

A G E N D A

Audit and Corporate Governance Committee

Date: **Friday 20 March 2009**

Time: **10.00 am**

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, PJ McCaull, R Mills and AM Toon

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. NAMED SUBSTITUTES(IF ANY)

To receive any named substitutes.

3. 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

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A personal interest is an interest that affects the Councillor more than most other people in the area. People in the area include those who live, work or have property in the area of the Council. Councillors will also have a personal interest if their partner, relative or a close friend, or an organisation that they or the member works for, is affected more than other people in the area. If they do have a personal interest, they must declare it but can stay and take part and vote in the meeting.

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4. MINUTES

To approve the Minutes of the meeting held on 23 January 2009.

5. USE OF RESOURCES

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	To receive the action plan in respect of the improvement opportunities identified in the Use of Resources report 2008.	
6.	INTERNATIONAL FINANCIAL REPORTING STANDARDS	15 - 18
	To report to the Audit and Corporate Governance Committee on the progress on implementing International Financial Reporting Standards.	
7.	MONITORING OFFICER REPORT 2007/08	19 - 32
	To inform the Committee of the Authority's performance for 2007/08 with regard to complaints to the Ombudsman, Whistleblowing and those matters within the responsibility of the Monitoring Officer's control as the Head of Legal and Democratic Services.	
8.	UPDATED DRAFT REVISED TERMS OF REFERENCE	33 - 44
	To present to the Committee for consideration the updated draft revised terms of reference for the Audit and Governance Committee.	
9.	AUDIT PLAN 2009/10	45 - 52
	To present the 2009/10 Audit Plan to the Audit and Corporate Governance Committee.	
10.	AUDIT STRATEGY 2009/10	53 - 66
	To present the 2009/10 Audit Strategy for approval by the Audit and Corporate Governance Committee.	
11.	FOURTH INTERIM AUDIT ASSURANCE REPORT 2008/09	67 - 86
	To provide the Committee with an update on progress in making the planned improvements to the internal control environment and progress with the Annual Audit Plan for 2008/09.	
12.	ANNUAL AUDIT AND INSPECTION LETTER	87 - 112
	To receive the Annual Audit and Inspection Letter produced by the Audit Commission.	

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HEREFORDSHIRE 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, 23 January 2009 at 10.00 a.m.

Present: Councillor ACR Chappell (Chairman)
Councillor RH Smith (Vice Chairman)

Councillors: MJ Fishley, JHR Goodwin, PJ McCaull, R Mills and AM Toon

In attendance: Councillor PJ Edwards

127. APOLOGIES FOR ABSENCE

There were no apologies for absence.

128. NAMED SUBSTITUTES(IF ANY)

There were no substitutions made.

129. DECLARATIONS OF INTEREST

Councillor RH Smith declared a personal interest in item 5 on the Agenda, Minute No.129 refers, being a member of the West Mercia Police Authority.

130. MINUTES

RESOLVED: That the Minutes of the meeting held on the 21 November 2008 be approved as a correct record and signed by the Chairman.

131. AUDIT AND CORPORATE GOVERNANCE COMMITTEE PROGRESS REPORT

The Committee received an Audit Commission report covering its areas of work with the Council. Terry Tobin, representing the Audit Commission, presented the report, and informed the Committee that the report was the first of its kind and would welcome the Committee's views on its usefulness. He informed members that the report was a short summary of the current position following the 2007/08 Audit and highlighted items of work for 2008/09 audit year. He reported that overall, work had progressed well to its current expected position. He made particular reference to the Statement of Accounts which had received an unqualified audit opinion. Views on Data Quality had been shared with the appropriate officer and matters were moving forward with positive outcomes of the action taken. With regard to grant claims there were no major issues. On procurement, there had been a lot of good progress made. With regard to the current risk area of procurement, he referred to the Amey contract. The Audit Commission had been involved whilst the contract was being negotiated to enable their views to be considered before the contract was signed off. There would then be a report issued at the end of the contract. The Safer Roads Partnership (SRP) had asked the Audit Commission to audit the SRP rather than the Commission imposing an audit. He informed the Committee that despite a lot of commitment to working together to improve road safety in the area, the partnership

was slow to move to its new role in wider education and that it was not using the benefits of bodies in the wider partnership such as the Health Service and Fire Service. He applauded the use of best practice from other SRPs. It was however relatively early days in for the SRP in its new wider role and he would submit a full report to the Committee on the SRP in due course.

Councillor AM Toon referred to the Direction of Travel and asked if the draft words were available. Terry Tobin reported they were not yet ready but would be shortly.

In answer to a Member's question regarding the procurement report, Terry Tobin informed Members it was likely that the report would be completed in April/May. Councillor RH Smith was of the view that the Committee should be involved in the Council wide procurement processes and the Amey review. He questioned whether the SRP should be the business of the Committee. The Acting Director of Resources was of the view that the Committee should be aware of areas and issues such as those relating to the SRP on an information basis. The Assistant Chief Executive Legal and Democratic informed the Committee that the Committee had an update of partnerships in general but that it was more appropriate that Strategic Monitoring Committee dealt with reports on partnerships with governance issues coming back to this Committee.

Councillor Smith referred to his appointment as a member of the West Mercia Police Authority and drew Members' attention to the government Green Paper on policing. He informed the Committee that the Green Paper was proposing to take away performance indicators for the police but was proposing a new principle whereby local Councils would have a greater responsibility for crime and disorder. He asked how aware the Commission was regarding the Council's efforts in dealing with these issues.

The Assistant Chief Executive Legal and Democratic informed the Committee that the terms of the partnership were for all partners to assist and cooperate and assist the Council in the scrutiny and audit process. There was a need for the Council to be clear on its expectations in those areas. Also that the Council should be challenging all partners in what they have agreed to do and whether their performance is being achieved at agreed levels as determined by the Council.

Councillor Smith was of the view that the Council was not delivering on the new crime and disorder proposals and requested the Assistant Chief Executive Legal and Democratic, in his role as Monitoring Officer, to inform the Strategic Monitoring Committee of the Council's proposed new duty of greater responsibility for crime and disorder in line with the policing Green Paper.

Councillor Toon stated that the issue was where the control and oversight of partnerships lay and that this should be with the authority and scrutiny. She was of the view that there was also the need to be aware of value for money in partnerships and raised the issue of pooled budgets in this respect.

The Chief Internal Auditor reported that pooled budgets and partnerships reviews were in the Audit Plan for 2009/10 which would be presented to the Committee for approval.

RESOLVED: That

- (i) the Committee welcome and endorses the Audit Commission's progress report covering areas of work with the Council;and**
- (ii) the Assistant Chief Executive Legal and Democratic to bring to**

the attention of the Strategic Monitoring Committee of the Council's proposed new duty of greater responsibility for crime and disorder in line with the Policing Green Paper.

132. USE OF RESOURCES

The Committee received a Use of Resources report from the Audit Commission. Terry Tobin presented the report and informed the Committee that the overall conclusion was that the Council was performing well. He referred in particular to the Financial Reporting theme because the Council was performing strongly in this area and had attained the score of 4 which was the highest available score. He commended the officers of the Council's Technical Accountancy team for the achievement. In Financial Management, the Council was performing well and was consistently performing above minimum requirements with a score of 3. Financial Standing had improved to the next level of performance scoring 3. Internal Control had generally increased its level of performance although scoring 2. Issues from the Crookhall report had been taken forward and were being progressed positively and there was a stronger process in place to monitor gifts and hospitality. Risk Management was improving and the link to the Primary Care Trust (PCT) would help in this area. Value for money had remained at the previous year's level score of 2. However the 'mix' of cost and performance was stronger in this area. The Council was currently in the process of making improvements to its arrangements to define and secure value for money and to manage costs but that these improvements were not yet being achieved consistently.

Councillor RH Smith asked if the Council would be including the revenue implications of all major projects in the Corporate Plan, Page 25 recommendation 3 refers. Also, would a report be submitted to the Committee on the various issues contained in the second paragraph on page 29, relating to value for money. The Acting Director of Resources informed the Committee that although he did not consider it appropriate to put in place an action plan on the issues referred to, the necessary work was in progress in relation to those issues and that a draft initial assessment would be submitted to the Audit Commission. He would be bringing a report to the Committee on the status of the new approach in respect of value for money processes.

Councillor Smith expressed concern that the requisite measures and optimum processes were in place regarding value for money. The Acting Director of Resources stated that there was evidence of continuing improvement and that processes were also being improved.

Councillor AM Toon questioned whether value for money was embedded in all its areas particularly where a department was no longer involved in commissioning had undergone structural changes and staffing numbers had not been reduced. She was of the view that improvements would need to be in place to achieve that embedded status.

The Acting Director of Resources informed the Committee that in his view, work on value for money issues were part of the daily job of all Council staff. He added that the process would improve through the closer working relationship with the PCT.

Councillor Smith referred to page 27 and the three specified actions in risk referred to and that these should be included within the Cabinet Member for Resources terms of reference for risk management. He also referred to the key findings and conclusions relating to Internal Control and asked would all the actions referred to be carried out. The Acting Director of Resources stated that all the actions were being worked on. With regard to the risk management elements, the proposed action on

these issues would be submitted to the Constitutional Review Working Group for consideration.

Councillor Smith requested that his eagerness for the risk management issues to be put in place be recorded.

Councillor Toon suggested that an action plan be brought back to the Committee to update Members on the issues and recommendations raised on page 27 together with the actions taken by the officers.

RESOLVED: That

- (i) the Audit Commission's Use of Resource report be noted; and**
- (ii) the Acting Director of Resources submit a report to the next meeting of the Committee which details the recommendations contained in the Audit Commission's report together with the progress to date and the future actions to be taken on the recommendations.**

133. REVIEW OF SCHEME OF DELEGATION

The Committee considered a report regarding amendments to the Scheme of Delegation following a review by the Assistant Chief Executive Legal and Democratic. He informed Members that the amendments were effectively a tidying up exercise. He emphasised that there was a substantial review of the Council's Constitution currently in process.

The Chairman suggested that the wording of paragraph 12.4.2 of the scheme be amended to read as follows:

'Cabinet Member decisions are those that do not fall within the definition of an Administrative or Management Decision'

RESOLVED: That the following proposed amendments to the Scheme of Delegation be approved for submission to Council:

- (i) the proposed amendment to paragraph 12.4.12(b) as set out in paragraph 5 of the report; and**
- (ii) the following wording for paragraph 12.4.2:**

'Cabinet Member decisions are those that do not fall within the definition of an Administrative or Management Decision'.

134. DRAFT REVISED TERMS OF REFERENCE

The Chief Internal Auditor presented a report regarding draft Revised Terms of Reference for the Audit and Corporate Governance Committee. He drew member's attention to the current terms of reference in Appendix 1 to the report and to the revised terms of reference set out in Appendix 2 which encompassed the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and good practice.

Councillor AM Toon expressed concern that the proposed scope referred to at page

41 of the report did not include responsibility for reviewing external audit or inspection reports and referred to the Crookall report as an example.

Councillor RH Smith referred to paragraph 7 of Appendix 2 and was of the view that the Committee would wish to read and where appropriate act upon reports of external audit and inspection agencies.

Terry Tobin, representing the Audit Commission, informed the Committee that a lot of Audit Committees struggled with the performance area issue. He took the view that there was no defined answer to the problem. He further stated that CIPFA can advise on good practice but the Council have to be comfortable with its approach. From his point of view, it was not necessary that all amended reports needed to be dealt with by the Audit and Corporate Governance Committee if its being dealt with by another Committee.

Councillor Smith referred to paragraph 10(iii) on page 6 and questioned the proposal that the Committee could only endorse the management response to any recommendations made regarding the external auditor's annual governance letter.

The Assistant Chief Executive Legal and Democratic emphasised that the timescale would be for this Committee to receive the review of the constitution for consideration. It would then go to Strategic Monitoring Committee and Cabinet and ultimately to Council. He emphasised that would be a further opportunity for the Committee consider its revised terms of reference.

Councillor Smith expressed further concerns about exclusions from the proposed terms of reference and was of the view that the following matters should be included:

(i) **Audit**

Committee should ratify/identify issues to be investigated exceptionally agreeing lines of enquiry and scope and depth of audit activity.

Comment on scope, depth and value for money of external audit.

(ii) **Financial Management**

Monitor in year forecasts of revenue and capital outturn, satisfying itself that appropriate and timely measures are in place to avoid or minimise any projected overspend.

(iii) **Governance**

Maintain an overview of all procurement processes.

Encourage improvement in standards of accuracy, clarity, comprehensiveness and brevity in the Council's documentation.

The Acting Director of Resources informed Members that the Committee needed to be careful about straying into Scrutiny and Cabinet areas. The discussion concluded with the agreement that the Audit and Corporate Governance Committee should receive a six monthly report giving the overall year outturn position.

Councillor AM Toon referred to financial reports that had been submitted to Children's Services Scrutiny Committee and that the format of those reports was

questionable. It was her view that those reports were not consistent with those that were submitted to this Committee which were in a format that was understandable.

Councillor Smith referred to his previous role as Vice-Chairman of Community Services Scrutiny Committee and to a report received on the outturn of Children's Services Information Communications Technology (ICT) report. He did not like the format.

The Acting Director of Resources informed the Committee that he had discussed the issue with Councillor Smith and was much more comfortable with the current reporting format relating to ICT finance. On the Children's Services Scrutiny Committee issue raised by Councillor Toon, he informed Members that reports to that Committee were sometimes presented differently. He had, however, discussed the matter with the Children's Services Director to address the inconsistencies in the reporting process.

Terry Tobin, representing the Audit Commission, was of the view that it was most unusual for Audit and Corporate Governance Committees to consider budget monitoring reports but that it was an issue for the Committee to decide upon.

The Chief Internal Auditor made reference to Councillor Smith's suggested inclusion in the terms of reference regarding Governance, part (iii) above, and assured the Committee that the audit plan would be looking into standing orders for contracts and procurement.

RESOLVED: That the Chairman and Vice-Chairman to meet with the Chief Internal Auditor to discuss the proposed terms of reference in line with the suggested amendments in the preamble and that the amended version be submitted to the meeting of this Committee on 20 March.

135. THIRD INTERIM AUDIT ASSURANCE REPORT 2008/09

The Chief Internal Auditor presented a report which provided the Committee with an update on progress in making the planned improvements to the internal control environment. It also reported progress with the Annual Audit Plan for 2008/09. He referred to changes to key issues in paragraphs 5, 7 and 8 of the report. Paragraph 14 relating to Information Communications Technology (ICT) included updates to existing Business Impact Analysis, Business Continuity Plans and Change Control. An Action plan was in place regarding the unsatisfactory audit opinion, paragraph 19 refers. With regard to the Critical 1 recommendation relating to the Payment to Independent Providers Review, work was in progress and the Committee would be updated of the latest position in due course.

Councillor RH Smith referred to paragraph 14 relating to ICT and requested that more details be reported. He also referred to the Medium Term Financial Strategy as referred to in row 3 of the table on page 50, and to the effects that the current state of the financial markets were having on the Strategy. The Acting Director of Resources stated that the 2009/10 budget had been significantly affected and that changes to the budget as a consequence were being finalised.

Councillor Smith referred to paragraph 6.2 at page 51 relating to the proposed action plan to address the issues raised by the Audit Commission, and that the action plan should include the Audit Commission's invite to the Council and Primary Care Trust to take part in a national study of joint financing arrangements. Also, that pooled arrangements needed to include clarification and reconciliation of respective objectives. In referring to item 79 on page 62 regarding data quality, he requested

that when the Committee received further reports on action plans, the plans should include the initial target date for completion and that updates should include revised target dates.

RESOLVED: That the report be noted.

136. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Acting Head of Financial Services presented a report which informed the Committee on the introduction of International Financial Reporting Standards (IFRS) to local authority accounts. She referred to the timetable for implementation of the IFRS and made particular reference to the more significant changes introduced by the IFRS, paragraph 6 of the report refers, and which were set out in more detail up to and including paragraph 29 of the report. Arrangements were in place to meet with Human Resources to highlight the issues with regard to employee benefits such as the manual system for recording leave. Members were informed that the system would be challenging where a manual system was currently being used. Joint officer meetings were taking place with Worcester County Council to share ideas on how various information is collected.

The Chairman drew attention to the additional work and strain on resources in the Resources Directorate to the extent that there could be a need for more staff as a consequence of the introduction of the IFRS.

Councillor RH Smith welcomed the way this difficult and technical issue had been clearly explained in the Acting Head of Financial Services report.

Councillor Smith asked if the new IFRS system created any benefit for the Council. The Acting Director of Finance informed the Committee that consistency of accounting procedures was the main aim. He informed the Committee that the National Health Service was also introducing the new system.

