,731)</u>	
(10,092)		(1,246)
<u>(16,181)</u> Net cash flow from revenue activities		<u>(8,332)</u>

10.32.2 The reconciliation of net cash flow to movement in net debt in the year is summarised as follows:

2006/07	2007/08	
£000	£000	£000
286 Increase/(decrease) in cash in the period	909	
(11,556) (Increase)/decrease in debt financing	(12,036)	
2,786 Increase/(decrease) in liquid resources	166	
(6) Increase in investment of Trust Funds	(139)	
<u>310</u> Revaluation of Financial Instruments	<u>(815)</u>	
(8,180)		(11,915)
<u>(49,617)</u> Net debt at 1st April		<u>(57,797)</u>
<u>(57,797)</u> Net debt at 31st March		<u>(69,712)</u>

10.32.3 Liquid resources have been defined as the short-term investments on the balance sheet. From 2007/08 the revaluation of Financial Instruments includes accruals of interest, which are now required to be added to the carrying values on the Balance Sheet.

10.32.4 The following is an analysis of net debt for the year:

	1.4.07	Cash flow	Non cash	31.3.08
	£000	£000	£000	£000
Cash in hand and at bank	(3,981)	909	0	(3,072)
Debt due within 1 year	(13,412)	325	(992)	(14,079)
Debt due after 1 year	(81,389)	(12,500)	(375)	(94,264)
Short term investments	40,985	166	552	41,703
	<u>(57,797)</u>	<u>(11,100)</u>	<u>(815)</u>	<u>(69,712)</u>

10.32.5 The following is an analysis of Government Grants in the Cash Flow Statement for the year:

2006/07	2007/08	
Total	Revenue	Capital
£000	£000	£000
20,542 DCLG	23,383	146
41,092 Department for Works and Pensions	40,217	0
104,324 Department for Children, Schools and Families	110,137	7,991
6,066 Department of Health	6,088	320
282 Home Office	226	0
148 Countryside Agency	0	0
413 Department for Environment, Food & Rural Affairs	364	5,468
688 Lottery	390	309
2,714 Advantage West Midlands	2,767	8,175
1,702 Government Office for West Midlands	303	1,234
602 Department for Transport	972	3,092
0 Department for Trade and Industry	13	0
3,528 Learning and Skills Council	4,268	0
27 Arts Council	36	0
94 Countryside Council for Wales	29	0
16 Department for Constitutional Affairs	19	0
0 Food Standards Agency	52	0
273 Teachers development agency	310	0
<u>182,511</u>	<u>189,574</u>	<u>26,735</u>

11. THE COLLECTION FUND

11.1 This account reflects the statutory requirement for council tax billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates (NNDR). The Collection Fund balances are consolidated in the Balance Sheet.

11.2 The Collection Fund for 2007/08 is summarised below:

2006/07	Note	2007/08	
£000		£000	£000
Income			
Council Tax:			
77,482	1	81,576	
10,132		<u>10,289</u>	
<u>87,614</u>			91,865
37,076	2		<u>38,499</u>
<u>124,690</u>			<u>130,364</u>
Total Income			
Expenditure			
10,255			10,836
4,228			4,468
73,244			76,524
95			173
15			0
Non Domestic Rates			
36,785	2		38,207
291			<u>292</u>
<u>124,913</u>			<u>130,500</u>
Total Expenditure			
(223)	3		(136)
Surplus/(Deficit) for the year			
967	3		145
Balance brought forward			
(599)	3		(307)
Surplus Distribution			
145	3		(298)
Balance carried forward			

11.3 The notes to the Collection Fund are as follows:

Note 1

11.4 Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1st April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council, West Mercia Police Authority and Hereford & Worcester Fire Authority, and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of council tax for a Band D property is multiplied by the proportion specified for the particular band to give an individual amount due. The average council tax for a Band D property in 2007/08 was £1,336.06 with a range between £1,306.13 to £1,385.06. The council tax base used for setting the council tax in 2007/08 was 68,730.09.

11.5 The key facts and figures for 2007/08 are summarised below:

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	6,299.80
B	£40,001 to £52,000	7/9	12,390.80
C	£52,001 to £68,000	8/9	12,308.90
D	£68,001 to £88,000	9/9	11,285.00
E	£88,001 to £120,000	11/9	11,987.90
F	£120,001 to £160,000	13/9	8,223.20
G	£160,001 to £320,000	15/9	5,111.70
H	Over £320,000	18/9	303.00
Crown			197.50
			<u>68,107.80</u>
	Other adjustments		<u>622.29</u>
	Council Tax Base		<u>68,730.09</u>
Council Taxpayer Income		£000	£000
Council Tax debit at 1 st April			102,332
Add:			
	Redebits	68,207	
	Banding Change	462	
	Additional – Second Homes	476	
	Additional – Empty Properties	381	69,526
Less:			
	Discounts	8,644	
	Exemptions	3,240	
	Benefits – Statutory	10,257	
	Benefits – Non Statutory	32	
	Disablement Relief	126	
	Transitional Relief	(8)	
	Void Assessments	68	
	Empty Assessments	67,923	90,282
			<u>81,576</u>

Note 2

- 11.6 The council collects non-domestic rates from ratepayers in the area and this amount, after the deduction of a cost of collection allowance is paid into a national pool. The relevant figures for 2007/08 are as follows:

	£000
NNDR Contribution to the Pool	38,207
Cost of Collection Allowance	292
Income from Business Ratepayers	<u>38,499</u>

- 11.7 The contribution due to the NNDR pool for 2007/08 paid by Herefordshire Council to central government was £38,207,129. This represents the amount from business ratepayers less an allowance for the cost of collection. The NNDR pool is held by central government and redistributed to all local authorities. Herefordshire Council received an NNDR entitlement of £40,801,100, which is its redistributed share. This figure is calculated on a per head of population basis. The key facts and figures for 2007/08 are summarised below:

Business rateable value as at 31 st March 2008	£103,998,193	
Business rate multiplier	44.4p	
Non-domestic Ratepayers Income	£000	£000
Non-domestic debit at 1 st April		44,605
Add:		
Transitional Premium		57
Less:		
Empty Allowances	1,970	
Transitional Relief	244	
Discretionary Relief	221	
Mandatory Relief	3,589	
Write-offs	84	
Interest on Refunds	55	6,163
Income due from non-domestic ratepayers		<u>38,499</u>

Note 3

- 11.8 The following summarises the movements on the Collection Fund surpluses in the year:

Council Tax	£000	£000
Surplus at 31.3.07		145
Less: Payments		
Hereford & Worcester Fire Brigade	(15)	
West Mercia Police Authority	(36)	
Herefordshire Council	(256)	(307)
		<u>(162)</u>
Deficit financial year 2007/08		(136)
Deficit at 31.3.08		(298)

12. GLOSSARY OF TERMS

Accrual

Income and expenditure are shown in the period they are earned or incurred, not as money is received or paid.

Actuary

An expert on pension scheme assets and liabilities.

Amortised Cost

A method of determining the Balance Sheet carrying amount and periodic charges or credits to the Income and Expenditure Account of a financial instrument from the expected cash flows.

Asset

Something the council owns that has a value, such as premises, vehicles, equipment or cash.

Balance Sheet

A summary of Herefordshire Council's assets, liabilities and other balances at the end of each accounting period.

Capital Charge

A charge made to service revenue accounts to reflect the cost of utilising fixed assets in the provision of services.

Capital Expenditure

Expenditure on the acquisition of a fixed asset, which lasts longer than a year or expenditure that adds value to an existing fixed asset.

Capital Receipts

Proceeds from the sale of fixed assets, such as land or buildings.

Collection Fund

A separate fund recording the expenditure and income relating to Council Tax and Non-domestic Rates.

Community Assets

Assets that the council intends to own forever e.g. parks and open spaces.

Creditor

Amounts owed by the council for goods and services received, but not paid for at the end of the financial year.

Debtor

This the amount of money others owe to Herefordshire for goods and services that they have received but have not paid for by the end of the accounting period.

Deferred Charges

Capital expenditure, which does not create a fixed asset.

Depreciation

The reduction in value of an asset as recorded in the council's accounts.

Effective Interest Rate

The rate of interest that will discount all the cash flows that will take place throughout the expected life of a financial instrument down to the fair value of the asset calculated at initial measurement.

Fair Value

The amount for which an asset could be exchanged, or a liability settled in an arm's length transaction.

Financial Instruments

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another, such as trade payables and receivables, borrowings, bank deposits and investments.

Infrastructure Assets

Fixed assets on which expenditure can only be recovered by continued use of the asset, such as roads, bridges and footpaths.

Intangible fixed assets

Fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights e.g. software.

National Non Domestic Rates

This is a national scheme for collecting contributions from businesses towards the cost of local government services, based on a flat rate in the pound set by Government.

Non Operational Assets

Assets held by the council not directly used in the provision of services, such as investment properties.

Operating lease

A lease where the ownership of the fixed asset remains with the lessor.

Operational assets

Fixed assets owned by Herefordshire Council and used to deliver services, such as buildings and equipment.

Precept

A levy made by one authority to another to finance its net expenditure.

Provision

A sum of money that has been put aside in the accounts for liabilities or losses that are due but where the amount due or the timing of the payment is not known with any certainty.

Related Parties

Two or more parties are related parties when at any time during the financial period:

- One party has direct or indirect control of the other party.
- The parties are subject to common control from the same source.
- One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing its own interests.
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transactions has subordinated its own interests.

Private Finance Initiative

Arrangements supported by the Government involving an external partner to fund major capital developments.

Reserves

Amounts set aside in one year's accounts to be spent in future years. Some reserves are earmarked for specific purposes and other general revenue balances are available to meet future revenue and capital expenditure.

Revenue Expenditure

The day-to-day expenses associated with the provision of services.

Revenue Support Grant

A general grant paid by the Government to local authorities as a contribution towards the costs of their services.

AUDIT AND INSPECTION PLAN – AUDIT 2008/09**Report By: AUDIT COMMISSION****Wards Affected**

None.

Purpose

1. To receive the Audit Commission's audit plan for 2008/09 (Appendix 1 to this report). The external auditor will present the audit plan to Committee.

Financial Implications

2. None directly arising from this report.

RECOMMENDATION

THAT: the Audit and Corporate Governance Committee discusses the content of the audit plan 2008/09 with the Audit Commission.

Reasons

3. The Audit and Corporate Governance Committee's Terms of Reference include commenting on the scope and depth of external audit work to ensure it gives value for money.

Considerations

4. The Audit Commission has discussed and agreed the draft audit plan for 2008/09 with the Chief Executive and Director of Resources. The Joint Management Team has also been consulted on the content.

Risk Management

5. Effective independent review of the Council's financial statements (including the annual governance statement) and its arrangements for securing economy, efficiency and effectiveness in the use of resources is a key risk control.

Appendix

Appendix 1 – Audit Commission's Audit and Inspection Plan 2008/09

Background Papers

None identified.

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

Audit and Inspection Plan

Herefordshire Council

Audit 2008/09

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

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 non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Copies of this report

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For further information on the work of the Commission please contact:

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4 Audit and Inspection Plan | Contents

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Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2008/09;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 During 2008/09, the role of Relationship Manager will be replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities.
- 3 As I have not yet completed my audit for 2007/08, the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 4 The Audit Commission comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999; and
 - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the annual governance statement); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies (from April 2008) sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and audit work is undertaken in the context of these responsibilities.

Fees

- 8 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 9 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is for £306,756, which compares to the planned fee of £270,275 for 2007/08. This difference is made up of a 1.25% inflation increase and £9,000 for extra work necessary for the extended Use of Resources assessment. We have also included £24,250 for a review of development control instead of a planned inspection.
- 10 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions. A detailed breakdown of the audit and inspection fee is included in Appendix 2.

Table 1 Audit and Inspection fee

Audit area	Planned fee 2008/09
Total audit fee	284,361
Total inspection fee	22,395

- 11 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2007/08; and
 - internal audit undertakes appropriate work on all systems; and
 - good quality working papers and records will be provided to support the financial statements by agreed dates.

Further details of the assumptions are outlined in Appendix 2.

- 12 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 13 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable

Process for agreeing any changes in audit fees

- 14 As set out in paragraph 4, I expect that the initial risk assessment may change as the year progress. Where this is the case, I will discuss this in the first instance with the Director of Resources. Supplements to the plan will be issued to record revisions to the risk and the impact on the fee.

Auditor's report on the financial statements

- 15 I am required to issue an audit report giving my:
- opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009; and
 - conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial statements

- 16 I have not undertaken a risk assessment for the audit of the financial statements as many of the specific risks which may become apparent after I have completed the 2007/08 audit. A separate opinion plan for the audit for the financial statements will be issued later.

VFM conclusion

- 17 In reaching my conclusion I will review evidence that is relevant to the Council's performance management and financial management arrangements.
- 18 The key risks highlighted from the planning are summarised in the table below with details of planned work to mitigate the risks. Full details of the risk assessment are outlined in Appendix 3.

Table 2 Key risks identified

Key risks identified	Planned work to address the risk
Herefordshire Public Services	Review development and target specific work on emerging risks
Procurement	Review of function focusing on Herefordshire Amey (highways).
Herefordshire Connects	Follow up of previous AC recommendations
Development Control	Review of function including role of Members
ICT	Completion of Your Business at Risk survey of Officers/Members on understanding of IT security.

Use of resources 2007/08

- 19 This audit plan covers the last year of the current regime for the use of resources assessment as part of the CPA framework. The work required to arrive at the 2007/08 use of resources assessment is fully aligned to that required to arrive at the auditor's 2007/08 value for money conclusion.
- 20 Appendix 1 outlines the criteria and scoring.
- 21 The initial risk assessment for use of resources work is shown in Appendix 3. This will be updated through the continuous planning process as the year progresses.