The Acting Director of Resources stated that the IFRS system was a significant change for the authority and that all staff would need to be on board. A training event would be organised for the Committee in due course.

RESOLVED: That

- (i) the report be noted; and**
- (ii) an action plan and progress report be brought to the next meeting regarding the implementation of the IFRS with periodic updates to future meetings.**

137. LEARNING DISABILITY INSPECTION PLAN - PROGRESS REPORT

The Acting Director of Resources presented a report which responded to issues raised by this Committee at its meeting of the 25 September 2009. The report to that meeting detailed progress on implementing the action plan to improve learning disability services. The Committee identified areas for clarification relating to improvements in assessment and care management.

RESOLVED: That the report be noted.

The meeting ended at 11.38 a.m.

CHAIRMAN

USE OF RESOURCES REPORT 2008**Report By: DIRECTOR OF RESOURCES****Wards Affected**

None.

Purpose

1. To receive the action plan in respect of the improvement opportunities identified in the Use of Resources report 2008, Appendix 1 refers.

Financial Implications

2. None directly arising from this report.

RECOMMENDATION

THAT the Audit and Corporate Governance Committee notes and comments on the attached action plan.

Reasons

3. At the Audit and Corporate Governance Committee of 23rd January 2009 a report was received that indicated the Council's overall score for Use of Resources has risen to 3 (performing well) from a 2 (performing adequately) in 2006/07. The strong evidence of improvement was welcomed by the committee and it requested that the Director of Resources identify any opportunities for further improvement and that these should be reflected in an action plan.

Considerations

4. The Use of Resources is an assessment evaluating how well councils use and manage their resources. It is the fourth assessment carried out at Herefordshire but is also the final one under the Comprehensive Performance Assessment (CPA) framework.
5. From 2009 there is a new assessment that forms part of the Comprehensive Area Assessment (CAA). The new assessment framework is different with an emphasis placed on outcome rather than outputs. However, the key lines of enquiry in the 2008 assessment had been amended to reflect and signal some of the changes proposed for the Use of Resources under CAA.

Risk Management

6. Failure to continue to improve in relation to the assessment criteria within Use of Resources will have a reputational impact for the Council under the CAA. The new assessment framework will start in Spring 2009 and will be much more focused on

the community's perceptions of how well the Council is performing.

BACKGROUND PAPERS

None

APPENDIX 1

USE OF RESOURCES 2008 ACTION PLAN			
THEME 1 – FINANCIAL REPORTING			
Opportunity for Improvement	Commentary	Management Action	Who
1.1 The Council must maintain improvement in the production of accounts and supporting working papers	The external auditor's Use of Resources assessment 2008 noted that the Council produced good working papers and that the accounts were of a high quality with few errors.	The Head of Financial Services will continue to lead improvements and seek best practice through regional and national groups.	Head of Financial Services
			Ongoing

THEME 2 – FINANCIAL MANAGEMENT			
Opportunity for Improvement	Commentary	Management Action	Who
2.1 The good practice associated with the MTFMS needs to continue.	The Council already has a well regarded MTFMS.	The MTFMS was revised to include significant improvements for January 2009. In 2009 it will be developed to become a joint document for the Council and PCT. This will include revenue consequences of major projects.	Head of Financial Services
2.2 Financial training to continue to improve.	A marked improvement was noted by the Audit Commission.	Content of the three level programme to be reviewed and key staff identified for training. The previous year's attendees will be reviewed to see if refresher training needed.	Head of Financial Services
2.3 Improvements in options appraisals	The report noted a more thorough and robust	All key projects must have an option appraisal that identifies key risks and	Heads of Service
			Ongoing.

APPENDIX 1

<p>should be maintained.</p>	<p>approach to option appraisal is now in place. The new Financial Procedure Rules and Contract Procedure rules clearly set out the requirement for a full options appraisal on all projects likely to cost more than £140,000 in total that includes a full financial appraisal of each option.</p>	<p>costs. Alternative options must be included in the formal report template.</p>	
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THEME 3 – FINANCIAL STANDING

Opportunity for Improvement	Commentary	Management Action	Who	When
<p>3.1 The management of debt monitoring needs to continue to improve.</p>	<p>Since early 2008 better quality debt analysis is now being produced. Old irrecoverable debts are being written off and new debts are being managed more proactively as the likelihood of recovery decreases with age. The Council already has clarity about the level of reserves. Routine budget monitoring includes anticipated year end reserve position.</p>	<p>Ensure debt management strategies and monitoring arrangements are part of the planned services improvements in Benefits & Exchequer Services in 2009. Consolidated write off information to be produced.</p>	<p>Head of Benefit & Exchequer Services</p>	<p>April 2009</p>
<p>3.2 Continue to carefully monitor reserves and ensure they stay within the boundaries set by the MTFMS.</p>	<p>The Council already has clarity about the level of reserves. Routine budget monitoring includes anticipated year end reserve position.</p>	<p>Ensure reserves are "tested" for continuing requirements. This is relevant given the age of some specific reserves.</p>	<p>Head of Financial Services</p>	<p>Ongoing</p>

APPENDIX 1

THEME 4 – INTERNAL CONTROL				
Opportunity for Improvement	Commentary	Management Action	Who	When
4.1 Specific terms of reference for the Member Champion in relation to risk management should be drawn up.	Nothing further to add; risk management falls within the remit of the Cabinet Member (Resources).	Ensure that specific terms of reference for the member Champion for Risk Management (Cabinet Member (Resources)) are drawn up. These to be in place to support the new constitution.	Risk & Insurance Manager	April 2009
4.2 Ensure risk registers contain all significant risks.	Directors are required to review their directorate risk registers on a monthly basis to ensure that information flows in both directions.	All Directors to ensure that their Directorate risk register is regularly reviewed and is in line with the corporate risk register.	Risk & Insurance Manager	Ongoing
4.3 Minutes to reflect discussions on risk.	Where discussed reference is made.	Minutes to be checked to ensure accurate reporting of discussions around risks.	Democratic Services Manager	Ongoing
4.4 To embed the Business Continuity Plan in Council culture.	Work is in progress to update business continuity plans ready for testing in 2009/10.	Business Continuity assessments being co-ordinated by Emergency Planning section.	Deputy Chief Executive.	April 2009
4.5 Policies to ensure good conduct is part of Council culture.	The report noted the changes made in 2007/08 are "good".	Monitoring officer to continue to inform staff of their responsibilities.	Assistant Chief Executive (Legal & Democratic).	Ongoing

THEME 5 – VALUE FOR MONEY				
Opportunity for Improvement	Commentary	Management Action	Who	When

APPENDIX 1

<p>5.1 Develop processes to ensure value for Money can be demonstrated and that stretching targets are in place.</p>	<p>In 2008 the Council participated in the Society of County Treasurers Value for Money exercise. This gave a better understanding of the performance of key services. The additional investment in services since 2007/08 is now being assessed for its impact on user satisfaction when the place survey data is available.</p>	<p>Directors continue to assess service improvements. These are reported as part of the integrated Performance Report.</p>	<p>Directors</p>	<p>Ongoing</p>
<p>5.2 the development of use of target setting and benchmarking to support a consistent approach to measuring and reporting Value for Money.</p>	<p>Evidence of some progress in 2007/08 but further improvements can be made through greater awareness and a consistent approach across directorates.</p>	<p>Director of Resources is to put in place appropriate training and develop a consistent strategy to securing Value for Money. This will require external facilitation. Discussions have commenced and a member development programme will be held.</p>	<p>Director of Resources</p>	<p>May 2009</p>

**INTERNATIONAL FINANCIAL REPORTING STANDARDS
(IFRS)****Report By: ACTING HEAD OF FINANCIAL SERVICES****Wards Affected**

None affected.

Purpose

1. To report to the Audit and Corporate Governance Committee on the progress on implementing International Financial Reporting Standards (IFRS).

Financial Implications

2. No financial implications.

RECOMMENDATION

THAT the Audit and Corporate Governance Committee note the report.

Reasons

3. To inform the Audit and Corporate Governance Committee about the work being undertaken to prepare for IFRS. This information was requested at the previous Audit and Corporate Governance Committee.

Considerations**Timescale**

4. The council will be required to produce IFRS compliant accounts from 2010/11, with restated comparative data for 2009/10. The PFI accounting arrangements will change a year earlier, from 2009/10.

Joint Working

5. The Hereford and Worcester Financial Managers Group, which includes representatives from Herefordshire Council, Worcestershire County Council and the Worcestershire District Councils, are working jointly on IFRS issues.
6. The external auditors, Grant Thornton, attended a meeting of the group on 23rd January 2009 to provide a training session on IFRS key issues, drawing on their experience within the NHS. Grant Thornton suggested that the group could work to a joint Action Plan.
7. The group decided that in order to work closely on IFRS issues that a specific IFRS task group should be formed. The first meeting of that group is on Friday 6th March 2009. Individuals within the group will be tasked to take the lead on specific topics.

Herefordshire Council Progress

8. In addition to the joint working arrangements, work has been progressing on the following areas of major change:
- a) Private Finance Initiative (PFI) Accounting**
 - i) The Whitecross school PFI contract has been reviewed. The initial indications are that this will need to be recognised as an asset on the council's balance sheet from 2009/10. The accounting treatment will be complex and this may be an area where expert advice will be required. This is not expected to have a financial impact on the council.
 - b) Leases**
 - i) The council's equipment leases have been reviewed under the IFRS criteria and most will continue as operating leases, where ownership remains with the lessor. A small number may be classified as finance leases where ownership is deemed to transfer to the lessee, resulting in an asset on balance sheet and a change in the accounting arrangements. There would be no financial implication.
 - ii) The council's property valuer is currently reviewing the council's property leases. Priority is being given to the leases where the council is the lessor, as the income would become a capital receipt rather than revenue receipt if the arrangement were to be classified as a financing lease. This would reduce the amount of revenue income in the council's accounts in 2010/11.
 - c) Employee Benefits**
 - i) It has been confirmed that the restated balance sheet at 1st April 2009, as the comparative year for full IFRS in 2010/11, will require an accrual of holiday pay at 31st March 2009. Grant Thornton indicated that it may be possible to achieve this by taking a sample of employees. This has been raised with our external auditors and we will be meeting shortly to discuss an agreed approach with them.

Risk Management

9. If IFRS is not interpreted correctly in the council's accounts and implemented in accordance with the required timetable it would impact on the Auditor's opinion on the accounts and the Use of Resources score. The management of this identified risk has commenced as evidence by attendance of staff on relevant training courses.
10. The successful delivery of unqualified accounts will require greater involvement from non-financial services staff than has previously been the case. A communications plan is being developed to raise awareness and IFRS will form part of the Council's financial training programme implemented as part of the Crookhall action plan. This plan will be finalised the end of March.
11. Sound project management will be a crucial part of the process to keep the project on track and to identify potential problems at an early stage. This may require additional resources and the Director of Resources will ensure this important project has the appropriate level of resource to meet requirements.

BACKGROUND PAPERS

None

MONITORING OFFICER REPORT 2007/2008**Report By: Assistant Chief Executive, Legal and Democratic****Wards Affected**

County-wide

Purpose

1. To inform the Committee of the Authority's performance for 2007/08 with regard to complaints to the Ombudsman, Whistleblowing and those matters within the responsibility of the Monitoring Officer's control as the Head of Legal and Democratic Services.

Background

2. The Committee should be aware that 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 and its Elected Members act with probity in accordance with the law and in accordance with its Constitution and to avoid determinations of maladministration being issued by the Local Government Ombudsman.
3. The Monitoring Officer is also responsible for carrying out investigations and reporting to the Standards Committee of the Council any breaches of the Code of Conduct of members referred to it by the Standards Board for England.

RECOMMENDATION

THAT the Report be noted and for the Committee to make comment.

Considerations

4. The Local Government Ombudsman issues an Annual Letter for all councils reflecting on the complaints they receive against individual authorities and any recommended action. The Local Government Ombudsman's statistics for the year ended 31 March 2008 is appended to this report as Appendix 1.
5. The Ombudsman comments favourably on several aspects of the Council's complaints handling arrangements. Key issues from the Annual Letter are:
 - During this period 46 complaints were determined. Of these 5 complaints were referred back to the Council because they were premature, 6 were outside the Ombudsman's jurisdiction, 35 showed no or insufficient evidence of maladministration and the Ombudsman decided not to investigate a further 5 under his general discretion, mainly because

Further information on the subject of this report is available from
Alan McLaughlin, Head of Legal and Democratic Services on 01432 260200

complainants had not suffered significant injustice from the fault claimed.

- One report of maladministration was issued against the Council in respect of a planning matter in 2005/06 and is still in the course of being resolved. When the Ombudsman completes an investigation a report is issued. The Ombudsman issued one report in relation to a planning matter in that the Council failed to give adequate reasons for granting planning permission. The Ombudsman has recommended the Council carry out a before and after valuation of the complainant's property and pay him the difference as compensation for the injustice. The District Valuer's has carried out valuations of the complainant's property as requested by the Ombudsman. His report has been submitted to the Ombudsman for his consideration and we are awaiting his response on this.
 - A further three complaints were resolved by Local Settlement. "Local Settlement" is where during the course of an Ombudsman investigation, the Council has agreed to take some action which is considered a satisfactory response to a complaint. The investigation is then discontinued.
 - The Ombudsman indicates that the Council's complaints procedure is well publicised in comparison with other councils, accessible and working well as the proportion of complaints treated as premature was low and well below the national average of 27%.
 - The Council has improved its performance with regard to reducing the time taken to respond to enquiries from his office from 31.8 days in 2005/06 to 23.1 in 2007/08 and the Council is now placed in the top quartile of responders of 28 days. The Ombudsman has commented on the Council's steady progress in the reduction of response times since 2005/06 and that this has greatly assisted the work of the Ombudsman.
6. The Ombudsman commented that during the period 46 complaints were received against the Council which is a slight decrease on the previous year. Planning complaints have fallen in this period from 21 in 2006/07 to 12 in 2007/08.

Herefordshire's Comments and Complaints Procedure

7. Recording of the Level I, II and III comments, complaints and compliments received within each Directorate/Department, are currently maintained by the relevant Complaints Administrator using a combination of the Customer Relationship Management (CRM) and ComTrac, the Council's computerised recording system. Reports can be produced for each respective Directorate Management Team from COMTRAC.
8. Leaflets are available at receptions, libraries and Info Shops or Points to enable the public to register their comments, complaints and compliments. This leaflet now incorporates a cut off section to enable the Council to monitor the ethnicity of complainants and report accordingly.

- 9. The public can also register their feedback on line by accessing the Herefordshire Council website to complete the electronic complaints form.
- 10. A breakdown of the informal and formal complaints received by Directorate/Department, is shown in Appendix 2.

Ethnicity Monitoring

- 11. Diversity monitoring is included in all totals for 2007/08

Level 3 Complaints

- 12. The Complaints Panel (Level III meet to hear unresolved complaints from members of the public following review at Level I (by the local manager) and Level II (by Director). The Panel comprises the Chief Executive and two Group Leaders advised by Legal Services. During 2007/08 it heard a total of 21 complaints. Three were partially upheld.

Directorate/ Department	No. of Complaints / Section	Outcome
Environment	12 - Planning 1 – Highways and Transportation 3 – Environment Health & Trading Standards	11 Not upheld; 1 Partially upheld 1 Not upheld 3 Not upheld
Adult & Community Services	1 – Info in Herefordshire	1 Partially upheld
Children’s Services	3 – Education	2 Not upheld; 1 partially upheld
Corporate and Customer Services	1 – Legal and Democratic Services	1 Not upheld

Standards Committee

- 13. The Standards Committee is chaired by Mr Robert Rogers, an independent member who resides within the county. The business of the Committee during 2007/08 was to conduct hearings to determine local investigations referred to the Committee by the Standards Board for England and considering matters of good governance.
- 14. Legislative changes in May 2008 mean the work of the Standards Committee is likely to increase due to the requirement for most complaints against Members and Parish Councillors to be dealt with by the Committee. The Committee has been required by law to arrange for part of its work to be dealt with by an Assessment Sub Committee and Review Sub Committee. This has necessitated in the recruitment of additional independent members to ensure that those committees are quorate.
- 15. Training seminars have taken place with HALC and further seminars are planned through the year for both Members and Parish Councillors. The Committee is working closely with HALC and Parishes to ensure that its guidance to parish clerks and councillors is reviewed.

Further information on the subject of this report is available from
 Alan McLaughlin, Head of Legal and Democratic Services on 01432 260200

16. For the period 1st April 2007 to 31st March 2008 the Committee dealt with allegations of breach of the Code of Conduct. Four related to parish councillors, 7 to Herefordshire Council Members. All 11 referrals were determined by the Committee as not investigated. Four of these complaints were then referred by the complainant to the Standards Board for England for review. The Standards Board for England upheld the Committee's decision on all four matters.
17. Since the implementation of the local filter system in May 2008, the Committee has received allegations from May to August 2008 in relation to 12 Councillors. Two in relation to Herefordshire Council Members and the remainder in respect of Parish Councillors. The Assessment Sub-Committee has during this period met on four occasions.

Register of Gifts and Hospitality

18. The Monitoring Officer is required to monitor and maintain a register of the gifts and hospitality offered to both members and officers of the Council. It is incumbent on members and officers to register such gifts and hospitality over £25.00 even if it is only offered and not accepted.
19. Over the period 1st April 2007 to 31st March 2008, 95 declarations were made.

Register of Members Interests

20. All members of the Council are required to register any personal and prejudicial interest that might affect or give the public the perception of affecting their decision making. The register of such interests is retained by the Monitoring Officer.
21. Apart from the register, members are required to notify the Monitoring Office at any meeting of the Council of any personal or prejudicial interest prior to the start of any such meetings and these are recorded in the minutes.
22. All members of the Authority have registered their interests following the election of the new administration. It is incumbent on Members to ensure that their register of interests is updated and there is a legal requirement to notify the Monitoring Officer within 28 days of any changes to the register. The register of interests for Parish Councillors is also retained by the Monitoring Officer and the legal requirement for notification of changes to the register applies.

Risk Management

23. Officers and Members are regularly briefed by Legal Services on any changes in legislation or case law that may impact on the delivery of services or impose statutory duties on the Authority. New legislation and significant case law is monitored by Legal Services and when impact is foreseen in respect of any of the Council's Directorates, an Impact Assessment Report which can be electronically accessed through the intranet is prepared. Key

Managers are advised by e-mail when new Impact Assessment Reports become available. The process of impact assessment reporting is underpinned by a programme of training rolled out to both officers and members. In the period covered by this report, there have been ten such seminars, covering Member diversity training, court room skills for officers called as witnesses, panel training in respect of school admission appeals and a variety of specialist legal topics germane to officers working in Highways and Transportation, property work and Freedom of Information issues.

24. Complaints of any nature either to the Ombudsman or referred to the Standards Committee can result in a risk to the Council's reputation. In the case of the Ombudsman, compensation can be recommended.
25. The failure of officers and/or members to register gifts or interest can have an effect on the Council's reputation. In the case of a member it could be referred and investigated by the Standards Board for England or the Standards Committee who are required to publish the results of any such investigations.

Consultees

- None identified

Appendices

Appendix 1 – The Local Government Ombudsman's statistics for the year ended 31 March 2008.

Appendix 2 – Complaints (received Informal and Formal) 2007/08

Appendix 3 – Compliments Received 2007/08

BACKGROUND PAPERS

- None identified

Notes to assist interpretation of the LGO's local authority statistics 2007/08

1. Complaints received

This information shows the number of complaints received by the LGO, broken down by service area and in total within the periods given. These figures include complaints that are made prematurely to the LGO (see below for more explanation) and that we send to the council to consider first. The figures may include some complaints that we have received but where we have not yet contacted the council.

2. Decisions

This information records the number of decisions made by the LGO, broken down by outcome, within the periods given. **This number will not be the same as the number of complaints received**, because some complaints are made in one year and decided in the next. Below we set out a key explaining the outcome categories for 2007/08 complaints.

MI reps: where the LGO has concluded an investigation and issued a formal report finding maladministration causing injustice.

LS (local settlements): decisions by letter discontinuing our investigation because the authority has agreed to take some action which is considered by the Ombudsman as a satisfactory outcome for the complainant.

M reps: where the LGO has concluded an investigation and issued a formal report finding maladministration but causing no injustice to the complainant.

NM reps: where the LGO has concluded an investigation and issued a formal report finding no maladministration by the council.

No mal: decisions by letter discontinuing an investigation because we have found no, or insufficient, evidence of maladministration.

Omb disc: decisions by letter discontinuing an investigation in which we have exercised the Ombudsman's general discretion not to pursue the complaint. This can be for a variety of reasons, but the most common is that we have found no or insufficient injustice to warrant pursuing the matter further.

Outside jurisdiction: these are cases which were outside the Ombudsman's jurisdiction.

Premature complaints: decisions that the complaint is premature. The LGO does not normally consider a complaint unless a council has first had an opportunity to deal with that complaint itself. So if someone complains to the LGO without having taken the matter up with a council, the LGO will usually refer it to the council as a 'premature complaint' to see if the council can itself resolve the matter.

Total excl premature: all decisions excluding those where we referred the complaint back to the council as 'premature'.

3. Response times

These figures record the average time the council takes to respond to our first enquiries on a complaint. We measure this in calendar days from the date we send our letter/fax/email to the date that we receive a substantive response from the council. The council's figures may differ somewhat, since they are likely to be recorded from the date the council receives our letter until the despatch of its response.

4. Average local authority response times 2007/08

This table gives comparative figures for average response times by authorities in England, by type of authority, within three time bands.

Complaints received by subject area	Adult care services	Benefits	Children and family services	Education	Housing	Other	Planning & building control	Public finance	Transport and highways	Total
01/04/2007 - 31/03/2008	0	3	0	3	4	14	12	3	7	46
2006 / 2007	2	6	1	1	2	6	21	2	8	49
2005 / 2006	2	3	1	12	2	9	35	0	8	72

Note: these figures will include complaints that were made prematurely to the Ombudsman and which we referred back to the authority for consideration.

Decisions	MI reps	LS	M reps	NM reps	No mal	Omb disc	Outside jurisdiction	Premature complaints	Total excl premature	Total
01/04/2007 - 31/03/2008	1	3	0	0	35	5	6	5	50	55
2006 / 2007	0	3	0	0	27	10	3	9	43	52
2005 / 2006	0	3	0	0	21	19	4	13	47	60

See attached notes for an explanation of the headings in this table.

Average local authority response times 01/04/2007 to 31/03/2008

Response times	FIRST ENQUIRIES	
	No. of First Enquiries	Avg no. of days to respond
01/04/2007 - 31/03/2008	23	23.1
2006 / 2007	29	29.3
2005 / 2006	32	31.8

Types of authority	<= 28 days		29 - 35 days		> = 36 days	
	%		%		%	
District Councils	56.4	24.6	19.1	8.7	11.1	14.7
Unitary Authorities	41.3	50.0	27.3	28.6	0.0	0.0
Metropolitan Authorities	58.3	30.6	11.1	14.7	27.3	27.3
County Councils	47.1	38.2	27.3	28.6	0.0	0.0
London Boroughs	45.5	27.3	28.6	0.0	0.0	0.0
National Park Authorities	71.4	28.6	0.0	0.0	0.0	0.0

Complaints informal and Formal 2007/08

	April 2003 to March 2004	April 2004 to March 2005	April 2005 to September 2005	October to March 2006	April 06 To March 07	April 07 To March 08
Chief Executive including HR	0	0	0	1	4	5
County Secretary & Solicitor	5	5	12	-	-	-
County Treasurer	43	15	9	-	-	-
Resources	-	-	-	9	23	12
Property Services	1	0	-	-	-	-
Education	30	11	6	-	-	5
Children's Services	-	-	-	83	-	-
Environmental Health and Trading Standards	16	12	6	18	29	24
Highways and Transportation	30	21	5	3	10	13
Planning	15	22	25	5	33	30
Social Care – Adults	104	88	39	-	-	29
Social Care – Children	23	27	17	-	-	16
Strategic Housing	18	11	9	-	-	17
Community Services	-	-	-	9	132	18
Third Party Provider						57
Policy & Community	8	39	15	-	-	-
Corporate & Customer Services	-	-	-	14	14	79
Diversity	-	-	-	21	14	32
TOTAL	293	251	138	176	259	200

Compliments received 2007/08

	April 2003 to March 2004	April 2004 to March 2005	April 2005 to September 2005	October 2005 to March 2006	April 06 To March 07	April 07 To March 08
Chief Executive including HR	9	0	-	7	42	23
County Secretary & Solicitor	80	79	26	-	-	-
County Treasurer	27	31	17	-	-	-
Resources	-	-	-	5	19	20
Property Services	8	0	0	0	-	-
Education	2	2	0	-	-	0
Children's Services	-	-	-	119	-	-
Environmental Health and Trading Standards	58	104	60	44	80	70
Highways and Transportation Planning	83	99	25	30	24	93
Social Care & Strategic Housing	22	17	13	15	15	10
Adult & Community Services and Childrens Services	98	147	80	-	-	-
Policy & Community Corporate & Customer Services	-	-	-	9	97	115
Diversity	40	62	10	-	-	-
TOTAL	427	541	231	256	412	615

UPDATED DRAFT REVISED TERMS OF REFERENCE**Report By: Chief Internal Auditor****Wards affected**

1. County-wide.

Purpose

2. To present to the Committee for consideration the updated draft revised terms of reference for the Audit and Governance Committee.

Financial Implications

3. None.

Recommendation

THAT (a) Subject to any comments by the Audit & Corporate Governance Committee, the updated draft revised terms of reference and the proposed change of name be put forward for consideration by the Constitutional Review Group.

Reasons

4. An appropriate terms of reference will demonstrate compliance with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

Considerations

5. Draft revised terms of reference for the Audit and Corporate Governance was presented to the Committee on 23rd January 2008. The Committee resolved that the Chairman and Vice-Chairman meet with the Chief Internal Auditor to discuss the proposed terms of reference in line with the suggested amendments in the preamble and that the amended version be submitted to the meeting of this Committee on 20 March 2009.
6. The Chairman, Vice-Chairman and the Chief Internal Auditor have carried out the review as request and updated draft terms of reference have been developed (Appendix 1 refers).
7. Members are reminded that the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit states that the purpose of an audit committee is to :

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

- (i) Provide independent assurance of the adequacy of the risk management framework and the associated control environment.
 - (ii) Provide independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment.
 - (iii) Oversee the financial reporting process.
8. The code also highlights that the Audit Committee role is different to that of the scrutiny function. The purpose of the scrutiny function being to review policy and to challenge whether the executive has made the right decisions to deliver policy goals.
9. As previously reported CIPFA's latest best practice guidance for Audit Committees highlights their role:
- (i) To consider the effectiveness of the Council's risk management arrangements, the control environment and associated counter fraud and corruption arrangements.
 - (ii) Seek assurance that action is taken on risk related issues identified by auditors and inspectors.
 - (iii) Satisfy themselves that the Council's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it.
 - (iv) Approve (but not direct) Internal Audit's strategy, the Audit plan and oversee performance.
 - (v) Review summary internal audit reports and the main issues arising and seek assurance that action is taken where necessary.
 - (vi) Receive the annual report of the Head of Internal Audit.
 - (vii) Consider the reports of external audit and inspection agencies.
 - (viii) Ensure there are effective relationships between external and internal audit inspection agencies and other relevant bodies.
 - (ix) Ensure the organisations activity promotes the value of the audit process.
 - (x) Review the financial statements, external auditor's opinion and reports to members and oversee management action in response to the issues raised by external audit.

10. The requirements as set out in paragraph 9 above have been highlighted with amendments in the updated draft revised terms of reference to take account of Herefordshire's requirements.
11. The suggested actions required by the committee to meet the CIPFA requirements are set out in Appendix 1.
12. The CIPFA Code makes reference to the Head of Internal Audit, which the glossary describes as the person responsible for the internal audit function, at Herefordshire Council this person is the Chief Internal Auditor.
13. Matters not covered by the latest CIPFA Code have been added at paragraph 11 of the updated draft revised terms of reference.

Risk Management

14. If the Terms of Reference is not adopted there is a risk that the Audit and Corporate Governance Committee does not meet the CIPFA terms of reference, which would have an adverse impact on the Council's Use of Resources. The actions required by the committee have been linked to the CIPFA guidance.

BACKGROUND PAPERS

- Code of Practice for Internal Audit 2006
- Audit Committees – Practical guidance for Local Authorities 2005

DRAFT REVISED TERMS OF REFERENCE FOR THE AUDIT AND GOVERNANCE COMMITTEE (NOTE CHANGE IN TITLE)

1. **Composition** (no change)

- 1.1 The Committee will consist of seven non-executive councillors and may include an independent person who is not a councillor. This person, if appointed, must be appointed chairman of the Committee in accordance with Standing Order 4.3.3.

2. **Purpose**

- 2.1 The Council appoints the Audit & Governance Committee to ensure the effective and fully compliant governance of the Council and in particular to ensure that all aspects of the financial affairs of the Council are properly and efficiently conducted. The main purpose of this Committee is therefore to review and approve the Council's annual governance statement and annual statements of account. In so doing, the Committee shall scrutinise the effectiveness of, and management compliance with, the systems identified in the annual governance statement framework and monitor the progress made by management in implementing improvements to elements of that framework identified by external or internal audit review.

3 **Key Terms**

- 3.1 The **annual governance statement framework** identifies the individual systems and sources of evidence used to support the preparation of the **annual governance statement**.
- 3.2 The key systems identified in the framework include risk management, procurement, the whistle blowing policy, the control environment and associated counter fraud and corruption arrangements, and the complaints process.
- 3.3 The key sources of evidence identified in the framework include the annual governance letter, external audit reports and the Chief Internal Auditor's audit assurance reports.
- 3.4 The **annual governance statement** is prepared in advance of the annual statements of account; it provides a commentary from management on compliance with the Council's code of governance and identifies areas for further improvement.

4. Scope of the Audit & Governance Committee

- 4.1 The functions, powers and duties of the Audit & Governance Committee are set out in its Terms of Reference. The Committee is able to call senior officers and appropriate members to account on issues within the Committee's remit as defined by its Terms of Reference.
- 4.2 The Committee is not responsible for reviewing specialist external inspection reports on service performance (for example, the annual OFSTED inspection) unless issues have been identified that directly relate to matters within the Committee's remit (for example, risk management of service related issues).
- 4.3 The Committee will not receive detailed information on investigations relating to individuals. The general governance principles and control issues may be discussed, in confidential session if applicable, at an appropriate time, to protect the identity of individuals and so as not to prejudice any potential action by the Council.

5. Terms of Reference

- 5.1 The Committee's terms of reference shall be maintained in line with the Chartered Institute of Public Finance & Accountancy's (CIPFA's) latest best practice guidance for Audit Committees. The key statements made by CIPFA are highlighted in bold in the Committee's Terms of Reference.

5.1.1 To consider the effectiveness of the Council's risk management arrangements, the control environment and associated counter fraud and corruption arrangements by:

- i. Reviewing and approving the annual governance statement framework once a year.
- ii. Approving the Council's counter fraud and corruption policies and reviewing them on a biennial basis.
- iii. Reviewing and approving the Council's whistle blowing on a biennial basis.
- iv. Being part of the consultation process when the Council's complaints policy is being reviewed.

- v. Monitoring the effective operation and development of the systems identified in the annual governance statement framework, calling for special reports where necessary and bringing to notice any inconsistency, short comings, gaps or duplications in these systems.

5.1.2 Seek assurance that action is taken on risk related issues identified by auditors and inspectors by:

- i. Monitoring acceptance by management of audit recommendations and progress in implementing agreed action plans.
- ii. Reviewing audit recommendations not accepted by management and making an appropriate recommendation to Cabinet if it is considered that the course of action proposed by management presents a risk in terms of the effectiveness of or compliance with the Council's control environment.
- iii. Monitoring progress upon the further improvements identified in the annual governance statement.
- iv. Monitoring progress in respect of resolutions and recommendations made by the Committee.

5.1.3 Satisfy themselves that the Council's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it by:

- i. Reviewing and approving the annual governance statement framework annually.
- ii. Receiving and commenting upon the Chief Internal Auditor's annual report on the Council's risk environment.

5.1.4 Approve internal audit's strategy and plan and oversee performance by:

- i. Reviewing and approving the internal audit strategy, internal audit charter and annual internal audit plan once a year, commenting on the adequacy of internal audit resources to ensure key systems are examined in line with the assessed level of risk. Exceptionally, the Committee may identify specific lines of enquiry for internal audit work in line with paragraph 5.1.11 (vi).
- ii. Reviewing performance against the internal audit plan through the interim and final audit assurance reports prepared by the Chief Internal Auditor for each of the Committee's meetings.
- iii. Noting the external auditor's opinion on the quality and effectiveness of the internal audit function.
- iv. Commenting on the scope for further improvement in internal audit performance and / or cost effectiveness where it is appropriate to do so.