Use of resources 2008/09

- 22 The Audit Commission has specified that auditors will complete a use of resources assessment for 2008/09. This will be a new assessment forming part of the CAA framework for 2009.
- 23 The Commission proposes that the approach to the new use of resources assessment will be focussed on three themes with the detailed Key Lines of Enquiry to be confirmed. For each of the significant risks identified in relation to the use of resources work, I consider the arrangements put in place by the Council to mitigate the risk, and plan the work accordingly.
- 24 The initial risk assessment for use of resources work is shown in Appendix 3. This will be updated through the continuous planning process as the year progresses.

Mandated work

25 As part of the audit, the mandated work programme comprises:

- data quality for 2007/08; and
- whole of government accounts.

Appendix 1 highlights the work to be undertaken.

CPA and inspection

- 26 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.
- 27 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 28 The Council's CPA category is, therefore, a key driver in the Commission's inspection planning process. For CPA 2007, the Council was categorised as two stars
- 29 I have applied the principles set out in the CPA framework, '*CPA - The Harder Test*', recognising the key strengths and areas for improvement in the Council's performance.
- 30 Our direction of travel assessment found that Herefordshire Council is improving adequately. Performance has improved in most priority areas. Children's services remain adequate overall with some improvement in exam results and arrangements for looked after children. Progress in adult social care has been steady with more vulnerable people helped to live at home. Tax collection and benefits administration have improved, along with the speed of planning applications, street cleanliness and recycling levels. However, it costs more to collect waste and there has been limited progress on the Council's business transformation programme.
- 31 The Council continues to contribute to improvements in road safety, regeneration initiatives and better health for children and vulnerable adults through working in partnerships. Value for money is reasonable but is not measured consistently. Progress is being made on most improvement plans but the overall picture is not being reported clearly. Further improvements are expected to result from the new managers of adult social care and a joint head of Human Resources with the PCT. Some significant weaknesses in the governance of ICT have been recognised by the Council and plans agreed to address them.
- 32 On the basis of the planning process I have identified where inspection activity will be focused for 2008/09 as follows.

Table 3 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM)	To act as the Commission’s primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT statement will be reported in the Annual Audit and Inspection Letter. The DoT assessment summary will be published on the Commission’s website.

Advice and assistance

- 33 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 we have powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 34 If you wish the Commission to provide additional services under these powers, please contact us.

The audit and inspection team

- 35 The key members of the audit and inspection team for the 2008/09 audit are shown in the table below.

Table 4 Audit and inspection team

Name	Contact details	Responsibilities
Mary-Anne Bruce Corporate Area Assessment Lead	ma-bruce@audit-commission.gov.uk 0844 7983554	The primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Elizabeth Cave District Auditor	l-cave@audit-commission.gov.uk 0844 7987552	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Terry Tobin Audit Manager	t-tobin@audit-commission.gov.uk 0844 7987562	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Resources and Audit and Governance Committee.

Quality of service

- 36 I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact the West Midlands sub-regional Head of Operations, Phil Jones.
- 37 If I am unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website or on request.

Planned outputs

- 38 Reports will be discussed and agreed with the appropriate officers before being issued to the audit and governance committee.

Table 5 Planned outputs

Planned output	Indicative date
Opinion Audit Plan	30 January 2009
Annual governance report	30 September 2009
Auditor's report giving an opinion on the financial statements	30 September 2009
Final accounts memorandum	30 November 2009
Use of resources report	31 December 2009
Annual Audit and Inspection Letter	31 March 2009
Development Control	TBA
Procurement	TBA
Herefordshire Public Services	TBA
Your Business at Risk	TBA
Herefordshire Connects (follow-up for AAIL)	TBA

Appendix 1 – Elements of our work

Financial statements

- 1 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 I am required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 3 I am also required to review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with our knowledge of the Council.

Value for money conclusion

- 4 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires me to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at my conclusion.
- 5 In meeting this responsibility, I will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, we will normally place reliance on their reported results to inform our work.
- 6 I will also follow up audit work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment 2007/08

- 7 The use of resources themes and KLOEs are outlined below.
- 8 We will arrive at a score of 1 to 4, based on the underlying key line of enquiry, for each of the following themes.

Table 6

Theme	Description
Financial reporting	<ul style="list-style-type: none"> • preparation of financial statements • external reporting
Financial management	<ul style="list-style-type: none"> • medium-term financial strategy • budget monitoring • asset management
Financial standing	<ul style="list-style-type: none"> • managing spending within available resources
Internal control	<ul style="list-style-type: none"> • risk management • system of internal control • probity and propriety
Value for money	<ul style="list-style-type: none"> • achieving value for money • managing and improving value for money

- 9 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to improve.
- 10 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of the CPA.

Use of resources assessment 2008/09

- 11 The Commission has now consulted on its proposals for the 2008/09 Use of Resources assessment. It proposes that the work required to arrive at the 2008/09 use of resources assessment is fully aligned with that required to arrive at the auditor's 2008/09 value for money conclusion.
- 12 The Commission proposes that the assessment will be based upon the evidence from three themes:
 - Managing money;
 - Managing the business; and
 - Managing other resources.
- 13 The Commission proposes that Data Quality will become an element of the Use of Resources framework from 2008/09.

Data quality 2007/08

- 14 This plan covers the 2007/08 data quality work. This is based on a three-stage approach covering:
- Stage 1 – management arrangements;
 - Stage 2 – analytical review; and
 - Stage 3 – risk-based data quality spot checks of a sample of 2007/08 performance indicators.
- 15 Work will be focused on the 2007/08 overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data including data from partners where relevant.
- 16 Our fee estimate reflects an assessment of risk in relation to the Council's data quality arrangements and performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Whole of government accounts

- 17 I will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

National Fraud Initiative

- 18 From 2008/09 work relating to the National Fraud Initiative will be carried out directly by the Commission under its new data matching powers under the Serious Crime Act 2007. The Commission will be consulting audited bodies on the work programme and fee scales for the National Fraud Initiative later this year.

Certification of grant claims and returns

- 19 I will continue to certify the Council's claims and returns on the following basis:
- claims below £100,000 will not be subject to certification;
 - claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
 - claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

Appendix 2 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
 - you will inform us of significant developments impacting on the audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by the agreed date;
 - requested information will be provided within agreed timescales; and
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.
- 5 Changes to the plan will be agreed with you. These may be required if:
 - new residual audit risks emerge;

- additional work is required by the Audit Commission or other regulators; or
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 Below is a detailed breakdown of the audit and inspection fee for 2008/09.
- 7 The fee (plus VAT) will be charged in 12 equal instalments from April 2008 to March 2009.

Table 7 Detailed audit and inspection fee

Audit area	Planned fee 2008/09	Planned/Actual fee 2007/08
Financial statements	140,075	138,455
Use of resources 2007/08	125,902	109,695
Use of resources 2008/09	9,000	
Data quality 2007/08	9,384	
Total audit fee	284,361	248,149
Relationship management	11,198	11,063
Direction of Travel	11,198	11,063
Total inspection fee	22,395	22,126
Total audit and inspection fee	306,756	270,275

Appendix 3 – Initial risk assessment – Use of resources and VFM conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
Herefordshire Public Services including new Section 75 agreement.	The joint Chief Executive has implemented a new joint management team structure to seek to provide the strategic capacity and leadership to drive the change whilst delivering service improvement. A single risk assurance framework for the Council and PCT has been agreed. A joint communications strategy has been agreed and a review of the Section 75 arrangements has been undertaken. A protocol for developing joint teams is nearing completion. A review of the Council’s Constitution will be completed during 2008 that will provide the reassurance needed that the Council’s corporate governance arrangements are fit for purpose.	Yes	Review development of this very significant joint working arrangement through meetings with Officers and target specific work on emerging risk factors.	All UoR KLOEs

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Herefordshire Connects	<p>The Interim Deputy Chief Executive initiated a strategic review and options appraisal in May 2008 (due July) in order to address the issues raised in the Annual Audit & Inspection Letter 2008 with regard to the Council's transformation programme and the Crookall recommendations. The review will include current and new options. It will also take into account the Council's ICT strategy and the development of Herefordshire Public Services in order to maximise the benefits of partnership working between the Council and PCT.</p>	Yes	Follow up previous recommendations made regarding Herefordshire Connects.	UoR KLOEs 5.1 and 5.2
Procurement	<p>The Council's Financial Procedure Rules and Contract Procedure Rules have been updated and were approved by Council in March 2008. 'Mini guides' on financial management and procurement have been prepared and issued widely to councillors and employees. In-house training courses for those with financial management responsibilities continue and include advice on procurement issues. A special training session was held for ICT & Customer Services staff. The West Midlands Centre of Excellence (WMCOE) has been invited to review the existing</p>	Yes	Review procurement process. Likely to have a particular emphasis on Herefordshire Amey.	UoR KLOEs 5.1 and 5.2

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Development control	<p>corporate procurement arrangements within the Council and PCT and make recommendations on an appropriate structure for a joint approach. VMCOE's report is due at the end of May. The Council's procurement strategy is being reviewed for July. A review of the Council's strategic partnership arrangements with Amey Wye Valley Limited is underway.</p> <p>The Environment Scrutiny Committee has agreed to undertake a review of the planning service. This review will include an assessment of the development control function and member involvement in it. It is anticipated that this review will be completed by November. The planning service is developing a business case for the replacement and upgrade of the software system supporting the service. A new system will enable us to deliver the requirements of the national planning portal and wider electronic planning services. The planning service is reviewing its approach to customer care with a view to minimising the complaints generated in respect of the development control function.</p>	Yes	Review development control function focusing specifically on the role played by Members.	UoR KLOEs 5.1 and 5.2

26 Audit and inspection Plan | Appendix 3 – Initial risk assessment – Use of resources and VFM conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
ICT security	<p>The Information Communication Technology Service and Modern Records Unit are currently certified to ISO27001, the international information security standard. We are currently implementing a newer version of LANDesk to enable us to better manage mobile USB devices. A connection to the Government Secure Intranet is due to be implemented later this year to enable us to have secure email with partner organisations. A project is underway to identify our preferred supplier of encryption software for laptops. We are planning penetration tests on our network to enable us to identify and correct possible weaknesses in our defences.</p>	Yes	Carry out your business at risk on-line IT survey for staff across the Council.	UoR KLOEs 4.2 and 4.3

Appendix 4 – Independence and objectivity

- 1 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 2 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 6 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 7 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.
- 8 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Sustainability

- 9 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
- reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.

JOINT WORKING WITH INTERNAL AUDIT – AUDIT 2008/09**Report By: AUDIT COMMISSION****Wards Affected**

None.

Purpose

1. To receive the Audit Commission's protocol for joint working with the Audit Services team on the 2008/09 audit (Appendix 1 to this report).

Financial Implications

2. None arising as a direct result of this report.

RECOMMENDATION

THAT: the Audit and Corporate Governance Committee notes the proposed joint working protocol between external and internal audit services.

Reasons

3. To ensure delivery of both external and internal audit services is efficient and effective.

Considerations

4. The Chief Internal Auditor and Director of Resources are content with the proposed protocol for joint working.

Risk Management

5. Effective liaison between external and internal audit services provides assurance that key risks receive adequate independent review.

Appendix

Appendix 1 – Joint Working with Internal Audit June 2008.

Background Papers

None identified.

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

Joint Working with Internal Audit

Herefordshire Council

Audit 2008/09

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.
- 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, 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

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 non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

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Introduction

- 1 Close co-operation between audited bodies' internal and external auditors helps to ensure that audit resources are used efficiently and to maximum effect. This document sets out how the internal and external auditors of Herefordshire Council plan to co-operate in 2008/09 in those areas where their responsibilities or work programmes overlap. We are aware of the changes taking place in relation to the Hereford Public Services (HPS) but we are unclear as yet as to how Internal Audit will operate within the HPS.

Background

- 2 The Council and External Audit have maintained a good joint working arrangement for a number of years. Herefordshire Council employ its own Internal Auditors and we have been satisfied with their work. The last full review of your Internal Audit department was carried out 2006/07. We hope to continue to place reliance upon the work carried out by Internal Audit.

Approach and scope

- 3 The external auditor has two responsibilities under the Audit Commission's Code of Audit Practice. The external auditor is responsible for providing conclusions on the Financial Accounts and Value for Money. This agreement is structured according to these two responsibilities. It also sets out our plans in relation to the certification of the Council's grant claims and returns; work which is conducted outside of the code.
- 4 The Audit Commission is committed to strategic regulation and reducing the burden of external audit and inspection on local authorities. In this spirit, our approach throughout has been to offer the Council opportunities to maximise our reliance on internal audit work.
- 5 Because of the high degree of planned reliance on internal audit work set out in our audit plan and this agreement, the delivery of our plan within the estimated fee is highly dependent on Internal Audit delivering their work to CIPFA standards and within agreed timescales. If we find that we are not able to place reliance on the work set out in the agreement, we will need to obtain our assurance through other means which might result in the need to charge additional fees. Appendix 1 indicates when Internal Audit's system work should be ready for review by external audit.

Main areas of reliance

Opinion on the 2008/09 financial statements

Financial systems

- 6 The UK adopted International Standards on Auditing (ISAs) which had mandatory effect from the audit of 2005/06 financial statements dictates what is required to satisfy a safe accounts opinion.
- 7 Amongst other things, the standards place more emphasis on assessing information system controls requiring external auditors to:
 - gain and document an understanding of the systems producing material figures in the accounts and the way that transactions in these systems are initiated, recorded, processed and reported;
 - carry out interim opinion audit planning - identifying risks of material misstatement (inherent or specific risks in the systems) - and planning tests of controls that are designed to prevent the material misstatements;
 - carry out tests of controls where those controls are key to ensuring there are no material misstatements in the assertions in the financial statements; and
 - re-assess the risks at the time the draft financial statements are produced and plan and carry out tests of control or substantive tests of detail against the remaining risks for each of the assertions for material entries in the accounts.
- 8 Consistent with the principles of the 'Managed Audit', we are seeking to place as much reliance as possible on the work of Internal Audit, subject only to our duty to evaluate and, as necessary, re-perform such work. Clearly, the more we are able to rely on their work to provide assurance about system controls, the less the adverse impact of this new duty will be on our audit fee. Appendix 1, provides the details of our outline agreement in respect of system controls assurance.

Annual Governance Statement

- 9 Our opinion on the financial statements also considers whether the Council's Annual Governance Statement complies with proper practices and whether any of the assertions contained in it are misleading or inconsistent with our understanding of the Council's internal control arrangements.
- 10 Internal Audit have assumed a key role in the Council's annual review of internal control required by the Accounts and Audit Regulations 2003. Our draft audit plan assumes that we will be able to obtain most of the assurance we need on the Annual Governance Statement and the Council's governance arrangements by reviewing internal audit work.

Closedown procedures

- 11 Sound accounting closedown procedures are vital to preventing material misstatement in financial statements. Review of such arrangements has traditionally been the territory of the external auditor.

Use of resources

Value for money conclusion

- 12 The work that we have set out in our draft plan is designed to support a conclusion as to whether the Council has in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources.
- 13 While we are not seeking to place specific reliance on the work of Internal Audit in this area we will liaise with the Chief Internal Auditor and ensure that any appropriate work is reviewed and relied on wherever possible.

Data Quality

- 14 Internal Audit will risk assess Data Quality Performance Indicators and carry out a review which can then be used to reduce the amount of time spent by external audit. We will review parts of the work carried out to ensure that we have sufficient assurance to assist with our value for money conclusion.

Grant claims and returns

- 15 One element of the Audit Commission's strategic regulation initiative is its commitment to reducing the level of grant claim certification work its appointed auditors carry out. This commitment has resulted in the following recent changes to the certification regime.
 - Grant claims under £100,000 are no longer subject to audit.
 - Claims between £100,000 and £500,000 will be subject to a reduced, light touch certification.
 - Claims over £500,000 will be subject to a certification approach relevant to the external auditor's assessment of the control environment and management preparation of claims.
- 16 We have concluded that there is only limited scope for additional joint working.. We will set out to place reliance on any other systems work that provides assurance about the control environment relevant to a grant claim or return. We will also share all certification instructions with Internal Audit and keep under review opportunities to increase joint working.

Appendix 1 – Outline agreement

Financial System	Agreed Internal Audit Delivery date	Expected timing of AC review of internal audit work
Payroll	31 December 2008	January 2009
Asset Register	31 December 2008	January 2009
General Ledger	31 December 2008	January 2009
Education FMS	31 December 2008	January 2009
Creditors	31 December 2008	January 2009
Council Tax/NNDR	31 January 2009	February 2009
Debtors	31 January 2009	February 2009
Supporting People	31 January 2009	February 2009
Housing Benefit	31 January 2009	February 2009
Treasury Management	27 February 2009	March 2009
Cash and deposit	27 February 2009	March 2009
ICT/FMS	27 February 2009	March 2009
Bank reconciliation	27 February 2009	March 2009
ISIS	31 March 2009	April 2009
Waste Contract	31 March 2009	April 2009
Non Bank Account Schools	31 March 2009	April 2009
Pooled Budgets	31 March 2009	April 2009

Other Work	Agreed Internal Audit Delivery Date	External Audit Review
<p>Annual Governance Statement</p> <p>We will seek to obtain assurance as to the adequacy of the Council's governance arrangements and the accuracy of assertions in the Annual Governance Statement from a review of Internal Audits work.</p>	June 2009	July – September 2009
<p>Value for money opinion</p> <p>We will review internal audit work wherever appropriate to inform our 2008/09 assessment of the Council's use of resources.</p>	N/A	
<p>BVPIs</p> <p>We will continue the approach agreed in previous years.</p>	31 July 2009	August – September 2009
<p>Grant claims and returns</p> <p>We will also set out to place reliance on any other systems work that provides assurance about the control environment relevant to a grant claim</p> <p>We will also share all certification instructions with Internal Audit and keep under review opportunities to increase joint working.</p>	N/A	

SCHEME OF DELEGATION

Report By: Assistant Chief Executive - Legal and Democratic

Wards Affected

None.

Purpose

1. To approve the Scheme of Delegation.

Financial Implications

2. There are no financial implications.

RECOMMENDATION

THAT the Committee make comment and approve the Scheme of Delegation and for the Assistant Chief Executive – Legal and Democratic to incorporate any amendments.

Reasons

3. The Committee is aware of the background and references should be made to previous reports and Minutes of the Committee meetings of 16 November 2007, 21 December 2007 and the 29 February 2008.
4. The Committee requested further clarity on the respective responsibilities of Directors and Cabinet Members under the Scheme of Delegation.

Considerations

5. The Committee has previously seen a Scheme of Delegation at past meetings. This Scheme sets out clarity between the responsibility of the Directors and Cabinet Members.
6. At Appendix 2 I have set out tracked changes to the previous draft and at Appendix 1 a copy of the proposed Scheme of Delegation.
7. The Committee will recall that this work was identified by both the S151 Officer's report and Mr Crookall's report.

Further information on the subject of this report is available from Alan McLaughlin,
Assistant Chief Executive - Legal and Democratic on Telephone Number 01432 260200

Risk Management

8. The Scheme of Delegation should provide clarity on both the roles of Directors and Cabinet Members on decision making.

BACKGROUND PAPERS

- Appendix 1 – Scheme of Delegation
- Appendix 2 – Track Changes of Scheme of Delegation

PART 12

SCHEME OF DELEGATION

12.1 INTRODUCTION

12.1.1 Within the limitations specified below, discharge of the Council's executive functions is delegated to the Chief Executive, Directors and specific officers.

12.1.2 This Scheme of Delegation ("the Scheme") sets out the procedures to be followed in the performance of delegated executive functions. It is an extremely important part of the corporate governance framework that helps to guarantee the integrity of the Council's business processes. The requirement for officers to comply with the Scheme is mandatory. Consistent or significant failure to comply with the Scheme may be a matter for disciplinary investigation.

12.1.3 For the purposes of this Scheme:

- a) The 'Leader' is the Leader of the Council as elected by the Council.
- b) A 'Cabinet Member' is a member appointed as such by the Leader.
- c) The term 'Joint Management Team' is used in this document to refer to the following postholders acting in their individual capacities rather than collectively as the JMT:
 - I. The Chief Executive.
 - II. Deputy Chief Executive.
 - III. The Director of Children's Services.
 - IV. The Director of Resources (PCT).
 - V. The Director of Resources (Council).
 - VI. Managing Director of Provider Services (PCT).
 - VII. Director of Regeneration.
 - VIII. Director of Environment and Culture.
 - IX. Director of Public Health (PCT).
 - X. Assistant Chief Executive – HR.
 - XI. Assistant Chief Executive – Legal and Democratic.
 - XII. Director of Integrated Commissioning (DASS).
 - XIII. Director of Clinical Leadership and Quality (PCT)

JMT incorporated all the posts above and those described as PCT will be subject to the PCT Scheme of Delegation. This Scheme of Delegation refers only to Directors of the Council carrying out Council functions

- d) There are three 'Statutory Officers', as follows:
 - I. The **Head of Paid Service (Chief Executive)** who reports to the Council on the way in which the discharge of the Council's functions is co-ordinated, the number management and salary of employees needed to discharge those functions, and the organisation of those employees.
 - II. The **Monitoring Officer (Assistant Chief Executive – Legal and Democratic)** who is responsible for advising on any proposal, decision or omission actually or potentially giving rise to a breach of law or of any statutory code of practice or may lead to maladministration.
 - III. The **Chief Finance Officer (Director of Resources (Council))** who is responsible for the proper administration of the Council's financial affairs.

- e) There are four 'Heads of Profession' with specific delegations, as follows:
- I. The **Assistant Chief Executive - HR**: all human resources and employee health & safety issues.
 - II. The **Head of Financial Services**: all contracting and procurement issues relating to works, goods and services, also the deputy Chief Finance Officer role.
 - III. The **Head of Asset Management & Property Services**: all land and property issues.
 - IV. The **Head of ICT** in respect of all information and communications technology hardware, software, systems and support services.

12.1.4 Reference to the Director of Resources hereafter shall be to the Director of Resources (Council)

12.1.5. For the purposes of this Scheme, any reference to any legislation, statutory regulation, schedule of an Act, Code of Practice, etc. shall be construed to include any amendments that may be made to them from time to time.

12.2 LIMITATIONS

12.2.1 This Scheme does not delegate to officers:

- a) Any matter reserved by law or by the Constitution to the Council, Cabinet, Committee or Sub-Committee of the Council.
- b) Any matter which by law may not be delegated to an officer.
- c) A Key Decision as defined in the Council's Constitution.

12.2.2 Officers may only exercise delegated powers in accordance with:

- a) The Budget and Policy Framework Rules approved by the Council.
- b) The budget approved by the Council.
- c) The Council's Constitution including its Contract Procedure Rules and Financial Procedure Rules as set out in Appendices 4 and 5 of the Constitution.
- d) Any statutory restrictions, statutory guidance or statutory code of practice.

12.2.3 In exercising delegated powers, officers shall:

- a) Act within the Council's approved revenue and capital budgets for the relevant service, subject to any variation permitted by the Council's Financial Procedure Rules or the Director of Resources under delegated authority.
- b) Comply with the restrictions set out in paragraph 12.2.2.
- c) Comply with any professional standards or operational policies of the Council and consult with the Assistant Chief Executive - Legal and Democratic or Heads of Profession relevant to the matter under consideration.

12.3 SUB-DELEGATION

- 12.3.1 This Scheme authorises members of the Joint Management Team to further delegate any function that has been delegated to them under this Scheme to another officer or officers. Sub-delegations can be temporary arrangements and are to be made to individuals rather than posts.
- 12.3.2 Every sub-delegation shall be in writing, setting out the confines and accountability for the function and the terms and conditions for the performance of it.
- 12.3.3 Each member of the Joint Management Team shall record all sub-delegations in a register maintained for the purpose by them. These registers are to be kept in line with the Council's policies for the retention of documents.

12.4 CABINET MEMBER DECISIONS

Definition

- 12.4.1 Cabinet Member decisions shall be confined within the terms of the relevant Cabinet Member's area of responsibility set out in Part 6 of the Constitution and also in accordance with the General Terms of Reference for Cabinet Members set out in Part 6, 6.5.4. of the Constitution
- 12.4.2 Cabinet Member Decisions are those that do not fall within the definition of an Administrative or Management Decisions (see 12.5) and are not Key Decisions as defined in the Council's Constitution.
- 12.4.3 Each member of the Joint Management Team is responsible for identifying and advising on Cabinet Member Decisions and managing the process in line with the arrangements set out below.

Reports

- 12.4.4 Before asking a Cabinet Member to make a decision, the member(s) of the Joint Management Team concerned shall draft a report using a pro-forma prepared by the Assistant Chief Executive – Legal and Democratic identifying:
- a) The title of the report.
 - b) The Cabinet Member portfolio(s) concerned.
 - c) The report author and telephone contact details.
 - d) The date the report will be considered.
 - e) The restrictions on publishing the Cabinet Member Decision report which will be determined by reference to Sections 100 and 100A to 100K of the Local Government Act 1972.
 - f) The electoral wards affected.
 - g) The purpose of the report, that is, the issue to be decided.
 - h) The recommendations being proposed.
 - i) The reasons and issues for those recommendations, such as:

- I. the facts of the matter;
 - II. any legislative requirements;
 - III. any Council policies relating to the issue; and
 - IV. any relevant national or regional guidance.
- j) The alternative options available to the Cabinet Member with a financial assessment of those options provided or supervised by the Director of Resources or sub-delegated officer.
 - k) The employment/staffing implications.
 - l) The legal issues.
 - m) The financial implications, both strategic and operational.
 - n) The risk management issues.
 - o) The implications for any other areas of the Council's activities and crosscutting themes.
 - p) Confirmation from the report author that comment has been sought from the Statutory Officers, Heads of Profession and any other member of the Joint Management Team affected by the proposals.
 - q) The appendices.
 - r) The background papers and previous reporting decisions.

Consultation

12.4.5 The member(s) of Joint Management Team concerned shall then send a copy of the Cabinet Member Decision report to:

- a) The Cabinet Member(s) whose portfolio(s) includes the area of activity under consideration or, if unavailable for any reason or has a personal and prejudicial interest in the matter, the Leader or alternative Cabinet Member nominated by the Leader.
- b) Any local Member whose ward might be affected.
- c) All Statutory Officers.
- d) All relevant Heads of Profession.
- e) Any other member of the Joint Management Team who is responsible for services that might be affected by the proposed decision.

Objections

12.4.6 The Cabinet Member and other consultees listed in 12.4.4 have 5 working days after receiving the draft report to object in writing to the report.

Determination

- 12.4.7 If no objections are received, the Cabinet Member may sign the report to confirm his/her agreement to the recommendations adopting the reasons set out in the report or amending such reasons on which a Decision Notice will be published. Once the Decision Notice is published, the member(s) of Joint Management Team concerned can then implement the decision.
- 12.4.8 If a consultee has objected to the proposed decision, the report will be referred to Cabinet. The member(s) of Joint Management Team concerned shall not take any action in respect of the proposed recommendations until Cabinet has determined the matter.
- 12.4.9 The member(s) of Joint Management Team concerned shall send a copy of the report to the Assistant Chief Executive – Legal and Democratic who will include it on the agenda for the next convenient Cabinet meeting. Cabinet shall determine the recommendations of the member(s) of Joint Management Team.

Referring to Cabinet

- 12.4.10 A member of the Joint Management Team may consider that an issue is too important to be decided by a Cabinet Member. In discussion with their Cabinet Member, the member of Joint Management Team may report the matter to Cabinet in such circumstances.