5.1.5 Review summary internal audit reports and the main issues arising, and seek assurance action is taken where necessary by:

- i. Noting the Chief Internal Auditor's summary of key findings for audit reviews that have resulted in an unsound or unsatisfactory audit opinion being issued which will be included in his / her interim audit assurance reports and commenting on the management response to those issues as appropriate.
- ii. The Chief Internal Auditor providing the Chairman of the Audit and Governance Committee with a copy of audit review reports with an unsound, unsatisfactory or marginal audit opinion.

- iii. The Chief Internal Auditor providing the Chairman of the Audit and Governance Committee with written confirmation of audit review reports with a satisfactory or good audit opinion.

5.1.6 Receive the annual report of the Head of Internal Audit by:

- i. Reviewing the Chief Internal Auditor's annual report to support the Annual Governance Statement.
- ii. Reviewing the interim and final audit assurance reports prepared for the Committee by the Chief Internal Auditor.
- iii. Receiving assurance on the opinion given on the overall adequacy and effectiveness of the Council's control environment.

5.1.7 Consider the reports of external audit and inspection agencies and take appropriate action where relevant to the committee remit by:

- i. Reviewing and commenting on external audit and inspection reports.
- ii. Reviewing and commenting on the management response to external audit and inspection recommendations.
- iii. Monitoring progress in implementing the management response to external audit and inspection recommendations.

5.1.8 Ensure there are effective relationships between external and internal audit, inspection agencies and other relevant bodies by:

- i. Reviewing and agreeing the external auditor's annual audit plan, including the annual audit fee.
- ii. Receiving regular update reports on progress from the external auditor.
- iii. Meeting privately with the external auditor once a year, if required.
- iv. Monitoring the effectiveness of relationships between the external and internal auditors to ensure that the combined value of the two audit processes is maximised.

5.1.9 Ensure the organisation actively promotes the value of the audit process by:

- i. Providing effective and objective scrutiny of the Council's governance arrangements, that are relevant to the committee's remit.
- ii. Reviewing and commenting on any issue referred to it by the Chief Executive, a Director, or Cabinet Member or by any Herefordshire Council body.
- iii. Reviewing and making recommendations on any proposed amendments to the Council's code of corporate governance, financial procedure rules, contract and procurement procedure rules, scheme of delegation, budget policy, procedure rules or governance arrangements.

5.1.10 Review the financial statements, external auditor's opinion and reports to members, and oversee management action in response to the issues raised by external audit by:

- i. Receive biannual forecasts of revenue and capital outturn, satisfying itself that appropriate and timely measures are in place to ensure compliance with paragraph 11 of the Council's Financial Procedure Rules.

- ii. Reviewing and approving the annual statement of accounts, commenting where appropriate on any issues that need to be brought to the attention of the Council.
- iii. Reviewing and approving the annual letter of representation.
- iv. Receiving the external auditor's annual governance letter and commenting on the management response to any recommendations made.

5.1.11 Other matters not covered by CIPFA's latest best practice guidance for audit committees:

- i. The Committee's meetings shall follow the principles of scrutiny i.e. no party whip shall be applied and a constructive, evidence based approach will be used.
- ii. The Committee shall ensure that it's members receive adequate training on the areas covered by the Terms of Reference.
- iii. The Committee's members will ensure that any sensitive or confidential information obtained as a result of membership of the Committee is treated as such.
- iv. The Committee shall receive assurance from the Chief Internal Auditor that officers are complying with the Council's procurement policy and processes in all respects.
- v. The Committee shall comment on the scope, depth and value for money of external audit.
- vi. In consultation with the Section 151 Officer, the Committee shall call for reviews/reports where the committee has identified significant gaps in the Council's internal control and

governance processes, and develop the scope of these reviews with the Chief Internal Auditor.

- vii. The Committee shall review their effectiveness and Terms of Reference on an annual basis.
- viii. The Committee shall monitor progress in developing joint internal audit arrangements on matters of mutual or shared interest with the Primary Care Trust.
- ix. The Committee will contribute to the Council's programme of improvement in the standards of accuracy, clarity, comprehensiveness and conciseness in the Council's documentation.

AUDIT PLAN 2009/10

Report By: Chief Internal Auditor

Wards Affected

County Wide

Purpose

To present the 2009/10 Audit Plan to the Audit and Corporate Governance Committee.

Financial Implications

None identified.

RECOMMENDATION

THAT Subject to any comments from the Audit and Corporate Governance Committee the Audit Plan for 2009/10 is adopted.

Reasons

Preparation and adoption of the Audit Plan represents best practice as required by the CIPFA Code of Practice for Internal Audit In Local Government and is an integral part of the Council's Internal Controls procedures under the Use of Resources assessment for 2009.

Considerations

1. The Accounts and Audit Regulations 2003 (as amended) established that a relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practice. The guidance accompanying the legislation states that, for principal local authorities, proper internal control practice for internal audit are those contained within the CIPFA code.
2. Herefordshire Council also has an obligation to include in its Statement of Accounts an Annual Governance Statement. The work of Audit Services is one of the assurance elements for this statement.
3. In addition, the work of Audit Services forms a significant part of the Council ensuring it meets its obligations under the Accounts and Audit Regulations and the Use of Resources assessment.
4. The Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) states that "The Head of Internal Audit should prepare a risk-based audit plan designed to implement the audit strategy. In preparing the

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

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plan, the Head of Internal Audit should take account of the adequacy and outcomes of the organisation's risk management, performance management and other assurance processes”.

5. The approach to preparing the Annual Audit Plan is fundamentally based upon the Council's Risk Strategy and covers risk assessments in the following areas:
 - (a) Financial standards, which will cover the Council's fundamental systems.
 - (b) Non-fundamental systems.
 - (c) Corporate governance arrangements to include anti-fraud activity.
 - (d) Other key systems.
 - (e) ICT protocols and controls (Council-wide).
 - (f) Establishment visits.
 - (g) Verification and probity audits.
 - (h) Results of recommendations follow-up.
 - (i) Performance Management.
6. Each area is assessed for potential risks and classified as a high, medium, or low risk. In addition, within each risk area, consideration is also given to residual risk for specific functions, or establishments, based upon past Audit opinion and current knowledge including a review of Risk Registers at Corporate and Directorate level.
7. A key part of the risk methodology is that fundamental systems are always high no matter what their previous audit opinion is, as these are critical systems whose failure could cause major disruption or loss of financial control to the Council. These systems are identified by an analysis of the Council's last published accounts and further identification of the information systems impacted upon.
8. The Code also states that “the plan should be fixed for a period of no longer than one year. The plan should outline the assignments to be carried out, their respective priorities and the estimated resources needed. The plan should differentiate between assurance and other work”.
9. All the work in the Audit Plan (Appendix 1 refers) is assurance work except for the following:
 - (a) Integrated Commissioning Directorate – Safeguarding 10 days.
 - (b) Integrated Commissioning Directorate – Service Review 20 days.
 - (c) Other key Systems – Shared Services Project 10 days.

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

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- (d) ICT Protocols and Controls - Herefordshire Connects 20 days.
 - (e) Performance Management - Quality Assurance Check 10 days.
10. In addition all the work within the current plan forms the basis for the Chief Internal Auditor to give an opinion on the Council's systems of internal control and is therefore deemed a priority; however preference will be given to fundamental system work due to the impact on the assurance work of the Audit Commission.
11. Links to the Council's Standing Orders and Financial Regulations, and scheme of delegation are evidenced by audit work set out below:
- (a) Establishment audits cover inventories, budget monitoring and control, procurement and contracts, purchasing and stock control, income, Insurance, voluntary funds and imprest accounts.
 - (b) Reviews at Directorate level cover compliance with Standing Orders for the Regulation of Contracts.
 - (c) A review of the Gifts and Hospitality Register; and receipt of written assurances from key managers including the Chief Executive and Directors.
 - (d) Fundamental reviews such as those covering Debtors, Asset Register, Treasury Management, Creditors, and Payroll also contribute.
 - (e) Reviews of delegation arrangements at Corporate and Directorate level.
12. Following the risk assessment, the base plan identified 1,893 days of resources compared to available resources of 1,824 days, a difference of some 69 days. To align available days with requirements the Shared Services Project (consultancy) was reduced by 10 days. In addition Herefordshire Connects (consultancy) was reduced by 30 days and the contingency by 29 days. The reductions are not viewed as affecting fundamental systems work.
13. The Council's improvement programme will be supported by the secondment of an Audit Manager to the programme.
14. With regards to Fundamental Systems the Audit Commission requirements for 2009/10 are currently being ascertained, and these will be reported to members when known. The Chief Internal Auditor will confer with the Director of Resources and then liaise with other Directors and Heads of Service to ensure that the requirements of the Audit Commission are met in full.
15. The plan also reflects continuing Audit Services involvement in supporting key corporate priorities such as the Performance Management Framework, Project Management, Risk Management, Local Area Agreements (LAA), Herefordshire Connects and the Public Service Trust.
16. Any revisions to the plan for 2009/10 will be reported to members.

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

17. Consultation has taken place with the Chief Executive, the Deputy Chief Executive and relevant Directors on the plan and their comments have been taken into account.

Risk Management

18. There is the risk that the Audit Plan is not completed. The key control measure will be monthly progress reports to the Director of Resources. Progress on the Audit plan will form part of the Interim Assurance Reports to the Audit and Corporate Governance Committee. If required temporary resources will be brought in to cover any vacancies if they arise.

BACKGROUND PAPERS

The Code of Practice for Internal Audit in Local Government in the United Kingdom (2006).

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2009-10**

AUDIT AREA	DAYS
a. FUNDAMENTALS	
Asset Register	25
Treasury Management	25
Cash and Deposit	25
Education FMS	25
Bank Reconciliation	25
Debtors	25
Creditors	25
FMS	30
Payroll (Corporate and Education)	50
Non - Domestic Rates	30
Council Tax	40
Housing Benefit- Processing	20
Housing Benefit- Investigations	10
Housing Benefit-Quality and Performance	10
Education Transport	25
Children Services- Early Years	25
Supporting People	25
Amey Contract	25
Total Fundamentals	465
b. NON-FUNDAMENTALS	
Deputy Chief Executive	
Agency Payments-Corporate	12
Contract review	10
Regeneration Directorate	
Payments to Bus Contractors	12
Section 106 Agreements	10
Loans for the Homeless	10
Community Grants and SLAs	10
Resources Directorate	
Anti Money Laundering	5
Children Services Directorate	
Pupil Numbers	15
Schools in Deficit	10
Sure Start	12
Environment and Culture Directorate	
Waste Contract Management-PFI	12
Penalty Charge Notice/Car Park Income	12
Integrated Commissioning Directorate	
Budget Monitoring and reporting	12
Safeguarding - Consultancy	10
Staff Training	2
Service Review- Consultancy	20
Joint working planning with PCT auditors	2
Impact of loss of Income - Consultancy	10
Total Non-Fundamental Systems	186

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2009-10**

AUDIT AREA	DAYS
c. GOVERNANCE AND ANTI-FRAUD	
Travel and Subsistence	15
Staff Register of Gifts	5
Telecoms	5
Staff Loans	10
Regeneration Developments	10
National Fraud Imitative	15
Antifraud Policy	5
Antifraud Awareness	10
Annual Governance Statement	20
Scheme of Delegation- Corporate	10
Scheme of Delegation – Children Services	10
Scheme of Delegation – Resources	10
Scheme of Delegation- Integrated Commissioning	10
Procurement and Contract Procedures – Environment and Culture	10
Procurement and Contract Procedures – Deputy Chief Executive	10
Procurement and Contract Procedures - Regeneration	10
Procurement and Contract Procedures – Integrated Commissioning	10
Ethical Governance Toolkit	10
Total Governance and Anti Fraud	185
d. OTHER KEY SYSTEMS	
Risk Management	20
Local Area Agreement	15
Use of Resources-Internal Control	5
Section 75 Agreements	15
Audit & Corporate Governance Committee	60
Recruitment and Selection	15
Staff Review and Development	20
Project Management	20
Managing Attendance	20
Annual Governance Statement	20
Herefordshire Public Services	10
Member Allowances/Register of Interests and Gifts	10
Partnership Arrangements (including SLAs)	20
CRB Checks	20
Shared Services Project - Consultancy	10
Total Other Key Systems	280
e. ICT PROTOCOLS AND CONTROLS (COUNCIL-WIDE)	
ISO 27001 Technical Compliance	10
ISO 27001 Physical Security	10
ISO 27001 3 rd Party Management	10
ISO 27001 Business Continuity	10
Herefordshire Connects - Consultancy	20
Revenues-IDOX	5
Revenues – Academy	5

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2009-10**

AUDIT AREA	DAYS
MVM and Planning	5
Access Control (Council Tax, Housing Benefit, Non-Domestic Rates)	5
Home Point	5
E Pop Cedar E Purchasing System	5
Access Controls (Payroll, Creditors, Cedar)	5
Security Arrangements-Remote Sites	10
Frameworkki System	10
Personal Budgets	5
ContactPoint	20
Total ICT Protocols and Controls Council-Wide	140
f. ESTABLISHMENT VISITS	
Secondary Schools Toolkit Follow up	10
Primary Schools Toolkit (30)	300
Total Establishments Visits	310
g. VERIFICATION AND PROBITY	
Diversity Standard	10
Inventory Checks	10
Good Environmental Management(GEM)	10
Total Verification and Probity	30
h. RECOMMENDATION FOLLOW UP	
Payment to Independent Providers	4
Post Opening	2
National Fraud Initiative	2
Total Recommendation Follow Up	8
i. PERFORMANCE MANAGEMENT	
Performance Management	20
Performance Indicators (to be identified)	40
Quality Assurance Check- Consultancy	10
Total Performance Management	70
Total Contingency	150
TOTAL PLANNED DAYS	1,824

AUDIT STRATEGY 2009/10**Report By: Chief Internal Auditor****Wards Affected**

County-wide.

Purpose

1. To present the 2009/10 Audit Strategy for approval by the Audit and Corporate Governance Committee.

Financial Implications

2. None identified.

RECOMMENDATION

THAT: Subject to any comments from the Audit and Corporate Governance Committee, the Audit Strategy for 2009/10 be approved.

Reasons

3. Adoption of an Audit Strategy represents best practice as required by the CIPFA Code of Practice for Internal Audit in Local Government (2006) and is an integral part of the Council's internal control arrangements under the Use of Resources 2009 assessment.

Considerations

4. The Audit Strategy is a high level statement showing how Audit Services will be delivered and developed in accordance with the previously agreed terms of reference.
5. It is normal practice for the Audit Strategy to be reviewed annually by the Audit and Corporate Governance Committee.
6. The Strategy for 2008/09 was reviewed and adopted in April 2008.
7. The 2009/10 Audit Strategy (Appendix 1 refers) covers:
 - (a) Audit Services objectives and outcomes.

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

- (b) Resilience of the Audit Opinion.
- (c) Identification of significant issues and risks.
- (d) Provision of the service.
- (e) Resources and skills.
- (f) Internal Control Audit Opinion Matrix.

Risk Management

- 8. If the Audit Strategy is not reviewed and adopted there is the risk of non-compliance with the CIPFA Code of Practice for Internal Audit in Local Government (2006). There would be an adverse impact on the Council's Use of Resources score.

Appendices

- 9. Appendix 1 – 2009/10 Audit Strategy.
- 10. Appendix 2- Audit Charter

Background Papers

The Code of Practice for Internal Audit in Local Government in the United Kingdom (2006).

AUDIT SERVICE STRATEGY 2009/10

Introduction

1. The Code of Practice for Internal Audit in Local Government (2006) requires the Chief Internal Auditor to produce an Audit Strategy, which is a high level statement of how the internal audit service will be delivered and developed in accordance with its terms of reference and how it links to the organisational objectives and priorities.

Objectives and Outcomes

2. The terms of reference for Audit Service are very comprehensive and are set out in the Audit Charter previously approved by the Audit Committee on 4th April 2008.
3. Audit Service outcomes are linked to the Council's objectives, as evidenced within the Audit Services' Service Plan for 2009-2012. The Plan also highlights the service performance indicators which will be monitored as part of the Council's Performance Management Framework.