Urgent Cabinet Member Decisions

- 12.4.11 Cabinet Members have the power to take an Executive Decision in exceptional circumstances even if the full decision-making process has not been followed.
- 12.4.12 If a member of Joint Management Team is of the opinion that an Executive Decision should be taken by a Cabinet Member more urgently than the decision-making process allows – for example to prevent or reduce risk to persons, property or the Council's interests – the member of the Joint Management Team shall:
- a) Use his/her best endeavours, as far as the urgency of the matter permits, to consult those persons they would normally have consulted had the full decision-making process been followed before advising the Cabinet Member on the decision to be made.
 - b) Ensure that a report in the format outlined in 12.4.2 is written promptly and includes the reasons for taking the decision urgently. The report must be sent to the Assistant Chief Executive – Legal and Democratic to present to the next convenient Cabinet meeting.

Recording Cabinet Member Decisions

- 12.4.13 A member of Joint Management Team drafting a Cabinet Member Decision report shall provide the Assistant Chief Executive – Legal and Democratic with the signed agreement of the Cabinet Member within two working days of the date of the decision.
- 12.4.14 The Assistant Chief Executive – Legal and Democratic shall publish all Cabinet Member Decisions within 5 working days of the date of the decision.
- 12.4.15 The Assistant Chief Executive – Legal and Democratic shall ensure that a record of Cabinet Member Decisions is published and reported to the relevant Scrutiny Committee. This record shall also be available for public inspection during normal office hours and available on the Council's website.

12.4.16 The record of Cabinet Member Decisions shall include the member of Joint Management Team's report supporting the Decision subject to any requirement for confidentiality.

Call-in Mechanism

12.4.17 Where a Cabinet Member Decision involves expenditure or reductions in service in total of more than £500,000, then that decision is provisional unless the Council has previously approved the specific expenditure or reduction.

12.4.18 A provisional Cabinet Member Decision will be notified in accordance with the Scrutiny Committee rules.

12.4.19 A provisional Cabinet Member Decision may be called in under the terms of the Council's scrutiny procedure rules.

12.4.20 A provisional Cabinet Member Decision can be implemented if not called-in.

Accountability

12.4.21 Members of the Joint Management Team are accountable to the Council for every Cabinet Member Decision they advise on. They may be required to report to and attend Strategic Monitoring Committee or Scrutiny Committee in respect of their advice on Cabinet Member Decisions.

12.5 ADMINISTRATIVE DECISIONS

Definition

12.5.1 Administrative Decisions are day-to-day operational decisions delegated to officers. Directors are encouraged to take responsibility for Administrative Decisions to assist with the effective discharge of the Council's functions.

12.5.2 A decision is deemed to be an Administrative Decision unless it:

- a) Is a Key Decision as defined in the Council's Constitution.
- b) Is a reserved decision.
- c) Is not included in the approved budget.
- d) Conflicts with the Council's Budget and Policy Framework.
- e) Raises new issues of policy.
- f) Involves any of the following:
 - I. changing employees' employment contracts or TUPE transfer employees;
 - II. acquiring or disposing of land or property outside of the specific designations to the Head of Asset Management & Property Services;
 - III. viring capital or revenue budget of more than the prevailing European procurement limit for supplies and services (currently £144,000);
 - IV. accepting a tender for a capital or revenue contract in excess of the European procurement limits for supplies or services (currently £144,000); or
 - V. accepting any tender for a contract that involves a departure from the Contract Procedures Rules.

- g) Involves making, approving or publishing a draft order, scheme or plan that may require, either directly or in the event of an objection, the approval of a Secretary of State.
- h) Requires the passage of local order or the adoption by the Council of national legislation.
- i) Proposes an ex-gratia payment or payment of a sum in settlement of a complaint against the Council or in local settlement of an Ombudsman complaint.
- j) Is in response to an Ombudsman finding of maladministration with injustice.
- k) Proposes to write-off a debt to the Council of more than £20,000.
- l) Proposes an alteration in the charges that the Council makes for any of its services other than allowed for in the Financial Procedure Rules.
- m) Raises an objection from any of the Statutory Officers or a Head of Profession.
- n) A member of the Joint Management Team is of the opinion it should be treated as an Executive Decision.

Consultation

12.5.3 Members of the Joint Management Team do not have to prepare or publish a formal written report in respect of an Administrative Decision. However, they are responsible for ensuring that appropriate written records of the advice sought from the Statutory Officers and Heads of Profession are kept.

12.5.4 If an Administrative Decision proposes the write-off of a debt to the Council, the Director of Resources/Head of Benefit & Exchequer Services must be consulted on the application of the relevant Financial Procedure Rules.

Referring an Administrative Decision

12.5.5 This Scheme encourages members of the Joint Management Team to take responsibility for Administrative Decisions. However, members of the Joint Management Team can decide to treat an Administrative Decision as a Cabinet Member Decision in which case the arrangements set out in Section 12.4 apply.

Recording and Reporting Administrative Decisions

12.5.6 There is no requirement to report Administrative Decisions to Council, Cabinet, Committees or Sub-Committees.

12.5.7 Members of the Joint Management Team are responsible for ensuring that all those who need to know about Administrative Decisions are informed promptly.

Retaining Records

12.5.8 Members of the Joint Management Team are responsible for retaining a record of Administrative Decisions that they take and the reasons for them. The records kept must be sufficient for audit and evidential purposes (for example Judicial Review, Employment Tribunal, Ombudsman, Audit Commission, OFSTED or other proceedings or investigation).

12.5.9 Members of the Joint Management Team are responsible for ensuring that records supporting Administrative Decisions are stored securely and for the period required in the Council's policy on document retention.

12.6 REPORTS TO COUNCIL, CABINET, COMMITTEES OR SUB-COMMITTEES

Joint Management Team's Responsibilities

12.6.1 Members of the Joint Management Team are responsible for ensuring that reports are drafted in accordance with the protocol set out in this section of the Scheme of Delegation. **This includes obtaining comments from the Statutory Officers, Heads of Profession, any other Directors, relevant Cabinet Members and local Members affected by the proposals contained in the report in good time.**

12.6.2 Any reports presented to the Assistant Chief Executive – Legal and Democratic that have not been drafted in accordance with this Scheme and do not contain confirmation that these consultations have taken place are to be deferred by him/her until the process outlined in section 12.6 has been followed.

Forward Plan

12.6.3 Members of the Joint Management Team are responsible for identifying reports that need to be incorporated into the Forward Plan setting out a timescale as to when such a report will be provided to Cabinet.

Report Format

12.6.4 All reports must be prepared using the pro-forma prescribed by the Assistant Chief Executive – Legal and Democratic, Cabinet, Committees, Sub-Committees and Cabinet Member decisions.

12.6.5 The Assistant Chief Executive – Legal and Democratic may prescribe a pro-forma specific to Council, Cabinet, each Committee, each Sub-Committee and Cabinet Member decision. The following information will be required:

- a) The title of the report.
- b) The Cabinet Member(s) portfolio(s) concerned.
- c) The meeting the report will be considered at.
- d) The date of the meeting the report is to be considered.
- e) The name of the report author and telephone contact details.
- f) The restrictions on publishing the report as set out in Sections 100 and 100A to 100K of the Local Government Act 1972.
- g) The electoral wards affected.
- h) The purpose of the report, that is, the issue to be decided.
- i) Whether the decision is a Key Decision or not, the reasons why in either case, and whether there are any Forward Plan implications.
- j) The recommendations being proposed.
- k) The reasons for those recommendations:
 - I. the facts of the matter;
 - II. any legislative requirements;

- III. any Council policies relating to the issue; and
 - IV. any relevant national or regional guidance.
- l) The alternative options available with a financial assessment of those options provided or supervised by the Director of Resources or sub-delegated officer.
 - m) The employment/staffing implications – comments must be agreed with the Head of Human Resources.
 - n) The legal issues – comments must be agreed with the Assistant Chief Executive – Legal and Democratic
 - o) The financial implications, both strategic and operational – comments must be agreed with the Director of Resources, in their absence the Head of Financial Services, or their nominated representative.
 - p) The risk management issues – comments must be agreed with the Risk & Insurance Manager.
 - q) The consultations undertaken and the views expressed by the consultees.
 - r) The implications for any other areas of the Council's activities and crosscutting themes.
 - s) Confirmation from the report author that comment has been sought from the Statutory Officers, Heads of Profession and any another member of the Joint Management Team affected by the proposals.
 - t) The appendices.
 - u) The background papers and previous reporting and decision making. The accuracy of such reports is the responsibility of the report author.

Finalising Reports

- 12.6.6 The Chief Executive is responsible for giving final approval to all reports scheduled for Council and Cabinet once he is satisfied that the Director of Resources and Assistant Chief Executive – Legal and Democratic have been properly consulted.
- 12.6.7 Directors and the Head of Human Resources are responsible for giving final approval to all reports scheduled for Committees and Sub-Committees once they are satisfied that the Statutory Officers have been properly consulted.

Agenda Despatch

- 12.6.8 Members of the Joint Management Team must ensure that their reports are available for the Assistant Chief Executive – Legal and Democratic to despatch with respective agenda papers in order to meet the legal requirements for Council/Committee and Cabinet meetings.
- 12.6.9 Members of the Joint Management Team must ensure that a report subsequent to release of the agenda only happens in exceptional circumstances in the interest of efficiency and to aid effective decision-making.
- 12.6.10 Directors and the Head of Human Resources are to take personal responsibility for seeking approval from the Chief Executive for late despatch of a report to Council and Cabinet prior to the agenda being printed. The Chief Executive will discuss the position with the Leader before confirming late despatch is acceptable.

12.6.11 Directors and the Head of Human Resources are to take personal responsibility for agreeing late despatch of any of their reports to Committees or Sub-Committees with the Chair of the relevant Committee or Sub-Committee before the agenda is due to be printed.

12.7 GENERAL DELEGATIONS TO THE CHIEF EXECUTIVE AND DIRECTORS

General

12.7.1 Members of the Joint Management Team are authorised to act on behalf of the Council in relation to any matters within the service area for which they are responsible and as set out in Appendices 18, 22 and 23, subject to the limitations set out in 12.2.

12.7.2 Members of the Joint Management Team are expected to maintain a close liaison with the relevant Cabinet Members and Committee Chairmen.

12.7.3 Members of the Joint Management Team must consult with the local members that might be affected by the exercise of their delegated powers.

12.7.4 Members of the Joint Management Team will comply with the Protocol for Member / Officer Relations as set out in the Council's Constitution.

12.7.5 Directors and the Head of Human Resources are expected to ensure the Chief Executive is consulted on key or controversial issues when appropriate and kept informed.

12.7.6 An authorised officer can exercise any power conferred on a member of the Joint Management Team in their absence or at other times subject to 12.3.

12.7.7 Members of the Joint Management Team and the Assistant Chief Executive – Legal and Democratic shall take all necessary steps to protect or advance the business interests of the Council after having consulted with the relevant Cabinet Member, Committee Chairman or full Cabinet as appropriate. Any such action shall be reported to the appropriate body. The roles and responsibilities of the Statutory Officers are set out in 12.8, 12.13 and 12.18.

12.7.8 Members of the Joint Management Team are authorised to decide whether the Common Seal of the Council should be affixed to a document indicating the appropriate authority for such sealing. It must be affixed to all contracts with a total value in excess of the prevailing European procurement limits. Such sealing shall be carried out by the Assistant Chief Executive – Legal and Democratic on receipt of authorisation.

12.7.9 Directors and the Head of Human Resources are authorised, having consulted with the Chief Executive, to give notice of their intention to make a written report to the full Council on a proposed decision they consider to be contrary to or not in compliance with the Council's Constitution, policies or government advice. Members of the Joint Management Team may not take any further action to implement the decision being challenged and the matter will be automatically reported to the Cabinet or Council for decision or recommendation as appropriate. A special Council meeting may have to be arranged in order that the matter can be considered promptly.

12.7.10 Members of the Joint Management Team are responsible for ensuring the Council's Criminal Records Bureau policies and procedures are followed.

12.7.11 Members of the Joint Management Team, whether acting individually or corporately, are responsible for:

- Contributing to the effective leadership of the Council.

- Contributing to the management of the Council.
- Ensuring the Council's financial resources are well managed.
- Contributing to cross-authority issues and to the development of the Council.

Asset Management & Property Services

- 12.7.12 Members of the Joint Management Team may in consultation with the Head of Asset Management & Property Services declare Council land or property surplus to requirements.
- 12.7.13 Members of the Joint Management Team may in consultation with the Head of Asset Management & Property Services arrange for sessional lettings of Council premises for periods of less than 24 hours.
- 12.7.14 Members of the Joint Management Team may in consultation with the Head of Asset Management & Property Services propose the acquisition of land or property in accordance with the provisions of the Asset Management Plan and Capital Strategy.
- 12.7.15 Members of the Joint Management Team may in consultation with the Head of Asset Management & Property Services propose the acquisition of a leasehold interest in land or property in accordance with the provisions of the Asset Management Plan and Capital Strategy.
- 12.7.16 Members of the Joint Management Team and Heads of Service shall ensure that lessees and other prospective occupiers of Council land are not allowed to take possession or enter land or property until a lease or agreement, in a form approved by the Director of Resources and the Assistant Chief Executive – Legal and Democratic, has been agreed.
- 12.7.17 Members of the Joint Management Team shall ensure the proper security of all buildings and other assets under their control.
- 12.7.18 Members of the Joint Management Team shall periodically review the Council's land and property in order to identify any that are surplus to requirements.
- 12.7.19 Where Council-owned land and buildings are identified as surplus to requirements, a recommendation for the sale of land should be the subject of a joint report by the Chief Executive or Director and the Director of Resources.
- 12.7.20 Where the use of Council land or property is subject to a proposal for a change of use, the member(s) of the Joint Management Team concerned shall consult with the Director of Resources. The Director of Resources will decide if such proposals are acceptable and to inform the Cabinet Member (Resources) and relevant Cabinet Member(s), having provided information on that proposal.
- 12.7.21 Members of the Joint Management Team shall pass title deeds to the Assistant Chief Executive – Legal and Democratic. The Assistant Chief Executive – Legal and Democratic is responsible for custody of the Council's title deeds.
- 12.7.22 Members of the Joint Management Team must ensure that no Council asset is subject to third party or personal use by an employee or Member without proper authority.
- 12.7.23 Members of the Joint Management Team must ensure the safe custody and proper recording and use of vehicles, equipment, furniture, stock, stores and other property belonging to the Council.