Resilience of the Audit Opinion

4. The audit opinion on the Council's systems of internal control will be based on a review of the following:
 - (a) Financial standards, which will cover the Council's fundamental systems.
 - (b) Non-fundamental systems.
 - (c) Corporate governance arrangements to include anti-fraud activity.
 - (d) Other key systems.
 - (e) ICT protocols and controls (Council-wide).
 - (f) Establishment visits.
 - (g) Verification and probity audits.
 - (h) Corporate issues as they arise.
 - (i) Level of recommendations agreed for action by management.
 - (j) Results of recommendations follow-up.
 - (k) Performance management.
5. An audit opinion will be given to each audit review, which will inform the Chief Internal Auditor's overall opinion on the Council's system of internal control (paragraph 17 refers).
6. Regular Interim Assurance reports will be presented to the Audit and Corporate Governance Committee, with the Annual Assurance report presented in the June following the financial year to which it relates.

Identification of Significant Issues and Risks

7. The Chief Internal Auditor will use the Council's risk management framework to identify key audit risks. This will be supplemented by a review of Cabinet agenda, the Corporate Plan the Herefordshire Public Service Assurance framework, corporate and directorate risk registers.
8. The Chief Internal Auditor will carry out an annual assessment of the need to review all key financial systems.
9. The Chief Internal Auditor will review all high-risk financial systems each year and other systems on a cyclical basis.

Provision of the Services

10. The service is provided by an in-house team and supplemented by an external computer auditor.
11. Computer audit training and development will continue to be a key training area for all audit staff and with other training will ensure that Audit Service staff provide a comprehensive audit service to the Council.
12. Joint working arrangements with the Herefordshire Primary Care Trust will continue to be developed and progress reported to the Audit and Corporate Governance Committee.
13. The service now has a full complement of staff, with a broad range of skills and audit experience.
14. The Audit Commission carries out limited assurance work, relying mainly on the work of the Audit Service.

Resources and Skills

15. Following the completion of the risk based audit plan, any differences between the plan and resources available will be identified and reported to members as appropriate. The Audit and Corporate Governance Committee will also be informed of audits removed from the plan to align the risk based plan to audit resources available.
16. Each audit assignment will be given a complexity rating and the auditor chosen to complete the assignment will have the required skills as set out in the CIPFA Good Practice Guide to Skills and Competencies. In addition, full managerial support will be given during all audit assignments.

17. Internal Control Audit Opinion Matrix

		Overall Opinion	Maximum % Weighting
(a)	Financial standards, which will cover the Council's fundamental systems.		25
(b)	Non-fundamental systems.		5
(c)	Corporate governance arrangements to include anti-fraud activity.		15
(d)	Other key systems.		15
(e)	ICT protocols and controls (Council –wide)		12
(f)	Establishment visits.		2
(g)	Verification and probity audits.		2
(h)	Other corporate issues as they arise to include external inspections.		3
(i)	Level of recommendations agreed for action by management.		1
(j)	Results of recommendations follow up.		10
(k)	Performance Management.		10
			100

Key		
	Good	85 to 100
	Satisfactory	65 to 84
	Marginal	51 to 64
	Unsatisfactory	31 to 50
	Unsound	1 to 30

AUDIT SERVICES CHARTER

Introduction

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

Statutory Background

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

The Nature of Audit Services

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

Audit and Corporate Governance Committee

4. To facilitate the work of the Audit and Corporate Governance Committee the Chief Internal Auditor will:
 - 4.1 Attend its meetings and contribute to setting the agenda.
 - 4.2 Ensure that it considers its own remit and effectiveness.
 - 4.3 Ensure that it receives, and understands, documents that describe how internal audit will fulfil its objectives (e.g. the audit strategy, annual work programmes, progress reports).
 - 4.4 Report the outcomes of internal audit work in sufficient detail to allow the Committee to understand what assurance it can take from that work and/or what unresolved risks to issues it needs to address.
 - 4.5 Establish if anything arising from the work of the Committee requires consideration of changes to internal audit's programme, and vice versa.
 - 4.6 Present an Annual Assurance report including an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.

AUDIT SERVICES CHARTER**Internal Controls**

5. This is the whole system of controls, both financial and otherwise, established by the Council in order to provide reasonable assurance that:
 - 5.1 Business risks are identified, assessed and managed effectively.
 - 5.2 Operations are effective and efficient.
 - 5.3 There are sound systems of internal financial control.
 - 5.4 There is compliance with laws and regulations.
 - 5.5 Assets are safeguarded from unauthorised use.
 - 5.6 Proper accounting records are maintained and the financial information used for business purposes or for publication is reliable.

The Role of Audit Services

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

Values of Audit Services

7. The Council expects the Audit Services Team to carry out their function in accordance with the following operational values:
 - 7.1 Demonstrating integrity in all aspects of their work.
 - 7.2 Impartiality in discharging all responsibilities, and not allow bias, prejudice or undue influence to limit or override objectivity.
 - 7.3 Applying knowledge, skills and experience to their work, seeking additional advice and support where necessary to ensure work is carried out competently.
 - 7.4 Safeguarding all information received and ensuring no unauthorised disclosure of information unless there is a legal or professional requirement to do so.
 - 7.5 Being client focused at all times.
 - 7.6 Offering constructive comments and practical solutions.

AUDIT SERVICES CHARTER

- 7.7 Being proactive in approach.
- 7.8 Adopting a professional attitude to all tasks.
- 7.9 Being responsive to requests for advice.

Aim of Audit Services

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

Functions of Audit Services

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

AUDIT SERVICES CHARTER

- 9.10 Carry out any ad hoc appraisals, inspections, investigations, examinations or reviews requested by senior management or the political executive.
- 9.11 Act as the liaison with the Council's external auditors and coordinate audit effort with the Audit Commission in order to avoid duplication of effort and increase audit coverage.
- 9.12 Develop a shared audit protocol with colleagues in partner organisations in order to avoid duplication of effort and maximise internal audit coverage.
- 9.13 Maintain technical competence through continuing education and active participation in professional activities.
- 9.14 Adhere to the code of ethics, standards and guidelines of the relevant professional institutes and the Auditing Practices Board.
- 9.15 Utilize the resources designated for use by the Audit Services Team to maximise the efficiency and effectiveness of the internal audit function.
- 9.16 Serve on internal working groups as appointed by senior management.

Independence of Audit Services

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

Authority of Audit Services

- 12. This Charter and the Council's Standing Orders and Financial Regulations confirm the authority conferred on the Audit Services Team by the Council.
- 13. The Chief Internal Auditor and the Audit Services Team have the authority to:
 - 13.1 Decide on the nature, scope and timing of audits.
 - 13.2 Access all records, documents and correspondence relating to any financial and other transactions of the Council.
 - 13.3 Enter any of the Council's premises.

AUDIT SERVICES CHARTER

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

Scope of Audit Services

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

Audit Protocol

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

AUDIT SERVICES CHARTER

- 17.6 Agreed amendments to the draft report will be reflected in the final report along with the nominated service manager's response to the recommendations. Final copies of the report will be distributed as appropriate.
- 17.7 The Head of Service is responsible for making sure that the action plan included in the audit report is implemented.

The Audit Plan

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

Audit Reporting

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

Audit Standards

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

Deterring and Detecting Fraud

22. Managing the risk of Fraud and Corruption and the deterrence of fraud is a responsibility of management. The Audit Services Team is responsible for examining and evaluating the adequacy and effectiveness of actions taken by management to fulfil this obligation.
23. The Audit Services Team shall be trained to recognise the potential indicators of fraudulent activity. If sufficient control weaknesses are detected, the Audit Services Team will carry out additional tests in order to confirm or otherwise an acceptable level of propriety and probity.
24. The Audit Services Team will not and cannot, however, be as skilled in the detection of fraud as individuals whose sole purpose is to detect and investigate fraud – the remit of the internal audit function is much wider than prevention of fraud as set out in this Charter. Service managers must also be clear that auditing procedures alone, no matter how professionally they are carried out, cannot guarantee that fraud will be detected.

AUDIT SERVICES CHARTER

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

March 2009

FOURTH INTERIM AUDIT ASSURANCE REPORT 2008/09

Report By: Chief Internal Auditor

Wards affected

1. County-wide.

Purpose

2. This report provides the Committee with an update on progress in making the planned improvements to the internal control environment and progress with the Annual Audit Plan for 2008/09.

Financial Implications

3. None.

Recommendation

THAT (a) Subject to any comments by the Audit & Corporate Governance Committee, the report is noted.

Reasons

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

Considerations

Key Issues Identified in 2007/08

5. The Audit & Corporate Governance Committee reviewed and approved the Annual Governance Statement for 2007/08 (AGS) on 20 June 2008. The AGS identified the key governance and internal control issues that needed addressing in 2008/09. These issues are set out in the table that follows with commentary provided by the responsible officer on progress to date.

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress
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) Assistant Chief Executive (HR)	This review is being jointly co-ordinated by the Democratic Services Manager and the Head of the Chief Executive's Office. External, expert constitutional governance support is being secured to enable the review to be completed during Spring 2009 in order to propose the adoption of a revised constitution at Annual Council in May 2009. Progress implementing the remaining actions from the Director of Resources' special report and the Crookall review are reported to Cabinet as part of the bi-monthly Integrated Corporate Performance Report.

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress
Produce the Corporate Plan for 2010 – 2013 in accordance with the agreed timetable.	Deputy Chief Executive	Being actioned by the Head of Policy & Performance through the Performance Improvement Framework and in accordance with the Comprehensive Area Assessment action plan, both agreed by Cabinet. See box below.
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	The Joint Management Team agreed the process by which The Corporate Plan 2008-2011 and the medium Term Financial Management Strategy 2008-2011 was updated in an integrated way on 8 September 2008.
Review the Code of Governance in line with the approved governance framework.	Assistant Chief Executive (Legal & Democratic)	Council approved a Code of Governance on 31 October 2008.
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	Training sessions for both councillors and employees have been taking place and are scheduled into the future. Over 200 employees with financial management responsibilities have now attended the in-house financial management training course appropriate to their specific responsibilities in order to obtain their 'licence to practice'.
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	Being actioned by the Joint Management Team through the Performance Improvement Framework agreed by Cabinet.
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)	Joint Management Team considered the draft Integrated Corporate Performance Report being presented to Cabinet and Strategic Monitoring Committee in November 2008. This report incorporates the risk assurance framework and it was recognised that further work was needed to ensure it reflected key council risks accurately. This will be carried out for the next quarterly reporting cycle.
Continue to promote the Council's anti fraud, anti corruption and whistle-blowing policies, keeping them under regular review	Assistant Chief Executive (Legal & Democratic) Director of Resources	The Council's whistle-blowing policy has been reviewed and an associated 'Do the right thing' leaflet has been distributed to staff. The anti fraud policy is due for review in March 2009. It is intended that a joint policy is developed with the PCT. These policies are also brought to the attention of staff through notices on pay slips and notice boards. In addition, creditor remittance slips inform all recipients of the Council's whistleblowing policy.
Continue to promote the Council's adopted approach to managing major programmes and projects.	Deputy Chief Executive	Approval by Cabinet of the Herefordshire Connects procurement policy has been supported by the extension of Prince 2 project management good practice,

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress
		resources and training for projects managed or supported by the Corporate Programmes and Herefordshire Connects teams.
Continue to develop the Council's community engagement arrangements including strategic consultation on corporate objectives, priorities and budget allocations.	Deputy Chief Executive Director of Resources	The Joint Management Team agreed proposals for public consultation on strategic budget options on 8 September 2008. These proposals were agreed with the Executive. Feedback from the consultation exercise is due in early December and will be used to inform decisions on budget setting for 2009/10 and following years. A Member seminar will be held in early 2009.

6. The Audit Commission made two recommendations in their Annual Governance Report for 2007/08 that the Committee considered on 25 September 2008.
7. The first recommendation related to the system used during the 2007/08 financial year for paying nursing homes. The Audit & Corporate Governance Committee was advised on 25 September 2008 that the issues identified by the Audit Commission in respect of this system had already been addressed and resolved.
8. The second recommendation related to the pooled budget arrangements between the Council and PCT for certain health and social care services. The Committee received a report at its meeting of 21st November 2008 expanding on the management response and proposed action plan to address the issues raised by the Audit Commission. The Audit Commission has invited the council and PCT to take part in a national study of joint financing arrangements. This invitation has been accepted by the Director of Integrated Commissioning.

Audit & Corporate Governance Resolutions & Recommendations

9. The first interim assurance report for 2008/09 presented to the Committee on 25 September 2008 listed the 65 separate resolutions and recommendations made by the Committee from May 2007 to June 2008. Currently there are 9 open and ongoing items (Appendix 1 refers).
10. Appendix 2 to this report identifies the resolutions and recommendations made by the Committee at its last four meetings (3rd July 2008, 25th September 2008, 21st November 2008 and 23 January 2009), the progress made by the relevant officer and the current status – i.e. closed or open and ongoing. Currently there are 6 open and ongoing.

Progress with the Internal Audit Plan 2008/09

11. The annual Internal Audit Plan for 2008/09 was approved by the Audit & Corporate Governance Committee on 4 April 2008. The current status of work is set out in Appendix 3.
12. Following the restructure of the Audit Services team, appointments have now been made to all vacant posts, and all appointed staff are now in post. Agency staff are being used to ensure that past vacancies do not impact adversely on the delivery of the annual Internal Audit Plan for 2008/09.

Fundamental systems

13. The Council's target is that all fundamental systems achieve at least a satisfactory audit opinion. Work in this area is in progress with eight reviews complete and the remainder at different stages on the audit cycle (Appendix 3 refers). It is pleasing to note that of the seven reviews completed one was given a **good** audit opinion and six given a **satisfactory** audit opinion.
14. The Audit and Corporate Governance Committee will be kept informed of future progress.

ICT Protocols and Controls

15. Work on reviewing the council's ISO27001 arrangements is ongoing and the current findings can be summarised as follows:
 - **Risk Treatment-** Actions arising from documented risks were continuing to be progressed since the last audit, however improvement in the processes to manage the open risks and to identify new risks is required;
 - **Physical Security-** It was noted that controls were in place and that security is considered on an ongoing basis, however non –conformances were raised that would further improve physical security arrangements.
 - **Team Compliance-** Controls are in place and security is formally considered during all upgrades and system replacements. There is a good level of monitoring, with monthly checks being carried out; with formal investigations into incidents. However, improvements were needed in the review and update to existing Business Impact Assessment, Business Continuity Plans and Change Control.
16. The Committee will be kept informed on progress.
17. The governance arrangements for the Integrated Social Care System (ISCS) – the Corelogic Framework application - have been reviewed with no significant issues to report. Appropriate user training, system testing and data cleansing has been completed and the system went live on 10 November 2008.
18. The review covering Computer systems, data, applications and skills in Children's Services and ICT Services is complete; audit recommendations have been made to help facilitate discussions between both parties.

Performance Management

19. The audit review of ten performance indicators has been completed and it is pleasing to report that there has been an improvement in the approach taken by service managers. Six were given a **good** audit opinion and four a **satisfactory** audit opinion.

Establishment Audits

20. Work to assess the financial management arrangements within primary schools in line with the Department for Children, Schools and Families (DCSF) Standard is in progress. At the present time fourteen primary schools have met the

standard. The Audit Services team continues to work with schools to ensure that they meet their target of achieving the DCSF standard.

Audit Opinions

21. The Payment to Independent Providers Audit review was given an **unsatisfactory** audit opinion. In line with paragraph 4.18 of the Council's Financial Regulation Rules, the Chief Internal Auditor provided the Leader, the Chair of the Audit & Corporate Governance Committee and the Cabinet Member Social Care Adults with a copy of the report. There is an agreed action plan, Audit Services will carry out a follow up review and report progress to the Leader, the Audit and Corporate Governance Committee and the Cabinet Member Social Care Adults.
22. In addition, paragraph 4.19 of the Council's Financial Procedure Rules requires the Chief Internal Auditor to provide the Leader, the Chair of the Audit & Corporate Governance Committee and the relevant Cabinet Member(s) with written confirmation of audit review reports with a satisfactory or good audit opinion.
23. Appendix 3 shows the current status of work carried out by the Audit Services team, with final audits showing an audit opinion. In line with the Council's Financial Procedure Rules, relevant members have been informed regarding the audit opinions.