- 12.7.24 Members of the Joint Management Team must ensure that a register of moveable assets is kept in compliance with arrangements defined by the Director of Resources.
- 12.7.25 Members of the Joint Management Team must ensure assets are identified, their location recorded and that they are appropriately security marked and insured.
- 12.7.26 Members of the Joint Management Team must consult the Director of Resources in any case where security is thought to be defective or where it is considered that special security arrangements may be needed or involve issues of health and safety.

Financial management

- 12.7.27 Members of the Joint Management Team shall ensure that the relevant Cabinet Member is advised of the financial and legal implications of all proposals to change existing or develop new services. Members of the Joint Management Team are responsible for securing financial and legal advice from the Director of Resources and Assistant Chief Executive – Legal and Democratic respectively.
- 12.7.28 Members of the Joint Management Team shall ensure that all proposals to change existing or develop new services are identified as a result of a full options appraisal process that includes a financial assessment of the options identified that is delivered or supervised by the Director of Resources or his/her nominated representative.
- 12.7.29 The Director of Resources together with the Assistant Chief Executive – Legal and Democratic is to prepare Financial Procedure Rules and Contract Procedure Rules for formal adoption by the Council. Members of the Joint Management Team are responsible for promoting these formal requirements and must ensure compliance with them in their areas of responsibility.
- 12.7.30 Members of the Joint Management Team are responsible for ensuring that a Scheme of Financial Delegation is in place for their area of responsibility. The Scheme of Financial Delegation is to set out the arrangements for the discharge of their responsibilities contained in the Council's Contract Procedure Rules and Financial Procedure Rules and is to be kept up to date.
- 12.7.31 Members of the Joint Management Team are responsible for ensuring that budget estimates reflecting agreed service plans are prepared in line with guidance issued by the Director of Resources.
- 12.7.32 Members of the Joint Management Team are authorised to sign contracts with third parties on behalf of the Council provided the expenditure to be incurred is necessary, the appropriate budget approval is in place and the action complies in all other respects with the Council's Financial Procedure Rules and Contract Procedure Rules.
- 12.7.33 Before any commitments are incurred, members of the Joint Management Team are responsible for consulting with the Director of Resources and seeking his/her written approval regarding any matters that are not included in the approved budgets and are liable to materially affect the Council's finances (amounts greater than the prevailing European procurement limit for supplies and services which is currently £144,000).
- 12.7.34 Members of the Joint Management Team are to draw to the attention of all officers for whom they are responsible, the existence and content of the Council's Contract Procedure Rules and Financial Procedure Rules and related guidance prepared by the Director of Resources. Members of the Joint Management Team shall ensure that these documents are readily available for reference within their Directorates.

- 12.7.35 Members of the Joint Management Team are responsible for ensuring that officers they propose to include in their Schemes of Financial Delegation have attended the mandatory in-house financial management training appropriate to their level of financial responsibility before being authorised to exercise those responsibilities.
- 12.7.36 Members of the Joint Management Team are responsible for managing service delivery within the agreed revenue and capital budgets for their area of responsibility. For revenue budgets, the permitted tolerance is +1% of the in year budget. For capital budgets, the tolerance is +5% of approved capital budget over the lifetime of the project. These tolerances will allow for approved in-year changes to budgets and take account of any properly authorised urgent decisions.
- 12.7.37 Members of the Joint Management Team are responsible for identifying budget 'windfalls' (for example income from fees and charges in excess of budget) or budget no longer required for the purpose for which it was approved (for example a capital project that is no longer to proceed). Additional financial capacity shall be considered a corporate resource and allocated in line with corporate priorities.
- 12.7.38 Members of the Joint Management Team are responsible for providing performance information that contributes to effective financial modelling for budget setting and outturn forecasting purposes.
- 12.7.39 Members of the Joint Management Team are responsible for ensuring team, service and Directorate risk registers are established and maintained in line with the Council's Risk Management Strategy.
- 12.7.40 Members of the Joint Management Team are responsible for ensuring that works, goods and services are purchased from preferred Council suppliers where such have been identified.
- 12.7.41 Members of the Joint Management Team are responsible for ensuring that the Director of Resources and/or the Assistant Chief Executive - Legal and Democratic or nominated representatives have immediate access if required to any assets, documents staff or systems.
- 12.7.42 Members of the Joint Management Team are responsible for taking immediate remedial action if the financial governance arrangements in their area of responsibility do not achieve the required standard, conducting recorded investigation(s) and instigating disciplinary proceedings if appropriate. They shall report the incident in writing to the Director of Resources and Assistant Chief Executive – Legal and Democratic.
- 12.7.43 Members of the Joint Management Team are required to work together to ensure that all fundamental systems achieve as a minimum a 'satisfactory' internal audit opinion.
- 12.7.44 Members of the Joint Management Team are responsible for ensuring that all fundamental systems and financial systems are reconciled on a monthly basis.
- Human Resources**
- 12.7.45 Members of the Joint Management Team are authorised to appoint, dismiss, discipline and determine all other matters relating to the employment of staff subject to the requirements set out in the Council's Constitution (Appointment and Discipline of Employees) and in accordance with the Council's terms and conditions of employment. The Chief Executive and Directors can sub-delegate such responsibilities in accordance with 12.3.

12.7.46 Members of the Joint Management Team are responsible for ensuring action is taken in the event that an employee consistently fails to meet the agreed standards of performance in their role in accordance with the Council's Disciplinary Procedures.

12.7.47 Members of the Joint Management Team and all other officers will comply with the Code of Conduct for Employees and will be required to formally acknowledge receipt of the code on taking up employment with the Council.

12.8 SPECIFIC DELEGATIONS TO THE CHIEF EXECUTIVE

Statutory Officer Responsibilities

12.8.1 The Chief Executive as Head of Paid Service will discharge the statutory responsibilities of the Head of Paid Service and is responsible for reporting to the Council on the manner in which the discharge by the Council of its functions is co-ordinated.

12.8.2 The Head of Paid Service shall have the right of access to all Members both individually and collectively and to the Council, Cabinet and any Committee or Sub-Committee. This does not extend to any meetings held by or on behalf of any political group.

Other Responsibilities

12.8.3 The Chief Executive shall be authorised to act on behalf of the Council in relation to all functions relating to elections as set out in Schedule 1 to the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 as amended from time to time.

12.8.4 The Chief Executive is responsible for the overall corporate management of the Council and has overall management responsibility for all employees.

12.8.5 The Chief Executive is responsible for the provision of professional advice to all officers and Members on the decision making process.

12.8.6 The Chief Executive (or in his absence the Assistant Chief Executive - Legal and Democratic) is authorised to attest the application of the Common Seal of the Council to a document in a book provided for the purpose with sequentially numbered entries.

12.8.7 In the absence of the Assistant Chief Executive - Legal and Democratic, the Chief Executive is authorised to authenticate documents needed for legal proceedings or legal agreements, contract notices or orders under hand on behalf of the Council if no other authorised person is available to do so.

12.8.8 The Chief Executive is responsible for reviewing and enforcing the Council's Anti-Fraud and Corruption policy except for matters relating to housing and Council Tax benefit.

12.9 SPECIFIC DELEGATIONS TO THE DIRECTOR OF INTEGRATED COMMISSIONING (DIRECTOR OF ADULT SOCIAL SERVICES)

12.9.1 To have responsibility for the following activities:

- a) Adult Social Care Services.
- b) Strategic planning and purchasing of adult and children's social care and health services
- c) Section 75 agreements between the council and the primary care trust
- d) Supporting People programme

12.9.2 To undertake the statutory Director of Adult Social Services (DASS) role.

- 12.9.3 To act as the Receiver for adults unable to manage their own affairs.
- 12.9.4 To represent the Council on the Supporting People Commissioning Board.
- 12.9.5 To represent the Council on the Herefordshire Community Safety and Drugs Partnership.
- 12.9.6 To carry out any functions assigned in pursuance of the Council's Constitution, Standing Orders, Contract Procedure Rules, Financial Procedure Rules, Budget & Policy Framework Rules, protocols and any approved policies, plans, codes, practices and procedures of the Council.

12.10 SPECIFIC DELEGATIONS TO THE DIRECTOR OF CHILDREN'S SERVICES

- 12.10.1 To carry out the functions of the Council as a Children's Services Authority including those functions referred to in Section 18(1) of the Children Act 2004 (as amended from time to time) and set out in the Statutory Guidance for Director of Children's Services and Lead Member Children's Services dated 2004.
- 12.10.2 To carry out the function of the Council as Local Education Authority including the functions of the Council relating to child employment and the youth service but excluding functions relating to adult learning and further and higher education set out in Section 18(3) of the Children Act 2004 (as amended from time to time).
- 12.10.3 To exercise functions under the Local Authority Society Services Act 1970, so far as they relate to children, and ensure local authority functions are discharged with regard to the need to safeguard and promote the welfare of children through the delivery of services which support:
 - a) Hereford Safeguarding Children Board (HSCB);
 - b) Children looked after by the Council, children fostered or adopted and those on the protection register;
 - c) Social care services to vulnerable children and young people, and their families;
 - d) Children subject to child protection;
 - e) Children in need, including those with a disability;
 - f) Emotionally and behaviourally disturbed children; and
 - g) Any other vulnerable child or young person.
- 12.10.4 To exercise any health related functions exercised on behalf of any National Health Service body under Section 75 of the National Service Health Act 2006.
- 12.10.5 To establish, maintain and operate a children information database.
- 12.10.6 To prepare and publish a Children & Young Persons Plan.
- 12.10.7 To be responsible for the administration and planning of the review of organisation of schools within the County.

- 12.10.8 To carry out the functions of the Council in relation to early years/Education and care.
- 12.10.9 To carry out the functions of the Council in relation to Youth Offending Services.
- 12.10.10 To be responsible for the development of Corporate Parenting.
- 12.10.11 To carry out the functions of the Council as an Adoption Agency.
- 12.10.12 To carry out the functions of the Council under section 31 of the Health Act 1999 (as amended from time to time) so far as those functions relate to children.
- 12.10.13 To carry out the functions of the Council under sections 23C to 24D of the Children Act 1989 (as amended from time to time). (After care arrangements, etc).
- 12.10.14 To carry out any functions assigned in pursuance of the Council's Constitution, Standing Orders, Contract Procedure Rules, Financial Procedure Rules, Budget & Policy Framework Rules, protocols and any approved policies, plans, codes, practices and procedures of the Council.
- 12.10.15 To discharge the functions allocated to the Lead Member for Children's Services comprising:
 - a) The Council's Performance and Partnership activities in relation to children and young people;
 - b) The Council's commissioning activities in relation to children and young people;
 - c) The improvement of schools and the provision of resources and support services to schools, including planning and information;
 - d) School organisation and admissions;
 - e) Education for children with special needs;
 - f) Early years education and childcare;
 - g) Exclusions from schools, and children at risk of offending; and
 - h) Home to school transport.
- 12.10.16 To establish a Children's Trust, engaging partners as required in the Children's Act 2004.
- 12.10.17 To ensure appropriate and robust monitoring functions in terms of Value for Money in liaison with the Schools Forum and partners.

12.11 SPECIFIC DELEGATIONS TO THE DEPUTY CHIEF EXECUTIVE

- 12.11.1 To have responsibility for the following activities:
 - a) Policy and Performance.
 - b) Legal and Democratic Services (except with reference to the Monitoring Officer).
 - c) Information and Communications Technology and Customer Services.

- d) Communication.
- e) Herefordshire Partnership.
- f) Emergency Planning.
- g) Corporate Programmes/Herefordshire Connects.

Risk Management & Insurance

- h) Co-ordinating and sustaining the Council's risk management strategy and monitoring compliance and effectiveness.
- i) Arranging economic, efficient and effective insurance cover for all insurable risks including self-insurance if appropriate.

12.11.2 To carry out any functions assigned in pursuance of the Council's Constitution, Standing Orders, Contract Procedure Rules, Financial Procedure Rules, Budget & Policy Framework Rules, protocols and any approved policies, plans, codes, practices and procedures of the Council.

12.12 SPECIFIC DELEGATIONS TO THE DIRECTOR OF ENVIRONMENT AND CULTURE

12.12.1 To have responsibility for the following activities:

- a) Highways & traffic management.
- b) Environmental Health & Trading Standards Services.
- c) Environmental Support Services.

12.12.2 To carry out any functions assigned in pursuance of the Council's Constitution, Standing Orders, Contract Procedure Rules, Financial Procedure Rules, Budget & Policy Framework Rules, protocols and any approved policies, plans, codes, practices and procedures of the Council.

12.12.3 The Director of Environment is authorised to:

- a) Discharge any function relating to contaminated land.
- b) Discharge any function relating to the control of pollution or the management of air quality.
- c) Serve an abatement notice in respect of statutory nuisance.
- d) Investigate any complaint as to the existence of statutory nuisance.
- e) Make agreements for the execution of highways works.
- f) Make decisions to advertise any proposals for a Traffic Regulation Order (including traffic calming measures) and proceeding to make the same if no objections are forthcoming.
- g) Commence prosecutions under the provisions of the Food Safety Act 1990 (as amended) and the European Communities Act 1972, including regulations made pursuant to those acts or any re-enactment thereof.

- h) Discharge any functions under any of the 'Relevant Statutory Provisions' within the meaning of Part 1 (Health, Safety and Welfare in connections with Work, and control of dangerous substances) of the Health and Safety at Work etc. Act 1974 to the extent that those functions are not discharged otherwise than in the Council's capacity as an employer.

12.13 SPECIFIC DELEGATIONS TO THE DIRECTOR OF REGENERATION

12.13.1 To have responsibility for the following activities:-

- a) Planning Services.
- b) Transportation Services.
- c) Strategic housing.
- d) Conservation and archaeology.
- e) To authorise modifications or diversions to Public Rights of Way.
- f) To ensure the Council meets its statutory responsibilities in respect of housing, libraries, parks, countryside and Public Rights of Way development.

12.13.2 To carry out any functions assigned in pursuance of the Council's Constitution, Standing Orders, Contract Procedure Rules, Financial Procedure Rules, Budget & Policy Framework Rules, protocols and any approved policies, plans, codes, practices and procedures of the Council.

12.13.3 The Director of Regeneration is authorised to:

- a) Obtain information under Section 330 of the Town and Country Planning Act 1990.
- b) Obtain particulars of persons interested in land under Section 16 of the Local Government (Miscellaneous Provisions) Act 1976.

12.14 SPECIFIC DELEGATIONS TO THE DIRECTOR OF RESOURCES (COUNCIL)

Statutory Officer Responsibilities

12.14.1 The Director of Resources is delegated the statutory responsibilities of Chief Finance Officer.

12.14.2 Save as provided for in 12.13.28 below, the Chief Finance Officer has statutory responsibility for the financial administration and stewardship of the Council. The statutory duties, which may neither be abrogated nor further delegated, arise from:

- a) Section 151 of the Local Government Act 1972.
- b) The Local Government Finance Act 1988 and 1992.
- c) The Local Government and Housing Act 1989.
- d) The Local Government Acts 2000 and 2003.
- e) The Accounts and Audit Regulations 2003.
- f) The Local Government Pension Scheme Regulations 1974 and 1997.

- g) The Local Authorities Goods and Services Act 1970.
- 12.14.3 The Chief Finance Officer shall ensure the lawfulness of expenditure and financial prudence of decision making in consultation with the Chief Executive and Monitoring Officer and report to the Council, Cabinet or external auditor as appropriate including any report under Section 114 of the Local Government and Finance Act 1988.
- 12.14.4 The Chief Finance Officer shall contribute to the corporate management and leadership of the Council, in particular providing professional financial advice as set out in the statutory guidance issued by the Secretary of State under the Local Government Act 2000.
- 12.14.5 The Chief Finance Officer shall advise all Members and officers about statutory powers, financial maladministration, financial impropriety and probity, budget, reserves and policy framework issues as set out in the statutory guidance issued by the Secretary of State under the Local Government Act 2000.
- 12.14.6 The Chief Finance Officer shall provide financial information to the media, members of the public and the community as set out in the statutory guidance issued by the Secretary of State under the Local Government Act 2000.
- 12.14.7 The Chief Finance Officer shall have the right of access to all documents held by or on behalf of the Council needed to fulfil his/her statutory responsibilities. This does not extend to any documents or information held by or on behalf of any political group.
- 12.14.8 The Chief Finance Officer shall have the right of assistance of any officer in undertaking his/her role.
- 12.14.9 The Chief Finance Officer shall have the right of access to all Members both individually and collectively and to the Council, Cabinet and any Committee or Sub-Committee. This does not extend to any meetings held by or on behalf of any political group.
- 12.14.10 The Chief Finance Officer shall have the right to add written advice to the report of any other officer of the Council.
- 12.14.11 The Chief Finance Officer shall be a member of the Joint Management Team in order to ensure that financial and funding implications are factored into decisions from the outset.
- 12.14.12 The Chief Finance Officer shall have line management responsibility for the internal audit function and the authority to direct the work programme of internal audit in support of his/her statutory duties. The Council will make available the appropriate quantity and quality of staff to undertake the necessary audit review work.
- 12.14.13 The Chief Finance Officer shall have access to external audit and the inspectorates to ensure that they have a good understanding and complete, up to date information about the Council's financial management arrangements.
- 12.14.14 In line with guidance issued by the Chartered Institute of Public Finance & Accountancy, the Chief Finance Officer's functions and responsibilities will be discharged in the following ways in order to fulfil the statutory and public interest responsibilities of the role:

- a) **Maintaining strong financial management underpinned by effective financial controls:**

- Advising on corporate risk profiling, and management, including safeguarding assets, risk avoidance and insurance.
 - Advising on effective systems of internal control.
 - Ensuring there are effective systems of internal financial control.
 - Ensuring financial management arrangements are sound and effective.
 - Ensuring a prudential financial framework is in place.
 - Ensuring that any partnership arrangements (or other innovative structures for service delivery) are underpinned by clear and well-documented internal financial controls.
 - Securing effective arrangements for prudential borrowing, treasury management, and trust and charitable funds.
 - Ensuring there is an effective internal audit function and assisting management in providing effective arrangements for financial scrutiny.
 - Advising on anti-fraud and anti-corruption strategies and measures.
 - Securing effective systems of financial administration.
 - Ensuring that statutory and other accounts and associated claims and returns in respect of grant are prepared.
- b) **Contributing to the effective corporate management and leadership of the Council** including:
- Ensuring the Council's financial resources are well managed.
 - Contributing to cross-authority issues and to the development of the Council.
- c) **Supporting and advising democratically elected representatives:**
- Advising on protocols setting out the respective roles and responsibilities for financial management of Members and officers.
 - Providing advice to Members on developing an overall financial strategy that serves policy and service objectives.
 - Advising on the level and utilisation of reserves.
 - Helping Members to identify priorities, prepare the annual budget and identify how resources will be used.
 - Helping Members to monitor financial performance against the annual budget and resourcing plan.
 - Ensuring that all 'branches' of the Council (including the Council, Cabinet, Strategic Monitoring Committee, Scrutiny Committees, political groups and individual Members) receive advice and information.
- d) **Supporting and advising officers in their operational roles:**

- Ensuring there is an effective approach to financial management.
- Ensuring that financial strategies serve policy and service objectives.
- Ensuring that the Council's resources are well managed.
- Ensuring that budgets are properly managed.
- Ensuring that financial advice and information is provided.
- Advising on performance management and measurement.

e) **Leading and managing and effective and responsive finance function:**

- Securing high standards of performance and service to the public.
- Demonstrating accountability to members of the public and the community by providing robust financial and performance information.
- Establishing a good, professional working relationship with external auditors, inspectors and other statutory agencies.
- Ensuring that services provided by the finance function are in line with the expectations and needs of internal stakeholders.
- Ensuring there are high standards of performance throughout the finance function.
- Leading and managing the finance function.
- Acting as the head of profession for all finance staff in the Council.

12.14.15 The Chief Finance Officer's statutory responsibilities will be discharged when:

- a) Officers formulating new policy proposals routinely inform and consult them.
- b) Significant breaches of Contract Procedure Rules, Financial Procedure Rules and Scheme of Delegation arrangements for consulting the Chief Finance Officer are reported in accordance with the principles of open government so as to avoid the external auditor making a report in the public interest.
- c) Potential breaches of the Contract Procedure Rules, Financial Procedure Rules and Scheme of Delegation arrangements for consulting the Chief Finance Officer are resolved amicably whilst ensuring that any illegality, failure of process or breach of the Council's Constitution is avoided or rectified.

12.14.16 The Council shall provide the Chief Finance Officer with such officers, accommodation and other resources as are necessary to allow him/her to perform his/her duties including those under Section 114 of the Local Government and Finance Act 1998.

Director Responsibilities

12.14.17 To carry out any functions assigned in pursuance of the Council's Constitution, Standing Orders, Contract Procedure Rules, Financial Procedure Rules, Budget & Policy Framework Rules, protocols and any approved policies, plans, codes, practices and procedures of the Council.

- 12.14.18 To report on the sustainability of the Council's medium term financial strategy and resource plans.
- 12.14.19 To approve virement or use of general or specific reserves, subject to the Council's policies for maintaining and using such reserves, in cases of urgency for expenditure not otherwise covered by the Director of Resources' delegated authority.
- 12.14.20 To approve use of general or specific reserves, subject to the Council's policies for maintaining and using such reserves, for items that are unavoidable and are not inconsistent with the approved financial strategy that:
- a) Result from pay awards or price increases not taken into account in approved revenue budgets.
 - b) Result from expenditure arising from the mandatory implementation of Acts of Parliament or other Government directives.
 - c) Relate to goods, services or other expenses which were budgeted for and properly ordered or committed in the previous year but which, due to delays in the delivery or execution, have to be accounted for in the following year.
 - d) Are urgently necessary to maintain existing services and cannot reasonably be met from appropriate approved revenue budgets.
 - e) Authorise virements in accordance with the Council's Financial Procedure Rules providing there are not greater consequential revenue effects in later years.
 - f) Approve additional use of capital reserves and resources, subject to the Council's policies for maintaining and using such reserves and resources, and subject to the limitations set out in the Financial Procedure Rules.
- 12.14.21 To undertake the Council's functions relating to pensions as set out in Schedule 1(H) of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 as amended from time to time.
- 12.14.22 To authorise and approve, with the Assistant Chief Executive - Legal and Democratic' consent, the disposal of land and the granting or variation in granting of leases, licences and/or dedications of or over any land.
- 12.14.23 To authorise and approve the granting of smallholding tenancies.
- 12.14.24 To have overall responsibility for the activities of the following:
- Asset Management & Property Services;
 - Audit Services;
 - Benefit & Exchequer Services; and
 - Financial Services.
- Asset Management & Property Services Responsibilities**
- 12.14.25 Responsibilities delegated to the Head of Asset Management & Property Services are as follows:

- a) Maintaining an effective Asset Management & Property Service in accordance with all relevant legislation, regulations, codes of best practice, external inspection regimes and Council policy.
- b) As Corporate Property Officer, managing the Council's land and property portfolio, including the maintenance of a property data base for all properties. Any use of a property by a Directorate or establishment other than for directorate service delivery should be supported by documentation identifying terms, responsibilities and duration of the use.
- c) Concluding terms for the purchase and sale of land and property that the Council has previously approved.
- d) Developing and maintaining the Council's Asset Management Plan, including the valuation of assets for accounting purposes to meet the requirements of relevant codes of accounting practice.

Audit Services

12.14.26 Operational responsibility for internal Audit Services is delegated to the Audit Services Manager as follows:

- a) Maintaining an effective internal audit service in accordance with the Accounts and Audit Regulations 2003, all other relevant legislation, codes of best practice, external inspection regimes and Council policy.
- b) Carrying out a risk based audit review of all Council services and function on a continuous basis.
- c) Reviewing at least annually the Council's Financial Procedure Rules making recommendations for change to Council.
- d) Updating annually the monetary sums included in the Financial Procedure Rules in line with appropriate price indices.
- e) Carrying out or supervising investigations into any suspected or alleged financial irregularity, consulting and/or involving the Chief Finance Officer and Monitoring Officer as appropriate.
- f) Making appropriately authorised imprest account advances and determining the arrangements for operating such accounts.
- g) Prescribing the form of inventories.
- h) Providing an assurance report to each meeting of the Audit & Corporate Governance Committee on the improvements to key internal control arrangements.
- i) Reporting annually to the Audit & Corporate Governance Committee on:
 - I. The proposed audit activity for the coming year and actual audit activity and findings in the previous year.
 - II. The effectiveness of the Council's internal control arrangements.

Benefit & Exchequer Services

12.14.27 Operational responsibility for the Benefit & Exchequer Services division is delegated to the Head of Benefit & Exchequer Services as follows:

- a) Maintaining an effective Benefit & Exchequer Service in accordance with all relevant legislation, regulations, codes of best practice, external inspection regimes and Council policy.
- b) Issuing summonses and signing and issuing orders, notices and other such documents.
- c) Setting the cost of a summons annually.
- d) Employing firms of certified bailiffs to execute liability orders under the terms of the Local Government Finance Acts 1988 and 1992 and associated regulations.
- e) Authorising sanctions against those found committing housing and Council Tax fraud (caution, administrative penalty or prosecution).
- f) Determining applications for discretionary rate relief under Sections 47 and 49 of the Local Government Finance Act 1988, the Local Government and Rating Act 1997 and associated regulations in accordance with the guidelines agreed with the Director of Resources.
- g) Determining applications for local council tax discounts under Section 13A of the Local Government Act 1992 in accordance with the guidelines agreed with the Director of Resources.
- h) Determining Discretionary Housing Payments for benefit claimants under the Child Support, Pensions and Social Security Act 2000.
- i) Maintaining, developing and publicising the Council's anti money laundering policies as the Council's designated Anti Money Laundering Officer.
- j) Writing off any account that is deemed suitable for write off up to the limits specified in the Financial Procedure Rules, referring all other cases to the Director of Resources to action in accordance with the Financial Procedure Rules.
- k) Supervising any system that involves the receipt of money and determining the form of income records.
- l) Making payments promptly once they have been authorised in accordance with Financial Procedure Rules by certifying officers.
- m) Managing and maintaining the corporate sundry debtors system.
- n) Paying salaries, wages, compensation and other emoluments.
- o) Declaring the rate of interest payable on loans for housing and other purposes.

Financial Services

12.14.28 The Head of Financial Services is the Council's deputy Chief Finance Officer and will assume the statutory responsibilities defined in Section 151 of the Local Government Act 1972 in the absence of the Chief Finance Officer due to a vacancy, holiday, illness or other reason.

12.14.29 The responsibilities sub-delegated to the Head of Financial Services are as follows:

Treasury Management

- a) Recommending for adoption treasury management policies, strategies and practices that accord with the Chartered Institute of Public Finance & Accountancy's latest code of practice.
- b) Executing and administering treasury management decisions in accordance with the Council's approved treasury management policies, strategies and practices.
- c) Reporting annually on treasury management strategy in advance of the year and annual activity following the end of each year.
- d) Making any urgent changes necessary to the list of organisations on the approved investors list or criteria for investment purposes in consultation with the Director of Resources.
- e) Engaging specialist treasury management advisers and cash fund manager to support execution of the Council's approved treasury management policies, strategies and practices.
- f) Monitoring proposed changes in the local government finance system and reporting on the implications to Council.