Management Acceptance of Internal Audit Recommendations 2007/08

24. The Audit & Corporate Governance Committee received a report at its last meeting that analysed the internal audit recommendations made in 2007/08. The Committee noted that all but 7 of the 648 recommendations made by the Audit Services team in the year had been accepted. The Vice Chair of the Committee took the view that 4 of the 7 recommendations not accepted should stand. The Committee asked the Chair and Vice Chair of the Committee to meet with the Director of Resources and the Chief Internal Auditor and report on their findings with respect to those 4 recommendations.
25. The first of the 4 recommendations examined by the Chair and Vice Chair of the Committee with the Director of Resources and Chief Internal Auditor related to an audit review of the asset register created for final accounts purposes. A query arose about the arrangements for maintaining inventories of plant and equipment that are regarded as de minimus for asset accounting purposes. It was agreed that a separate audit review of directorate management arrangements for complying with the Council's Financial Procedure Rules for maintaining inventories will be carried out. This approach closes this particular item.
26. The remaining 3 recommendations were all level 2 recommendations (medium risk) and related to an audit review of contract letting and monitoring arrangements before the Council's Contract Procedure Rules were revised. The audit review identified that a tender invitation panel did not consist of the minimum recommended number of officers (three) in one of the contract letting exercises examined. The Audit Services team found difficulty in obtaining the

documentary evidence the relevant officer said was available in respect of another contract letting exercise. In addition, the documentation available for this contract letting exercise did not contain a statement indicating management acceptance or rejection of specialist advice.

27. The Chief Internal Auditor has discussed these points with the relevant officers since the meeting held with the Chair and Vice Chair of the Committee and the Director of Resources. The officers' attention has been drawn to the need to comply with all internal audit recommendations or agree an alternative way of managing the identified risk with the Chief Internal Auditor and that the Audit & Corporate Governance Committee is monitoring the situation closely. The Chief Internal Auditor has also reminded the officers concerned of the need to comply in full with the Council's new Contract Procedure Rules and Financial Procedure Rules, not just those elements relating to tender invitation panels, providing documentation requested by the Chief Internal Auditor to support planned audit review activity and maintaining appropriate records. The relevant officers have taken these matters on board. In addition, the Chief Internal Auditor has liaised with the Communications Team and an appropriate message has been sent to all employees through established employee communication channels (First Press) about the importance of complying with the Council's agreed policies and procedures.

Management Acceptance of Internal Audit Recommendations 2008/09

28. The following table summaries the number of recommendations made by Audit Services to date in 2008/09 and those accepted by management.

Management Acceptance of Internal Audit Recommendations 2008/09						
Audit Area	Level 1		Level 2		Total	
	Made	Accepted	Made	Accepted	Made	Accepted
Fundamentals	15	15	53	53	68	68
Governance and anti fraud	4	4	3	3	7	7
Other key systems	2	2	12	12	14	14
ICT protocols and Controls	24	24	2	2	26	26
Establishment Audits	10	10	63	61	73	71
Recommendation Follow up	0	0	4	4	4	4
Performance Management	0	0	8	8	8	8
TOTAL	55	55	145	143	200	198

29. Management has accepted 99% of recommendations which compares favourably with the target of 95%.
30. The two unaccepted recommendations relate to an establishment audit of a primary school. These were level 2 recommendations (medium risk) and the Chief Internal Auditor has agreed an alternative way of managing the risk identified with the client.
31. Under current reporting protocols, the Chief Internal Auditor has to bring to the attention of the Audit & Corporate Governance Committee 'Critical 1' recommendations. These are recommendations where non-compliance will be a high risk to the Council and where action is required urgently or within an agreed timescale.
32. At the present time there has been one 'Critical 1' recommendation made, this related to the Payment to Independent Providers Review in relation to assurances regarding receipt of income from client contributions.
A comprehensive reconciliation should be undertaken between the values of client contribution assessments recorded on the ISIS system to the corresponding value of invoices raised in CEDAR.
33. The reconciliation is in progress and the Chief Internal Auditor has met with relevant managers and agreed the approach following completion of the initial reconciliation work.

Recommendation Follow-Up Work

34. The Audit Services team continues to monitor implementation of internal audit recommendations made in 2007/08.
35. Recommendation follow up work can be summarised as follows;

Recommendations made	46
Completed	35
Open and ongoing	11

Areas of concern

36. There are no areas of concern.

Risk Management

37. There is a risk that the level of work required to give an opinion on the Council's systems of Internal Control is not achieved. The Director of Resources and the Chief Internal Auditor keep delivery of the annual Internal Audit Plan under continual review in order to mitigate this risk.

BACKGROUND PAPERS

- Code of Practice for Internal Audit 2006

APPENDIX 1

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
OPEN AND ONGOING ITEMS							
3	21 (i)	21/09/07	Special Report from the Director of Resources	Implementation of the recovery plan as detailed and attached to the Special Report is prioritised in line with the time table indicated within it	David Powell (Sonia Rees)	Progress has been regularly reported to the Audit & Corporate Governance Committee. Progress is now being reported to the Strategic Monitoring Committee and Cabinet as part of the Integrated Corporate Performance Reporting arrangements. The next update will be reported to Cabinet in February 2009.	Remains open and ongoing until Cabinet has agreed that the recovery plan has been fully implemented.
29	43	30/11/07	Revised Audit Plan 2007/08	A report be submitted to this Committee giving details on how the ISO 27001 in ICT will affect the Council.	Zack Pandor (Geoff Cole)	These issues have been incorporated into the ICT review being carried out by the Strategic Monitoring Committee. The Strategic Monitoring Committee received this report in November 2008. The Chief Internal Auditor has also addressed this issue within his Third Interim Assurance Report.	Remains open and ongoing until the Chief Internal Auditor has completed his review of the Council's ISO27001 arrangements and reported findings in line with agreed reporting protocols.

APPENDIX 1

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
39	49 (ii)	30/11/07	Update of Action in the Special Report – Governance Improvement Plan.	All future reports to this Committee to give details of risks, the service they relate to and the name of the officer who manages the risk.	Alan McLaughlin	The report template is being reviewed with the intention to introduce it in January 2009.	Remains open and ongoing until the review of report templates has been completed.
40	49 (iii)	30/11/07	Update of Action in the Special Report – Governance Improvement Plan.	The Strategic Monitoring Committee be requested to review the control of asset management process and procedure and actions which are taken against officers who do not adhere to these rules.	Zack Pandor (Geoff Cole)	Information still outstanding. The Chief Internal Auditor will take this issue up with the new Interim Deputy Chief Executive who will be taking up appointment at the end of the month.	Move to open and ongoing until the new Interim Deputy Chief Executive has had the opportunity to investigate and report back to the Audit & Corporate Governance Committee.
41	51 (i)	30/11/07	Updated Interim Assurance report 2007/08	A form of wording to be incorporated in the Financial Standing Orders to ensure that contract sums cannot be divided to be reduced below £50,000.	David Powell (Sonia Rees)	This was omitted for the review completed in March, 2008, but will be added to Financial Procedure Rules and Contract Procedure Rules of the	Remains open and ongoing until the next annual review of the Financial

APPENDIX 1

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
42	51 (ii)	30/11/07	Update of Action in the Special Report – Governance Improvement Plan.	An action plan be formulated regarding monies payable by Parish Councils when elections take place.	Alan McLaughlin	The Assistant Chief Executive (Legal & Democratic) confirms that there are no outstanding election contributions from parish councils and that he is currently reviewing arrangements for the future with HALC. <i>The Strategic Monitoring Committee has received a report on the action plan for Electoral Services at its meeting on the 17th November 2008. Meeting with HALC to be arranged for 12th January 2009 to discuss elections and fees. Further meetings to be arranged to monitor progress.</i>	Open and ongoing until confirmation has been provided that a new arrangement for recovering elections expenses from the parish councils is in place.
44	51 (iv)	30/11/07	Update of Action in the Special Report – Governance Improvement Plan.	The Head of the Economic and Community Service be instructed to review the Terms of Reference of the Drugs Forum Partnership in relation to its involvement in alcohol issues and report back to this Committee accordingly.	Natalia Silver	The Terms of Reference have been reviewed since November 2007 and a copy is available from the Herefordshire Community Safety & Drugs Partnership Manager.	Open and ongoing until the members of the Audit & Corporate Governance Committee have been provided with the information requested.

APPENDIX 1

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
47	56(i)	21/12/07	Update on Community Network Upgrade and Critical recommendations In Use of Contractors In ICT Services.	All Councillors be given half day awareness training on Prince 2 Project Management and also on the analysis of business cases.	Annie Faulder (Andrew Williams)	The Corporate Programmes Manager is liaising with the Assistant Chief Executive (Legal and Democratic) to schedule Prince 2 training for members within the priorities and budget for member training.	Remains open and ongoing until the training has been delivered. Item 61 refers.
61	76	29/2/08	Training for Members	Training in respect of Prince2 be delivered by external trainers.	Annie Faulder (Andrew Williams)	The Corporate Programmes Manager is liaising with the Assistant Chief Executive - Legal and Democratic to schedule Prince 2 training for members within the priorities and budget for member training.	Remains open and ongoing until the training has been delivered. Item 47 refers.

APPENDIX 2

**Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 23rd January 2009**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
OPEN AND ONGOING ITEMS							
67	105	03/07/08	Review of Code of Corporate Governance	The Audit & Corporate Governance Committee receives a report formally reviewing the Code of Corporate Governance at the meeting scheduled to be held on 20 March 2009.	Alan McLaughlin	Review not due until March 2009.	Open and ongoing.
71	113 (b)	25/09/08	Learning Disability Inspection Action Plan- Progress Report	The interim Director of Adult Social Care submits a report to the next meeting clarifying the points raised by Councillor Toon in (i) to (iii) above. [Reference to '(i) to (iii) above' in Minute 113 (b) relates to points in the preamble to the Minute.]	Dr. Ian Williams (Eleanor Brazil)		Closed Linked to Item 81 below
73	115 (a)	25/09/08	First Interim Assurance Report	The Committee should send out a clear message to all Directorates that failure of management not to adhere to the Council's procurement rules and procedures will not be tolerated.	Tony Ford	The Chief Internal Auditor has liaised with the Communications Team and an appropriate message has been sent to all employees through established employee communication channels (First Press dated 6 th January 2009) about the importance of complying with the Council's agreed policies and procedures.	Closed
78	115	25/09/08	First Interim Assurance Report	A report be submitted to the next meeting regarding the current position with regard	Tony Ford	In addition the Acting Director of Resources has requested that the	Open and on going

APPENDIX 2

**Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 23rd January 2009**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
	(f)		Assurance Report	to the handover of assets to Wyebridge Academy.		Resources has requested that the Chief Internal Auditor carry out a review of the whole process to ensure compliance with the Department for Children, Schools and Families (DCSF) guidelines and frameworks.	
79	121	21/11/08	Data Quality – Six month update	A revised Data Quality Action Plan with updated expectations be circulated to the Committee.	Tony Geeson		Open and ongoing
80	123	21/11/08	Planning Obligations Agreement	The Planning Monitoring officer attends the May 2009 meeting of the Committee.	Peter Yates		Open and ongoing
81	126	21/11/08	Second Interim Assurance Report 2008/09	Item 71 regarding Learning Disability Inspection and Action Plan on page 92 of the report be reopened and a report be submitted to the committee	Dr. Ian Williams	Report presented to the Audit and Corporate Governance Committee on 23 rd March 2009	Closed
82	131	23/01/09	Audit and Corporate Governance Committee Progress report	The Assistant Chief Executive Legal and Democratic to bring to the attention of the Strategic Monitoring Committee the Council's proposed new duty of greater responsibility for crime and disorder in line with the Policing Green Paper.	Alan McLaughlin		Open and ongoing
83	132	23/01/09	Use of Resources	The Acting Director of Resources submit a report to the next meeting of the Committee which details the recommendations contained in the Audit Commission's report together with the progress to date and the future actions to be taken on the recommendations.	David Powell		Open and ongoing

APPENDIX 2

**Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 23rd January 2009**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	STATUS
84	134	23/01/09	Draft Terms of Reference	Note: Reference value for money processes report. That the Chairman and Vice-Chairman to meet with the Chief Internal Auditor to discuss the proposed terms of reference in line with the suggested amendments in the preamble and that the amended version be submitted to the meeting of this Committee on 20 March.	Tony Ford	Updated revised draft. submitted to 20 th March 2009 meeting	Closed

STATUS OF AUDITS STARTED DURING 2008/09

Audit	Status	Audit Opinion
Fundamental Systems		
Payroll	Final	Satisfactory
Financial Management System - Education	Final	Satisfactory
Council Tax and NDR	Draft with Client	
Creditors	Final Draft	
Bank Reconciliation	Final	Good
Asset Register	Final	Satisfactory
Financial Management System – General Ledger	Final	Satisfactory
ICT Financial Management System	Final	Satisfactory
Cash and Deposits and Post	Final	Satisfactory
Treasury Management	Draft with Client	
Supporting People	Work in Progress	
Debtors	Work in Progress	
Housing Benefit - Processing	Work in Progress	
Housing Benefit – Quality and Performance	Work in Progress	
Housing Benefit - Investigations	Work in Progress	
Non Fundamental Systems		
Payments to Independent Providers	Final	Unsatisfactory
Cash Office/Post Opening	Final	Satisfactory
Instrumental Music	Work In progress	
Anti Money Laundering	Work In progress	
Governance and Anti Fraud		
Brockington Ramp	Final	n/a
Travel and Subsistence	Work in progress	
Scheme of Delegation - Corporate	Work in progress	
Staff Gift and Hospitality Register	Final	Satisfactory
Other Key Systems		
Members Register of Interests and Gifts	Final	Satisfactory
Risk Management	Draft with Audit Manger	
Section 75 Agreements	Work In progress	
ICT Protocols and Controls		
E-Pop Cedar E Purchasing	Final	Good
Access Controls	Final	Satisfactory
Review of Computer Systems, Data, Applications and Skills CYPD and ICT Services	Final	n/a
ISO 9001 Top level ICT Operation Procedures (QMS)	Final	Minor Non-compliance
ISO 27001 Risk Treatment (3358)	Final	Minor Non-compliance
ISO 27001 Team Compliance (3360)	Final	Minor Non-compliance

STATUS OF AUDITS STARTED DURING 2008/09

Audit	Status	Audit Opinion
ISO 27001 Physical Security (3359)	Final	Minor Non-compliance
ISO 27001 Third Party Management (3357)	Final	Full Compliance
ISIS system	Final	N/a
Access Controls Cedar	Draft with Manager	
Access Controls Payroll	Draft with Manager	
Access Controls Council Tax, Housing Benefit and Non Domestic Rates	Draft with Manager	
Performance Management		
Number of private sector dwellings returned into occupation (BVPI 64)	Final	Good
Speed of processing new claim to Housing Benefit/Council Tax Benefit. (BVPI 78a)	Final	Good
Speed of processing changes of circumstances to Housing Benefit/Council Tax Benefit. (BVPI 78b)	Final	Good
Accuracy of Housing Benefit/Council Tax Benefit (BVPI 79a)	Final	Good
Housing Waste Management (recycling) (BVPI 82a)	Draft with Client.	
Housing Waste Management (Composting) (BVPI 82b)	Draft with Client	
Pedestrian crossings with facilities for disabled people (BVPI 165)	Final	Satisfactory
Average length of Stay in Bed and Breakfast (BVPI 183a)	Final	Satisfactory
Average length of stay in Hostels (BVPI 183b)	Final	Good
Local street and environmental cleanliness (BVPI 199abc)	Final	Satisfactory
Repeat Homelessness (BVPI 214)	Final	Good
Housing Strategy Statistical Appendix (HSSA) 2008 – Vacant Dwellings	Final	Satisfactory
Schools Establishment Audits (DCSF Standard)		
Trinity Primary School	Final	FMSiS Met
Riverside Primary School	Draft with Client	
St. Thomas Cantilupe C.E Primary School	Final	FMSiS Met
Blackmarston Special School	Final	FMSiS Met
Ledbury Primary School	Final	FMSiS Met
St Mary's C.E Primary School	Final	FMSiS Met
Holmer C E. Primary School	Draft with Client	
Marlbrook Primary	Final	FMSiS Met
St. Paul's C.E. Primary School	Final	FMSiS Met
Lugwardine Primary School	Final	FMSiS Met
Weobley Primary School	Audit deferred	
St. Francis Xavier R.C. School	Final	FMSiS Met
Kingstone & Thruxton Primary School	Audit deferred	
Barrs Court Special School	Final	FMSiS Met
Hampton Dene Primary	Final	FMSiS Met
Madley Primary School	Final	FMSiS Met
Much Birch C. E. Primary School	Final	FMSiS Met
Orleton C. E. Primary School	Draft with Client	
Dilwyn Primary School	Final	FMSiS Met

STATUS OF AUDITS STARTED DURING 2008/09

Audit	Status	Audit Opinion
Broadlands Primary School	Work In progress	
The Minster - follow up	Final	FMSiS Met
Verification and Probity		
Local Area Agreement Grant	Final	n/a
Flood Grant Claim	Final	n/a
Whitecross High –School and Sports Co-ordinator Grant	Final	n/a
Minster College- School and Sports Co-ordinator Grant	Final	n/a
Local Public Service Agreement LPSA	Final	n/a
GEM - ISO 14001 – General Requirements, Environmental Policy and Planning	Final	Minor Non-compliance
GEM - ISO 14001 – Implementation and Operation	Final	Minor Non-compliance
GEM – ISO 14001 - Checking	Final	Minor Non-compliance
Recommendation Follow up		
Telephone Usage	Final	n/a
Use of ICT Contractors (no.1)	Final	n/a
ICT Petty Cash	Final	n/a
ICT FMS (no.1)	Final	n/a
Housing Performance Indicators	Final	n/a
Household Waste Management Performance Indicator	Final	n/a
Pedestrian Crossing Performance Indicator	Final	n/a
Street Cleanliness Performance Indicator	Final	n/a

Quantification and Classification of Internal Control Levels

System and Establishment Audits

Opinion	Definition
Good	A few minor recommendations (if any). No material risk identified.
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 higher weighting for budgetary control. It is expected that larger systems and establishments will receive higher numbers of recommendations and allowance is made for this.