Financial Management

- g) Maintaining an effective financial management service in accordance with all relevant legislation, regulations, codes of best practice, external inspection regimes and Council policy.
- h) Administering the Council's Financial Procedure Rules.
- i) Reviewing the Council's banking arrangements to ensure they meet operational needs and represent value for money.
- j) Operating the Council's bank accounts in accordance with the banking agreement approved by the Council and its bankers.
- k) Managing the cashflow implications of BACS and CHAPS transactions and determining directions for their authorisation.
- l) Maintaining and developing the medium term financial strategy, the annual budget preparation strategy and financial monitoring procedures, including reporting on progress with Council approved financial targets.
- m) Arranging lease finance facilities.
- n) Providing advice on any liability falling on the Council that is not otherwise covered by the Financial Procedure Rules.
- o) Closing the annual accounts in line with all relevant codes and standards, taking appropriate action as part of the process to optimise the Council's financial position.
- p) Developing and maintaining the Council's capital strategy.
- q) Administering the employee loan schemes.

Procurement & Efficiency Review

- r) Maintaining and developing the Council's procurement policy for goods and services.

- s) Administering, in consultation with the Assistant Chief Executive - Legal and Democratic, the Council's Contract Procedure Rules, including maintenance of contract registers.
- t) Maintaining and developing the Council's benefit realisation processes.
- u) Carrying out financial checks on prospective Council contractors.
- v) Reviewing annually the Council's Contract Procedure Rules making recommendations for change to Cabinet.

12.15 SPECIFIC DELEGATIONS TO THE ASSISTANT CHIEF EXECUTIVE - LEGAL AND DEMOCRATIC

Statutory Officer Responsibilities

- 12.15.1 The Assistant Chief Executive - Legal and Democratic is delegated statutory responsibility for the Monitoring Officer role.
- 12.15.2 The Monitoring Officer shall report to the Council and Cabinet in any case where he/she is of the opinion that a proposed action or decision could give rise to any illegality, maladministration or breach of statutory code under Sections 5 and 5(a) of the Local Government and Housing Act 1989 – more usually referred to as 'reportable incidents'.
- 12.15.3 The Monitoring Officer shall arrange to investigate any matters relating to incidents or matters referred by the Standards of England in respect of the Member's Code of Conduct.
- 12.15.4 The Monitoring Officer shall be the principal adviser to the Standards Committee, except where the Monitoring Officer has previously advised a member on a matter referred by the Standards Board for England and for hearing by the Standards Committee.
- 12.15.5 The Monitoring Officer shall maintain the register of Members' Interests.
- 12.15.6 The Monitoring Officer will ensure the preparation, publication and retention of records of decisions taken by or on behalf of Council, Cabinet, Committees and Sub-Committees.
- 12.15.7 The Monitoring Officer shall deal with Ombudsman complaints.
- 12.15.8 The Monitoring Officer shall deal with the Standards Board for England in respect of any referral for investigation as a result of a breach of the Council's Code of Conduct.
- 12.15.9 The Monitoring Officer shall be responsible for all Monitoring Officer functions in respect of Town and Parish Councils within the Council's area in so far as they are constant with the function of the Town and Parish Clerk.
- 12.15.10 The Monitoring Officer shall make arrangements in conjunction with the Standards Committee for the provision of advice and training to Members of the Council and Members of Town and Parish Councils on the Member's Code of Conduct.
- 12.15.11 The Council shall provide the Monitoring Officer with such officers, accommodation and other resources as may be necessary to allow him/her to perform his/her duties.

- 12.15.12 The Monitoring Officer shall have the right of access to all documents held on behalf of the Council. This does not extend to any documents held by or on behalf of any political group.
- 12.15.13 The Monitoring Officer shall have the right of access to any meetings of officers (including Joint Management Team) or Members of the Council. This does not extend to any meetings held by or on behalf of any political group.
- 12.15.14 The Monitoring Officer shall have the right of assistance of any officer in undertaking the role of the Monitoring Officer.
- 12.15.15 The Monitoring Officer shall have the authority to agree a local resolution of any complaint of maladministration or breach of the Council's Code in consultation with the Chief Executive, including the power to agree a compensation payment up to £1,000 in any one case.
- 12.15.16 The Monitoring Officer shall have the authority to disclose information and documents to the Standards Board for England or an Ethical Standards Officer, even where such disclosure would otherwise be in breach of the Monitoring Officer's duty of confidentiality to the Council.
- 12.15.17 The Monitoring Officer shall have the authority, after consultation with the Head of Paid Service and the Chief Finance Officer, to notify the police and other regulatory agencies of concern in respect of any matter.
- 12.15.18 The Monitoring Officer shall have the right to obtain at the Council's expense external legal advice.
- 12.15.19 The Monitoring Officer shall have the right to add written advice to the report of any other officer of the Council.
- 12.15.20 The Monitoring Officer's statutory responsibilities will be discharged when:
- a) Officers formulating new policy proposals routinely inform and consult them.
 - b) The Monitoring Officer considers a report in the public interest should any officers fail to follow advice they have given.
 - c) Potential reportable incidents are resolved amicably whilst ensuring that any illegality, failure of process or breach of the Council's Constitution is avoided or rectified.
 - d) The Monitoring Officer will be able to rely on existing processes within the Council, such as internal appeals procedures or insurance arrangements, to resolve any potential reportable incidents.

Other Responsibilities

- 12.15.21 The Assistant Chief Executive - Legal and Democratic is authorised to serve statutory notices to ascertain the legal interests of any person in land.
- 12.15.22 The Assistant Chief Executive - Legal and Democratic is authorised to institute, defend or settle legal proceedings (either in the name of the Council or an individual officer of the Council) at Common Law or under any enactment, statutory instrument, order or bylaw conferring functions upon the Council or in respect of functions undertaken by them and to lodge an appeal against any such decision. This authority shall extend to the taking of all procedural steps, including the service of notices, statutory or otherwise, counter notices and Notices to Quit.

- 12.15.23 The Assistant Chief Executive - Legal and Democratic is authorised to delegate authority to officers of the Council to prosecute or defend or appear in any legal proceedings by virtue of the provisions of Section 222 of the Local Government Act 1972.
- 12.15.24 The Assistant Chief Executive - Legal and Democratic shall, without prejudice to the generality of the powers of the Director of Environment, the Head of Environmental Health and Trading Standards and the Head of Strategic Housing, have power to institute proceedings either in the name of the Council or the name of an officer of the Council under those statutory provisions that relate to their specific service areas. The Assistant Chief Executive - Legal and Democratic shall maintain a list of the enabling statutory provisions.
- 12.15.25 The Assistant Chief Executive - Legal and Democratic is authorised to issue and sign documents in relation to the Right to Buy provisions of the Housing Act 1985.
- 12.15.26 The Assistant Chief Executive - Legal and Democratic is authorised to make arrangements pursuant to:
- a) Subsection (1) of Section 67 of, and Schedule 18 to, the Appeals Against Exclusion of Pupils Act 1998.
 - b) Section 94 (1) and (4) of, and Schedule 24 to, the Admissions Appeals Act 1994.
 - c) Section 95 (2) of, and Schedule 25 to, the Children to Whom Section 87 Applies: Appeals by Governing Bodies Act 1998.
- 12.15.27 The Assistant Chief Executive - Legal and Democratic, after consultation with the relevant Cabinet Member, and Group Leaders as appropriate, has the authority to make and give effect to appointments to outside bodies. Where appropriate, and excluding quasi-judicial matters, those bodies will work with the relevant Cabinet Member and Director and report through the Cabinet to Council.
- 12.15.28 The Assistant Chief Executive - Legal and Democratic will maintain a Scheme of Delegation to Officers for planning matters and is authorised to review that Scheme at least annually and make recommendations for change. The Scheme currently approved is attached as Appendix 18 to the Constitution.
- 12.15.29 The Assistant Chief Executive - Legal and Democratic shall keep the Common Seal of the Council under lock and key and shall be responsible for the key.
- 12.15.30 The Assistant Chief Executive - Legal and Democratic is responsible for ensuring that the Common Seal of the Council is affixed to appropriately authorised documents only.
- 12.15.31 The Assistant Chief Executive - Legal and Democratic is authorised to attest the application of the Common Seal of the Council to a document in a book provided for the purpose with sequentially numbered entries. The Chief Executive is also authorised to attest entries in this book.
- 12.15.32 The Assistant Chief Executive - Legal and Democratic is authorised to authenticate documents needed for legal proceedings or legal agreements, contract notices or orders under hand on behalf of the Council providing no other person is authorised to do so.

12.16 ARRANGEMENTS FOR REVIEWING THE SCHEME OF DELEGATION

- 12.16.1 The Chief Executive will be responsible for arranging at least an annual review of the Scheme of Delegation, the results of which will be reported to each annual meeting of Council or as necessary. The Director of Resources and the Assistant Chief Executive - Legal and Democratic shall agree the proposed changes and reporting them to Council as appropriate.
- 12.16.2 The Audit & Corporate Governance Committee is charged with reviewing the effectiveness of and level of compliance with the Scheme on an ongoing basis. It has the remit to make appropriate recommendations to Council for improvements to the Scheme as a method of internal control.
- 12.16.3 The Scheme will be treated as a fundamental system as defined by the Chief Internal Auditor. The Chief Internal Auditor will provide regular assurance reports to the Audit & Corporate Governance Committee on the operation of the Scheme as agreed by Cabinet and confirmed by Council. All elements subject to audit review are expected to achieve an audit opinion of **satisfactory** as a minimum on the scale of unsound, unsatisfactory, marginal, satisfactory and good.

JOINT INTERNAL AUDIT PLAN 2008/09**Report By: CHIEF INTERNAL AUDITOR****Wards Affected**

County-wide.

Purpose

1. To seek the Audit & Corporate Governance Committee's comments on and approval of a draft joint internal audit plan for the Council and Primary Care Trust (PCT) for 2008/09.

Financial Implications

2. There are no direct financial implications arising from this report.

RECOMMENDATION

- THAT:**
- (a) **the Audit and Corporate Governance Committee reviews the draft joint internal audit plan for the Council and PCT for 2008/09 attached as Appendix 1 to this report; and**
 - (b) **the Audit and Corporate Governance Committee approves the joint internal audit plan for 2008/09.**

Reasons

3. The Council and PCT have stated their strategic intent to work towards an ever closer partnership to deliver improved outcomes, services, value for money and customer experience for the community of Herefordshire. The Directors of Resources are currently exploring how this might be achieved for the services in their remit. The draft joint internal audit plan for 2008/09 represents a first step in co-ordinating internal audit activity within both organisations. The Terms of Reference for the Audit and Corporate Governance Committee includes review and approval of the annual audit plan.

Considerations

4. The overall principles governing internal audit practice in local government and the NHS are the same. There are, however, differences in the detailed regulations and codes of practice that each must follow.
5. The Chief Internal Auditor for the Council has worked closely with his PCT counterpart under the supervision of the Directors of Resources in preparing the attached draft plan. The aim was to align audit activity that is common to

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

both organisations as a basis for more formally piloting closer working during the remainder of 2008/09.

Risk Management

6. The Directors of Resources continue to meet monthly with their Chief Internal Auditors to monitor their progress in developing joint working initiatives such as the draft audit plan attached to this report. The Directors of Resources require all such initiatives to enhance the quality of internal audit work carried out.

Appendix

Appendix 1 – Draft Joint Internal Audit Plan 2008/09.

Background Papers

None identified.

DRAFT JOINT INTERNAL AUDIT PLAN 2008/09

DRAFT

HEREFORDSHIRE COUNCIL & HEREFORDSHIRE PRIMARY CARE TRUST

Chief Internal Auditors

**Tony Ford
Herefordshire Council
May 2008**

**Paul Dudfield
Herefordshire PCT**

Date of Issue:

1. Introduction

This document sets out a proposed strategic plan of Internal Audit coverage for the period April 2008 to March 2009. The plan of work has been driven by the requirements specified in the publication ‘Assurance The Board Agenda’ issued in July 2002 and the revised Head of Internal Audit Opinion guidance (January 2008) for the NHS and the CIPFA Code of Practice for Internal Audit in Local Government. These require internal audit to give an annual opinion based on an assessment of the design and operation of the Assurance Framework and the adequacy of control noted from risk based audits carried out during the year. It follows therefore that the focus of the audit plan is critical to ensuring the right level of assurance. The plan has been prepared following a review of the risks contained in the Assurance Framework for the PCT and the assurance framework for the Code of Governance for the Council, and discussions with key staff across both organisations.

2. Terms of Reference and Service Level Agreement

Terms of Reference

In performing our duties both sets of auditors will conform to the relevant terms of reference for Internal Audit previously agreed by the respective organisations.

Service Level Agreement/Joint Working Protocol

We will develop a formal protocol to support our joint working arrangements that will encompass the joint working and reporting arrangements across both internal audit providers, external auditors and key client contacts.

Internal Audit Standards

In conducting our work as your internal auditors, we are required to adhere to standards for Internal Audit for local government and the NHS. We believe that we jointly have in place suitable policies and procedures to ensure full compliance against these standards. We will, however, report any instances of non-compliance that do arise as soon as we are aware of them in line with agreed reporting protocols.

3. The Audit Plan

Our joint plan of work is designed to support the annual Head of Internal Audit Opinions to both organisations. The basis for forming these opinions will be an assessment of the adequacy of the systems of internal control in place across the two organisations, which will be determined based on the results of work undertaken. The plan has also been designed to maximise the opportunities for joint audit working across those areas where best practice can be shared between the two organisation and/or where systems/processes are already being operated jointly or moving towards joint operation. It follows therefore that elements of the plan will be advisory, providing assurance and advice on developments already initiated or planned.

3.1 Risk Assessment

It follows that an effective risk based audit plan, focusing the resource into areas of principal risk is essential. Our initial consideration of risk has been derived from:

For the PCT	For the Council
<ul style="list-style-type: none"> Your own assessment as identified through your Assurance Framework Consideration of your recent Annual Health Check declaration Our risk assessment following discussion with the Director of Finance and review of Board papers 	<ul style="list-style-type: none"> Risk assessment in accordance with risk strategy across financial standards, non fundamental systems, corporate governance, other key systems, ICT protocols, establishment visits, verification and probity, follow up and performance management.

To support this there have been a series of meetings involving the two Directors of Resources and the two audit teams. On the basis of this process we have identified a number of priority areas and these have been scheduled for attention in 2008/2009. We will, however, continue to review the audit plan on an ongoing basis in response to developments and initiatives within the internal and external environment. If additional risks arise or change in priority during the year the audit plan will be reconsidered with management and, subject to Audit & Corporate Governance Committee/Audit Committee approval, amended to ensure that audit resources are focussed on the key risks areas.

The table at 3.2 summarises the results of this internal audit risk assessment showing the reasons why the areas have been selected for review. The resulting Internal Audit Plan is detailed at 3.3.

3.2 Risk Assessment

Area	Why	Audit Work - PCT	Audit Work - Council
Assurance Framework	<p>An effective assurance framework is a key requirement to allow the Chief Executive to make the Statement on Internal control (NHS) and Annual Governance Statement (Local Government).</p> <p>The Internal Audit Opinion is required to focus on the effectiveness of the framework.</p>	<p>Ensure there are mechanisms to update the framework effectively. Ensure there is regular reporting to the Board on elements of the framework and that appropriate action is taken to mitigate risks. Ensure that the Board receives appropriate assurances to support the framework.</p> <p>Joint – Examine the process for developing and monitoring the joint Assurance Framework operated for Herefordshire Public Services (HPS).</p>	<p>Cabinet approved an assurance Framework that evidences the Councils Annual Governance Statement. Regular assurance reports by the Chief Internal Auditor to the Audit & Corporate Governance Committee ensures that members are kept up to date on progress.</p>
Risk Management	<p>This is a key control underpinning the Assurance Framework and relates to the revised Use of Resources assessment.</p>	<p>Ensure that the processes in place for risk management are robust and that reporting is accurate and timely.</p> <p>Joint - Ensure that risks associated with joint working across HPS are identified, managed, monitored and reported upon.</p>	<p>Risk management is reviewed annually and is one of the key elements of the system of internal control.</p>
Financial Management	<p>To ensure effective financial management both in the two organisations separately but also in jointly funded operations.</p>	<p>Ensure that financial information is collated and reported accurately. To examine the robustness of budget setting and future forecasting undertaken in programme areas.</p> <p>Joint - To examine Section 75 agreements; their management, monitoring and reporting. To include a review of governance arrangements.</p>	<p>Ensure that financial information is collated and reported accurately. To examine the robustness of budget setting and future forecasting undertaken in programme areas.</p>
Herefordshire Public Services – Benefits Realisation	<p>This is the strategic direction of the Council and PCT and therefore warrants a provisional allocation within the audit plan, with detail to be determined as required.</p>	<p>Joint – to examine the project management arrangements and consider the robustness and reporting of benefits realisation.</p>	

Core Financial Transaction Processing	Need to gain assurance that underlying financial transaction processing is accurate, complete and timely.	To examine financial transaction systems on a risk assessed basis in conjunction with External Audit. To ensure that underlying financial data is accurate, complete and processed in a timely manner. Joint - To examine the progress of shared service arrangements, providing advice and assurance as necessary.	Fundamental system work forms a substantial part of the Audit Plan. Reviews of these systems aids the Audit Commission in their review of the Council's annual statement of accounts
Standards for Better Health & Local Area Agreement	Key declaration against healthcare standards for the PCT.	To review the process for assessing the evidence and compiling the declaration.	Review evidence and data used to complete the Local Area Agreement claim form and sign off.
Electronic Staff Record (ESR) System	Key system underpinning employee and Payroll data.	To review the Electronic Staff Records system and include a review of access permissions and data security.	Not applicable.
Commissioning – Activity/ Practice Based Commissioning	This is flagged as a key control in the Assurance Framework (supports ensuring financial balance)	To ensure that commissioning arrangements are robust, supported by appropriate information gathering and monitoring systems.	Not applicable.
Health Informatics Service (HIS)	The IT infrastructure of the PCT has risks associated to whether it operates effectively to achieve its purpose. The system is also provided to the Hereford Hospital Trust (HHT).	To examine the HIS SLA and compliance. To review information security. To examine IT procurement processes. To examine ICT arrangements at the PCT.	The ICT work covers reviewing compliance with British Standard BS 270001 with regard to physical security, team compliance and Business Continuity.
Business Continuity & Disaster Recovery Follow Up	Business Continuity and Disaster Recovery has been previously flagged by the Audit Committee as an area warranting review and will be due for follow up.	Joint – to examine progress with any areas of joint working agreed as part of the review of the Herefordshire Connects programme.	ICT follow up work forms part of the reviews undertaken as part of BS 27001 reviews
Information Governance	This is a high focus area following HMRC loss of data.	To ensure compliance with the Information Governance Toolkit; and security of data transfer.	Audit follow up work on the action plan in response to the Audit Commission's Data Quality report for 2008.
Social/Ethical Responsibilities	This is flagged as a risk area by the Audit Committee warranting review and was deferred to 2008/09.	To examine the PCT's social responsibilities; i.e. ethics; sustainability and the environment.	Good Environment Management (GEM) audits review the Council's Environmental Management System as part of compliance testing for BS 14001.

		Joint – to assess potential for sharing of best practice (e.g. linking in with the Council’s GEM responsibilities).	
Follow Up	Examines the extent to which agreed actions to improve system controls are implemented. Has links to the Use of Resources assessment process re: System of Internal Control.	To review and report on the implementation of prior year recommendations.	To review and report on the implementation of prior year recommendations.
Performance Management	This is flagged as a key control in the Assurance Framework (supporting achievement of targets).	To ensure there are appropriate co-ordinating and monitoring activities at a corporate level that ensure effective performance and allow timely corrective action.	Annual review of the Council’s Performance Management Framework and high risk Performance Indicators.
Emergency Preparedness	This has links to the PCT’s Healthcare Declaration.	Joint – to examine processes for ensuring data quality across both organisations, identifying best practice and suggestions for improvement.	Joint – to examine processes for ensuring adequate emergency planning and preparedness arrangements are in place across the Council.
Statutory/Mandatory Training	This has links to the PCT’s Healthcare Declaration.	Joint – to assess the effectiveness of joint working across the two organisations and other related services.	Joint Working
		To examine the processes for ensuring the complete delivery of statutory and mandatory training to staff groups across the PCT.	Joint – to assess the opportunities for joint delivery across key statutory training areas.

3.3 Outline Strategic Audit Plan 2008/09

Area	Audit Assignment	Joint	PCT/Council	
Financial/Fundamental Systems	Financial Management (inc s.75 arrangements)	55	25 30	
	Creditor Payments	40	10 30	
	Income and Debtors	35	10 25	
	Fixed Assets and Capital Charges	25	- 25	
	Treasury Management / Bank Account Control	90	5 85	
	Charitable Funds	5	5 -	
	Contractor Payments (General Dental Services, Primary Medical Services, new General Medical Services)	5	5 -	
	Payroll services	75	5 70	
	National Non Domestic Rates (NDR)	35	- 35	
	Council Tax	35	- 35	
	Housing Benefit	40	- 40	
	Financial Management System (FMS)	30	- 30	
	Education Financial Management System (FMS)	30	- 30	
	ICT Financial Management System (FMS)	30	- 30	
	Education Transport	25	- 25	
	Early Years	25	- 25	
	Supporting People	25	- 25	
	Amey Contract	30	- 30	
	Business Issues (Yr 1)	Assurance Framework – review of controls / assurances / reporting	10	10 -
		Risk Management Arrangements	30	10 20
	HPS – Benefits Realisation	35	5 30	

Area	Audit Assignment	Joint	PCT/Council
	Standards For Better Health / Local Area Agreement	35	5
	ESR	5	5
	Regeneration – Section 106 Agreements	10	-
	Resources Directorate (Anti Money Laundering / VAT / Industrial Estates Income)	25	-
	Children Services Directorate (Grants, Sure Start, Instrumental Music, decision management process)	65	-
	Environment & Culture Directorate (Waste Contract Management, income from Trade / Domestic Waste, Penalty Charges / Car Park Income)	47	-
	Integrated Commissioning Directorate - Payments to Independent Providers	20	-
	Governance – Environment & Culture, Resources, Deputy Chief Executive Directorates)	30	-
	Use of Resources – Internal Control	20	-
	Computer Audit: Various Systems / ICT Protocols and Controls	208	5
	Computer Audit – Business Continuity Planning	5	5
	Computer Audit – Information Governance	5	5
	Contract Letting	60	-
	Diversity Standard	10	-
	Project Management	25	-
	Recruitment and selection	20	-
	Commissioning / PBC	10	10
	Social / Ethical Responsibilities / GEM System	15	5
	Performance Management (including national Best Value Performance Indicators)	115	10

Area	Audit Assignment	Joint	PCT/Council
	Emergency Preparedness	5	-
	Statutory / Mandatory Training Compliance	5	-
	Staff Review and Development	20	20
	Member Register of Interests and Gifts	15	15
	Managing Attendance	25	25
	Schools	270	270
Miscellaneous	Audit Contract Management / Audit & Corporate Governance Committee	80	60
	Audit opinion work / Annual Governance Statement	35	25
	Recommendation Tracking / Follow Up	54	39
	Ad-hoc Management Requests	196	196
	Anti-Fraud	50	50
Total Inputs		2145	195
			2000

3.4 Formal Audit Opinions and Miscellaneous Items

Formal Audit Opinions

In line with the mandatory reporting requirements for Internal Audit we will issue formal audit opinions taking account of the results of the work undertaken. This opinion will be formally recorded in the Internal Audit Year End Report.

In addition to these formal opinions we will also bring to your attention any significant control issues that we feel should be declared in your Statement on Internal Control / Annual Governance Statement. We will bring these to the attention of the relevant Director of Resources as they arise and formally report them to the Audit & Corporate Governance Committee / Audit Committee through our regular progress reports.

4. Relationships with other review bodies

4.1 Audit arrangements for services provided/purchased services

As Internal Auditors we are required to agree with you the arrangements for forming an appropriate opinion where either you operate key systems on behalf of other organisations, or key systems are being operated by other organisations on your behalf. We have set out below our understanding of these arrangements.

Key financial systems operated by you

Operated by the PCT

- Debtors/Creditors
- HIS IT System

Operated by the Council

- No relevant systems

We will ensure that our audit coverage of these systems appropriately covers the transactions of the third parties to whom you provide these services allowing a statement of assurance to be provided where required.

Key financial systems purchased by you

Purchased by the PCT

- Payroll provision (HHT)

Purchased by the Council

- No relevant systems

You must assure yourselves that the audit arrangements in place at the organisations that host these services are sufficient for your needs and for the appropriate level of reliance from your external auditors. We recommend that you should update the SLAs for these purchased services to explicitly detail your right to an annual audit opinion or reserve the right of your Internal Auditor to perform their own work as deemed necessary to derive an opinion. You should liaise with your external auditors to ensure that they are comfortable with the arrangements you agree. Our audit plan has been prepared on the basis that we will not be required to perform any detailed audit work on the transaction processes operated within these service providers but we will, on a risk basis, review the systems operated by the Council and PCT that feed into and flow from these purchased services.

4.2 Relationships with external audit

We will agree a protocol of joint working arrangements supported by a regular programme of update meetings with the respective sets of external auditors. We will use these meetings to report on progress against our plan and as an opportunity to discuss any significant issues arising from our work.

4.3 Relationships with other review bodies

Where we intend to place formal reliance on the work of any other review body, we will undertake an appropriate audit or quality assurance exercise to ascertain the level of assurance that we can derive from that work.

5. Additional Services/Ad-hoc Work

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Local Counter Fraud Specialist

NHS organisations are required to appoint a local counter-fraud specialist (LCFS) to implement the national NHS counter fraud strategy at a local level. Herefordshire PCT acquires its LCFS service from CW Audit Services, a standalone arm of the Audit Consortium. Internal Audit and the LCFS will liaise as necessary, sharing relevant audit findings and identifying joint programmes of work where appropriate. The LCFS will also provide support to the Council, particularly around fraud awareness, National Fraud Initiative and any investigation support/training required.

Ad-hoc Consultancy Work

In the event that we provide any ad hoc consultancy work, we will seek to apply the professional skills of Internal Audit through a systematic and disciplined evaluation of the policies, procedures and operations that you have put in place to ensure the achievement of your objectives. We believe that our status as Internal Auditors ensures that we can deliver such work in an independent and objective manner.

6. Resourcing the Audit Plan

The Team

The aim through 2008/2009 will be to develop a more integrated approach to the delivery of the audit plan, with joint teams working across both organisations. This delivery will be managed by the senior management team of Paul Dudfield, Tony Ford and Angela Carpenter, supported by an experienced team of staff. It is anticipated that to achieve the proposed plan of 2,150 days that the Council Audit Team will provide approximately 1950 days of resource and the PCT's Audit Team approximately 200 days of resource, although where necessary cover will be provided across the two audit providers.

Profiling Delivery

We will agree a programme of delivery for the audit plan with the Director(s) of Resources. We will report on compliance against this profiled delivery through our regular progress reports to each audit committee.

Paul Dudfield
Audit Director

Tony Ford
Chief Internal Auditor