STATUS OF AUDITS STARTED DURING 2008/09

Compliance Audits

Opinion	Definition
Full-Compliance	Areas reviewed met requirements
Minor Non-Compliance	Areas reviewed failed to meet requirements in some non-critical areas or opportunities for improvement were identified.
Major Non-Compliance	Areas reviewed failed to meet requirements in some critical areas

Many audits are tests of whether a standard or part of a standard has been met. Examples are GEM audits and ISO27001. Majority of compliance audits will find minor compliance.

DCSF FMSiS Standard - Toolkit Assessments

Opinion	Definition
FMSiS Met	The Standard has been met
FMSiS Awaiting SIC	The Standard will be met when the Statement of Internal Control has been signed by the Head Teacher and Chair of Governors.
FMSiS Conditional	The Standard is expected to be met in the short term
FMSiS Not Met	The Standard is not expected to be met in the short term

Schools are expected to reach a standard of financial management (FMSiS - Financial Management in Schools). The assessment reaches a conclusion of meeting the standard or not. In addition, the DCFS allow a conditional pass that means a small number of issues need addressing before a pass is issued. This is the normal status before a full pass is confirmed.

“Awaiting SIC” - Some schools wait until the assessment is finished before signing the SIC. This is sensible and any schools in this status will be given a pass shortly.

Deputy Chief Executive's Office
Annie Faulder (Interim)

**TO: ALL MEMBERS OF THE AUDIT AND
CORPORATE GOVERNANCE COMMITTEE**

Your Ref:
Our Ref: DS/PR
Please ask for: Paul Rogers
Direct Line / Extension: 01432 383408
Fax:
E-mail: progers@herefordshire.gov.uk

16th March, 2009

Dear Member,

AUDIT AND CORPORATE GOVERNANCE COMMITTEE MEETING 20 MARCH 2009

The Chairman is of the opinion that the following item is urgent, in accordance with Standing Order No. 5.8.3, to enable the Committee to consider and make recommendations to Cabinet in April.

Urgent Item

ANNUAL AUDIT AND INSPECTION LETTER

To receive the Annual Audit and Inspection letter produced by the Audit Commission and make comments to Cabinet as necessary.

Yours sincerely,

**PAUL ROGERS
DEMOCRATIC SERVICES OFFICER
ASSISTANT CHIEF EXECUTIVE'S OFFICE
LEGAL AND DEMOCRATIC**

**COPY TO ALL RECIPIENTS OF THE AUDIT AND CORPORATE GOVERNANCE COMMITTEE
AGENDA**



Annual Audit and Inspection Letter

Herefordshire Council

Audit 2007/08

February 2009



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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.

Summary

Key messages

- 1** Herefordshire Council is improving well. Performance has improved in most priority areas. Good outcomes are being secured for children although assessments for social care and reviews of child protection are slower than average. Exam results and safeguarding of vulnerable children have improved. Most areas of adult social care have improved steadily with waiting times for assessments reduced and more people helped to live at home. The Rother was access road is a springboard for future development although a slowdown in progressing planning applications weakens regeneration efficiency. More waste is recycled and composted but waste collection and disposal costs continue to increase. Housing demand is rising. Responses to this are developing. The Council contributes positively to community outcomes and works well in partnership to reduce crime and engage diverse communities. Services are more accessible. Use of resources has improved although measuring and reporting value for money is inconsistent. Plans are clear and capacity to deliver them is good. Delivery of outcomes for the public is strengthened by the innovative Council and Primary Care Trust joint management structure. Response to previous governance failings in ICT is good.
- 2** We gave an unqualified opinion on the accounts. The quality of the statement of accounts and working papers was very good.
- 3** For Use of Resources (an assessment of financial management), the Authority has been assessed as performing well, an improvement from the previous year. Of the five themes included in the assessment, one (financial reporting) was assessed as strong, two (financial standing and financial management) were assessed as performing well and two (value for money and internal control) were assessed as adequate. We also concluded that the Council's financial position remains sound.
- 4** The future delivery of waste management within the County continues to be uncertain. There has been considerable commitment and effort in the last year to try to come to a solution which will reduce the amount of waste going to landfill. Progress has included the establishment of governance and project management arrangements to help drive the development of waste treatment facilities. However a solution is yet to be agreed and as a result there continues to be a risk of contract termination.
- 5** The Council has responded well to our previous recommendations regarding the IT transformation programme, Herefordshire Connects. The key issues now for the Council are to ensure that processes are put in place to drive out the expected benefits, including financial savings, and that the relationship with the Council's strategic partners is managed effectively
- 6** The arrangements for ensuring data quality were again assessed as adequate. The Authority is now demonstrating a much stronger commitment to securing and using quality data.

- 7** Partners in the Safer Roads Partnership (of which the Authority is the lead member) are committed to working together to improve road safety in the area. But the transition from the earlier successful safety camera partnership has been slow and is still incomplete. The Partnership does not use the information available to identify the best approach to improving road safety.

Recommendations	
R1	Ensure that the developing joint management arrangements between the Council and PCT result in the setting and monitoring of shared targets that clearly state the improved outcomes that local people can expect to experience as a result of the closer working of the two organisations.
R2	Ensure that responses being developed to address delays in carrying out timely assessments for children's social care are effective and sustainable.
R3	Monitor the Safer Road Partnership's response to the recommendations from our recent assessment.
R4	Continue to actively pursue a satisfactory conclusion to waste management as soon as possible.
R5	Ensure that processes are put in place to drive out the expected benefits of Herefordshire Connects, including financial savings.

Purpose, responsibilities and scope

- 8 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council for 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter. We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 9 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition, the Council is planning to publish it on its website.
- 10 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, your appointed auditor reviews and reports on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 11 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 12 We have listed the reports issued to the Council relating to 2007/08 audit and inspection work at the end of this letter.

How is Herefordshire Council performing?

13 The Audit Commission’s overall judgement is that Herefordshire Council is improving well and we have classified the Council as two stars in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1 Overall performance of county councils in CPA



Source: Audit Commission

How is Herefordshire Council performing?

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	
Corporate assessment/capacity to improve	2 out of 4
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2007	3 out of 4
Current performance	
Children and young people*	2 out of 4
Social care (adults)*	2 out of 4
Use of resources*	3 out of 4
Housing	3 out of 4
Environment	3 out of 4
Culture	2 out of 4
Benefits	4 out of 4

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

What evidence is there of the Council improving outcomes?

14 Performance has improved in most priority areas. The Council's ranking in its benchmarking group has improved from 29 last year to 16. Over a three year period Herefordshire's performance remains in line with similar councils with 66 per cent of performance indicators improving over that period. This is within the average range for all single tier councils. However the rate of improvement across all services as measured by the Audit Commission basket of indicators in 2007/08 has slowed in comparison to last year. 61 per cent of all national performance indicators improved which is marginally below the average range for single tier councils. The number of performance indicators in the best quartile remains at 26 per cent, behind the national average. Overall use of resources has improved from 2 to 3. Resources are being targeted at priority and under performing services and some improvements are being made.

- 15** The Council's top priorities are linked to its corporate plan themes of Children and Young People; Health and Wellbeing; Older People; Economic development and enterprise; Safer and Stronger communities and organisational improvement and greater efficiency. The top priorities are: the best possible life for every child; safeguarding vulnerable children and improving educational attainment; reshaped adult health and social care, so that more older and other vulnerable people maintain control of their lives; the essential infrastructure for a successful economy enabling sustainable prosperity for all; affordable housing to meet the needs of local people and better services, quality of life and value for money particularly by working in partnership with the PCT and other local organisations.
- 16** Services for children are improving. OFSTED's overall annual performance rating remains at 'adequate'. Secondary school pupils are achieving well and performance continues to improve year on year. GCSE and Key Stage 2 results have improved and Key Stage 3 performance remains strong. Targeted work to improve key stage 1 performance is in place and work to reduce absence in secondary schools is being prioritised by the Education Welfare Service. Continued improvement has been made in safeguarding vulnerable children. Provision of placements for looked after children is good and further progress has been made in their GCSE pass rates. The Council remains in the best quartile for ensuring that care leavers are in education, employment or training. Adoptions of looked after children have risen from the worst to the best quartile. However work to improve timeliness of referrals and assessments and of reviews of the child protection register is ongoing and performance is still lower than average.
- 17** Major ongoing changes to the delivery of adult health and social care are beginning to deliver improvements for users and carers. The new Shop4Support scheme gives users the ability to directly choose and control their social care services. The Commission for Social Care Inspection (CSCI) rating for outcomes has remained as 'adequate' but with three outcome judgements improving from adequate to good. Changes to services to help older people and adults with mental health problems and with learning disabilities to live at home have led to slightly improved performance. Vulnerable people have greater access to support through the new mental health 'Just checking' service and the 'Roving night' service. Progress to help disabled adults live at home has improved over three years but performance dipped slightly over 2007/08. Recognising the need to transform residential provision for people with learning disabilities the Council has appointed a new service provider. More households are receiving home care (7.4 per thousand up from 6.4 in 2006/07) and the waiting times for assessment packages have reduced. Support for carers has improved with the establishment of the Carers' Hub and network. Provision of new care packages and of intensive home care for older people has also improved. New Community Warden schemes are providing additional support for isolated older people, helping them to remain in their own homes. Equipment to help people to retain their independence is delivered very quickly.

How is Herefordshire Council performing?

- 18** Progress has been made on developing the local economy. This was demonstrated by the Council's success in the Enterprising Britain Awards 2008. The opening of the Rotherwas access road has helped to create the infrastructure for future planned economic development and work to deliver the Edgar Street Grid project has progressed with the selection of a retail developer and a housing development partner. Performance on determining major planning applications has deteriorated in 2007/08, weakening the Council's ability to provide a timely response to developer requests and the Council acknowledges that achieving the target in the current year will be difficult due to staffing changes and the impact of the economic downturn but still expects to do so.
- 19** There have been some improvements in services contributing to sustainable communities, although pressures on delivery, due to the Council's widely dispersed and often sparsely populated communities, remain a challenge. The proportion of waste recycled or composted continues to increase and the Council is consistently reducing the amount of household waste collected. Maximising access to kerbside recycling is problematic in Herefordshire but performance has continued to improve more quickly than most although customer satisfaction with the service decreased. The cost of waste collection and disposal continue to increase and securing reductions through new contracts remains a priority. Despite difficulties, caused by a range of external pressures, improvement was made in housing as recognised by an improved Housing CPA score. More affordable housing units were built. Although the Council did not meet its own target last year its monitoring indicates that the target will be achieved in 2008/09. Increased demand for housing from homeless people has resulted in the average length of stay in hostel accommodation increasing, whilst use of bed and breakfast and hostel accommodation improved from 15 weeks in 2006/07 to five weeks in 2007/08. Internal monitoring suggests that changes to processes have led to a decrease in homelessness acceptances during the current year. The Council is prioritising the search for innovative responses to the rising demand for temporary accommodation and plans to use private sector leasing to help reduce its use are being implemented. The Council continues to fund a mortgage rescue package with a local housing association to enable vulnerable households to avoid repossession.
- 20** Work to build safer communities is effective. Herefordshire is a very safe place to live. 86 per cent of the basket of safer and stronger PIs improved since last year which is above the average range for all single tier authorities. The number of domestic burglaries, robberies and vehicle crimes all reduced as did the number of people killed or seriously injured on the roads. Even though instances of violent crime and criminal damage increased only marginally the Council and its CDRP partners are prioritising responses to these issues alongside working to reduce public levels of fear of crime which do not reflect the actual level of crime.

- 21** Delivery of the organisational improvement and greater efficiency priority was boosted by some positive developments. The Council's use of resources score improved from 2 to 3 and the ambitious and innovative joint management arrangements for the Council and PCT are in place. The proportion of employees from an ethnic minority community and of top paid staff that are women or from an ethnic minority increased. Staff sickness marginally increased, potentially harming the Council's ability to deliver services, although performance remains in the second quartile. The Herefordshire Connects project has been reviewed and work to deliver it has now started. This is at an early stage and benefits for the public and efficiencies are not yet apparent.
- 22** Partnership working is strong and focused on delivering outcomes that are important to local people. Small scale but effective joint tasking arrangements to tackle anti social behaviour have been developed with the Police, Housing Associations and other agencies and work to develop this approach through the creation of an Anti Social Behaviour Team is ongoing. Joint working with the voluntary and community sector through the Alliance is a particular strength in Herefordshire. It was rated as strong in CSCl's assessment and this helps to build the capacity of groups and volunteers to deliver important complementary services, especially in rural areas. Partnership working to deliver improved outcomes for communities has been strengthened by new performance management arrangements. The Local Strategic Partnership has been fundamentally reviewed and a revised structure has been implemented. The Council's own monitoring indicates that the majority of Local Area Agreement (LAA) targets are either on course or progressing towards achievement.
- 23** The Council is improving its ability to understand and engage with the needs of diverse groups across the county and access to services is improving gradually. With support from Improvement and Efficiency West Midlands the Council is working to establish the Herefordshire 100 network of groups to improve engagement within BME communities to supplement other consultation activity and it has supported the establishment of 2 new community organisations for BME groups. Further work has been done to develop understanding of the needs of the Eastern European migrants in the county. This is particularly important due to the rural economy's reliance on seasonal and migrant labour. Results are being used in service planning. Organisational arrangements supporting the approach to equality have improved with the Council accredited at level 3 of the Equality Standard from 2 last year. Involvement in planning and provision of services for carers and service users has improved. Services are being made more accessible to the public although technical problems have slowed the impact of changes. Customers can now access benefits details on the internet. To simplify access for users front office services have been established for Planning and Environmental Health and Trading Services. The transfer of Council tax enquiries to the Contact Centre was initially problematic for users and improvement work is ongoing. Overall levels of satisfaction with the Council have not changed significantly. Through its annual satisfaction surveys and follow up work with the Citizens Panel the Council is working to understand the reasons for the relatively poor satisfaction with the Council and how this relates to the generally better results for satisfaction with services.

How is Herefordshire Council performing?

24 Arrangements to provide and manage value for money continue to be adequate. Costs remain relatively low. The Council is making improvements to its arrangements to define and secure vfm and to manage costs but these are not yet resulting in consistently improved outcomes. Good progress continues to be made in procurement and in the achievement of efficiency savings. Developments in benchmarking and measuring and reporting VFM should help to secure future improvements. There is a strong corporately led focus on budget management.

How much progress is being made to implement plans to sustain improvement?

25 Good progress has been made on the development of joint plans and strategies and capacity to deliver them has been strengthened through the establishment of innovative structures.

26 Corporate plans are clear and linked to those of partners. The corporate plan 2008/11 outlines the Council's actions in support of the delivery of the community strategy and explains how the closer working between the council and the PCT will develop over the period of the plan. This provides a framework against which progress towards shared priorities can be measured and managed although targets in the corporate plan are not yet consistently SMART. Partnership working is strong and focused on delivering shared objectives.

27 Capacity to deliver plans has improved well. The Council is investing in priority areas – chiefly Adult Social Care. Capacity to deliver in partnership has been boosted by the implementation of the single management structure for the Council and PCT. This unique arrangement demonstrates the commitment shared by the Council and PCT to develop new approaches to providing and commissioning services. It is leading to better joint working and delivery of outcomes in priority areas such as children's services. The OFSTED and CSCI annual reports both confirm that management capacity to deliver has improved and their scores for capacity to improve have increased to 'promising' as a result.

28 Performance management has been strengthened for the Council and for key partnerships. A performance improvement cycle has been introduced that integrates all aspects of corporate, directorate, service, financial and workforce planning. It demonstrates the link between the ambitions in the Herefordshire Sustainable Community Strategy and the Council's Corporate Plan and the service objectives and actions to deliver those ambitions as set out in directorate, service and other more detailed plans. Each indicator has a red, amber or green rating. This enables councillors and senior officers to track and manage performance towards joint targets and outcomes across the range of council and partner activities. Performance management frameworks are also aligned with those of key partners. The Herefordshire Partnership performance management process mirrors the Council's, ensuring clarity of ownership and monitoring of delivery of LAA targets.

- 29** Stretching targets are set although delivery against them is mixed. Good progress has been made in hitting stretch targets in economic development and enterprise and performance, in areas of historic under achievement in adult social care, is improving steadily. Efficiency savings targets were exceeded. Improvements in processing times for new Housing and Council Tax Benefit claims and changes of circumstances have contributed to an improved CPA Benefits score of 4. However, in some historically strong areas such as NNDR collection there has been deterioration in performance against targets and although education performance is generally strong the Council did not meet its targets for attendance and achievement. Although it has been prioritising the work, the Council has under performed in providing timely assessments for children's social care. A recruitment and retention strategy for social workers is being implemented in response to staff shortages and difficulties in recruiting although it is too early to gauge its impact.
- 30** Good progress is being made to respond to previous serious flaws in corporate governance. The response to the Crookhall report has been built in to corporate performance monitoring arrangements and progress on completion of actions is good. Revised procurement arrangements are becoming embedded and are well understood across the Council. Work to review and amend key service delivery partnerships is ongoing. The failure to find a final solution to the waste management contract continues to be an area of weakness.

Audit of the accounts

31 We gave an unqualified opinion on the accounts in September 2008. The accounts presented for audit were free of material misstatements and were supported by very good working papers. Finance staff responded very promptly and positively to all requests for further information which resulted in the whole process going very smoothly. We made only two recommendations in the Annual Governance Report presented to Members in September. The first was in relation to improving controls in the system used to pay nursing homes and the other was to review pooled budget arrangements with the PCT including ensuring governance arrangements are updated with signed agreements.

Whole of Government accounts

32 Central government has embarked on a programme leading to the preparation of consolidated accounts for the 'whole of government', including local government. The Authority is required to submit a 'consolidation pack' to the Department for Communities and Local Government and we undertake a range of procedures and report on the pack.

33 We were able to report that the 'consolidation pack' was consistent with the financial statements on which we gave an unqualified audit opinion by the deadline of 1 October 2008.

Use of resources

34 We are required to:

- conclude whether the Authority 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; and
- assess how well the Authority manage and use financial resources by providing scored judgements on the arrangements on five specific themes.

Value for money conclusion

- 35** We concluded that the Authority has proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.
- 36** The conclusion is considered against twelve national published criteria which also link across to the Use of Resources themes. In addition, we considered the results of our review of data quality.

Review of data quality

- 37** As part of our work on the value for money conclusion, we carried out a review of data quality. We considered whether the Authority has proper arrangements in place to ensure the accuracy of key performance data, following up our detailed work in previous years.
- 38** Following last year's audit, twelve recommendations were made for improving the Council's corporate arrangements for Data Quality. A detailed action plan was drawn up by the Performance Improvement Network to address all these issues and progress is being monitored by Cabinet and the Audit and Corporate Governance Committee. We have seen that improvements have been made in response to our recommendations, but, as arrangements were generally not in place until after 31 March 2008, the full effect of improvements will not be evident until next year's assessment.
- 39** A significant improvement has been noted in respect of Data Quality Policies and Procedures this year. A Data Quality policy is now in place and accessible to all staff.
- 40** In addition, a Herefordshire Public Services Information Management Group (IMG) has been established to promote greater awareness and knowledge of Data Quality.
- 41** We have also seen evidence from the detailed review of individual indicators of improvement in systems and processes this year. Internal Audit reviewed 12 Performance Indicators (an increase from the five reviewed last year) and concluded that there is a 'good' control level on over half the reports and 'satisfactory' on the remainder. There were no changes required to the reported data. We carried out detailed checks on four performance indicators and found all to be correctly stated.

Use of resources

- 42 An action plan has been agreed to address the recommendations in our detailed report.

Use of Resources scores

- 43 We assessed the Authority's arrangements on five themes and scored each theme from 1 to 4 (1 = inadequate performance, 2 = adequate performance, 3 = performing well and 4 = performing strongly).
- 44 The Council is performing well. Given the issues identified last year, this is a marked improvement. The investment the Council has put into enhancing the overall arrangements for delivering value for money is clearly visible and this has been reflected in the increase in score across several themes as well as the overall score. Of particular merit was the very good performance in financial reporting in 2008, which lead us to award the Council the highest possible score. The Council now needs to focus more on demonstrating the positive outcomes delivered from having these arrangements which will be a key feature of the new style of assessment next year. The Use of Resources assessments we made are set out in the table below.

Table 2 Use of Resources scores

Theme	Assessment
Financial reporting	4 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	3 out of 4

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- 45 The assessments showed a continuation of performance that was assessed as 'above minimum requirements - performing well'. We identified several areas of best practice.

Financial Reporting

- 46 The Council produces accounts to a very good standard, on time and in accordance with agreed protocols. The Council has continually monitored the standard of working papers supporting the accounts and has responded well to advice on how these can be improved. The working papers provided for this year were very good. There were no significant errors to the accounts.

- 47** The Director of Resources provides a good commentary which supports the accounts provided to the Audit and Corporate Governance Committee and the Committee are very robust in their scrutiny of the accounts prior to adoption.
- 48** The Council's website is good, with immediate access to the accounts. The Council provides a very good summary booklet which includes an annual review and summary accounts. This booklet has a wide distribution, is accessible to the public and provides easy to understand information.

Financial Management

- 49** The Council has a good Medium Term Financial Management Strategy (MTFMS) and this is linked to key strategic objectives and is updated regularly. Budget management and monitoring of both capital and revenue budgets are robust.
- 50** There are good links between the Corporate Plan and MTFMS. The Corporate Plan takes account of stakeholder consultation. The Council needs to consider including all revenue implications of significant projects within the Corporate Plan.
- 51** The Council has continued to improve its management of performance against budgets. The budget is reported to Members bi-monthly and is part of the Integrated Performance Report (IPR) which provides both qualitative and quantitative information. The standard of reporting of budgets to Officers is good, monthly reports are provided which allow Officers the opportunity to review and provide action plans to address possible over or under spends. Training has improved and could now be considered strong.
- 52** The Asset Management Plan has been updated during 2007/08. There are clear linkages between the Capital Strategy, Corporate strategy and MTFMS. Property reports are submitted to the appropriate monitoring committees. There is an annual programme of planned maintenance and the level of backlog maintenance has been assessed. The Council can improve the reporting of data regarding efficiency, effectiveness and running costs within its asset register.
- 53** Investment decisions are now made based on a more thorough and robust appraisal. We reported in 2006/07 that there was not initially a full options appraisal for Herefordshire Connects. The Council has taken on board our recommendations regarding Herefordshire Connects and the latest proposals include options appraisal to Members.

Financial Standing

- 54** The Council has a good track record of achieving financial balance. The Council has consistently under-spent against its budget and in 2007/08 this was by only £591k. The Medium Term Financial Management Strategy (MTFMS) has improved the management of reserves with revenue reserves being more clearly aligned to specific service areas. There is a clear policy on reserves with general reserves intended to not go below £4.5 million.
- 55** Capital and Revenue reserves have reduced in 2007/08 with Capital Reserves standing at £17.9 million and Revenue Reserves £23.2 million at 31 March 2008. This compares with prior year reserves of £22.4 million and £27.8 million respectively. Within this, Schools balances reduced by £2.5 million to £5.7 million.

Use of resources

- 56 Debt monitoring has improved. In 2006/07 we reported that there was still significant debt that was over five years old. There has been some movement, notably the monitoring and management of debt has improved. Aged Council Tax debt has reduced and the Council has set targets to reduce the debt further.
- 57 The Council's share of the pension fund deficit grew to £132 million at 31 March 2008 from £88 million. The deficit on the scheme will be made good by increased contributions over future years as assessed by the scheme actuary.

Internal Control

- 58 There have been significant improvements within internal control of the Council. In last year's assessment we placed significant emphasis on issues in relation to ICT. These have been addressed and the Council must now fully embed the arrangements that they have put in place.
- 59 Risk Management continues to improve and the partnership with the Primary Care Trust should see risk management improving still further. Risks are linked to strategic objectives, however some consideration should be given to including all significant risks, such as the Edgar Street Grid (ESG), within the Corporate Risk Register. We have been informed that the ESG will be included in the next register produced.
- 60 The Member responsible for risk does not have specific terms of reference. Minutes from meetings where risk is discussed did not provide assurance that any discussion had taken place.
- 61 The Council has improved its internal control arrangements throughout 2007/08 and into 2008/09. The Council has a robust and challenging Audit and Corporate Governance Committee which has continued to improve. Issues addressed in the Crookhall report have also been or are being addressed through Cabinet.
- 62 A Corporate wide Business Continuity Plan is now in place and this is embedding into Council culture.
- 63 The Council has tightened up the reconciliations of financial systems. Scrutiny needs to continue to develop. For example, the Children's and Community Scrutiny Committee made a recommendation regarding children's dental health which has not been followed through into later meetings.
- 64 The weaknesses identified in 2006/07 in relation to gifts and hospitality and the recording of them have been addressed. The Council has updated its constitution, including the Code of Conduct, Financial Procedures and Whistle-blowing Policy. The Gifts and Hospitality Register is reviewed by the Monitoring Officer and there are six monthly reminders sent to all key staff to ensure that they are aware of their responsibilities. These changes will need to embed into the culture of the Council.
- 65 The Council has improved the way in which it disseminates information to staff but there are still improvements to be made. For example, the Whistle-blowing Policy is not easily accessible to staff or the public via the internet. The Council has ensured that Members and Officers are aware of their ethical responsibility. A training session was held in May 2007 and the Audit Commission's 'Your Business at Risk' tool has been used in Summer 2009. The survey highlighted the need to ensure staff are made aware of policies and strategies such as the IT security policy and anti-fraud strategy.

Value for Money

- 66** The Council remains a generally low cost authority with a mixture of performance. Areas of higher spending are broadly in line with stated priorities. In some areas this results in improved services (eg in Education). In others the Council is directing higher spending to improve outcomes (Adult Social Care) and long term resource commitment is continuing to help poor performance improve (waste disposal). There has been continued improvement in some priority areas since 2006/07. In Education - the Council's largest area of spend - overall performance compared to all councils is generally good and improving. In Environment Planning and Transport, value for money remains reasonable. Spending in Children and Adult Social Care has increased as a result of in depth analysis of needs, putting both now in line with the average. Overall performance in these areas remains average with improvements being made in some services although this is not consistent yet. In Benefits and Local Taxation, costs remain low and some improvements have been made in performance. Overall satisfaction with Council services has not improved significantly
- 67** The Council is in the process of making improvements to its arrangements to define and secure value for money (VFM) and to manage costs but these are not yet resulting in consistently improved outcomes. The Council still does not bring together the comparative data that it has with cost data to measure VFM internally or in comparison with other councils. Work to fill in the gaps and inconsistencies in benchmarking is ongoing. Processes for reviewing and improving VFM are developing but there is not yet a consistent approach to measuring and reporting VFM. The Council is improving and expanding its information on the needs and views of different community groups and this is starting to influence service planning. However its approach to collating and analysing cost information still does not yet consistently contain an analysis of equity across the community. The Council's strategy to deliver Gershon targets has been successful and targets have been exceeded. It is extending its procurement through partners and the joint working with the PCT aims to deliver improved VFM.

Herefordshire Connects

- 68** The success of the Herefordshire Connects project is vital to the delivery of the Council's medium term financial strategy.
- 69** In July 2007 we carried out an in depth review of the programme. While this highlighted strengths in terms of project and risk management arrangements, it also emphasised the need for more clarity in how the project would deal with new joint working arrangements with the PCT and highlighted the short timescale for the successful implementation of the business-critical social care system. We further recommended that Members should re-focus and clarify the purpose, outcomes and actions of Herefordshire Connects. Formally considering in a short paper what other options were still open to the Council including the costs, benefits and risks of each option and how the programme fitted with the new joint working arrangements with the PCT. With the exception of the Social Care element, the project was put on hold while issues of affordability and priority were resolved.

Use of resources

- 70** Good progress has since been made with these recommendations. An option appraisal was carried out with Deloitte, as the Council's strategic partners for Connects, to ensure that the vision for Herefordshire Connects was fit for purpose, update the business cases to take account of current and future needs and identify those benefits already achieved and ensure that governance arrangements were robust and appropriate. As a result three strategic service improvement programmes, led by the responsible Joint Management Team members and supported by the Connects Programme have been created:
- Integrated Customer Services Business Case;
 - Integrated Support Services Business Case; and
 - Performance Management and Risk Management Business Case.
- 71** The individual programme boards include joint appointees and PCT directors and relevant reports will go to the PCT Boards as well as Cabinet which will help to ensure more effective joint working.
- 72** It was agreed to rationalise the number of ICT applications and carry out evaluations of the available options. Following sound evaluation processes, the Council has now selected solutions for Environment and Planning, Integrated Support Services and Performance Management and Risk Management and plans are in place to deliver these.
- 73** The Social Care element of the programme, based on the implementation of Core Logic, was delivered successfully, on time and on budget, in November 2008. It has been well received in the relevant directorates and should help drive service improvement.
- 74** The key issues for the Council are to ensure that processes are put in place to drive out the expected benefits, including financial savings, and that the relationship with Council's strategic partners is managed effectively.

Safer Roads Partnership

- 75** The Safer Roads Partnership in West Mercia (SRP) was launched on 1 April 2007 with the aim of reducing road casualties across the region. Herefordshire Council is a core partner. The Partnership builds on the earlier successful work of the Safety Camera Partnership in West Mercia. The Partnership, to its credit, invited us to take an overview of the Partnership's approach to issues raised and the improvement framework in the Audit Commission publication 'Changing lanes'. Our review in April 2008 considered:
- the strategy and governance of the Partnership;
 - how actions are identified and projects developed;
 - whether the right data is being analysed in the right way;
 - the effectiveness of the Partnership's engagement with the community;
 - how performance is managed in the Partnership; and
 - how value for money is managed and assessed

- 76** At the time of the review, partners in the SRP were committed to working together to improve road safety in the area. The transition from the earlier successful safety camera partnership had been slow and was still incomplete. The Partnership did not fully use the information available to identify the best approach to improving road safety. However the number of people killed or seriously injured on Herefordshire roads in 2008 was the lowest recorded.
- 77** The majority of the Partnership's work was enforcement activity although it was increasing its awareness raising work. Police data was used effectively to identify activity but the opportunity to use data held by other partners had not yet been explored. There was some good joint working on individual publicity campaigns and the communication sub-group was looking at ways to expand this activity. The SRP did not make use of partners' existing links to engage effectively with the community to both inform its work and communicate its messages.
- 78** Performance management was limited by the lack of a clear strategy. The Partnership monitored the contribution of safety cameras to road safety targets and assessed the costs of these against the savings from reducing accidents. However it did not assess whether the activity is delivering the best value for money from the resources committed.
- 79** The Partnership Board is reviewing progress against the detailed recommendations in our report at its March 2009 meeting. The Authority should ask the SRP to update it on progress made against the action plan.

Waste Disposal

- 80** The Council is seeking with its partner Worcestershire County Council to vary its PFI contract for waste management which will allow both parties to meet national targets for recycling and reductions in landfill tonnages and specifically reducing the amount of biodegradable municipal waste (BMW) which ends up in landfill sites.
- 81** The Government has set councils exacting targets for recycling which are above those agreed for the current contract. Targets for reducing landfill have also been set. The driver for achieving these targets is landfill tax, which is set to increase year on year providing an incentive for councils to divert waste from landfill. The consequence of not reducing landfill tonnages will be increased costs and increasing pressure on the medium term financial strategy.
- 82** Targets for the amount of BMW which can be landfilled first impact in 2010 when BMW going to landfill needs to fall to 75 per cent of that produced in 1995 and subsequent targets become increasingly hard to meet. Failure to meet such targets could result in significant extra costs.
- 83** The waste management contract is currently awaiting the provision of a waste treatment facility. Whilst the contract remains in 'standstill' and does not have a waste treatment facility the Council has to make short-term decisions to reduce its financial exposure to failure to meet its BMW targets. The financial impact of these decisions is likely, in the long term, to be higher than the provision of a waste treatment facility. Therefore the Council needs to be aware of the financial implications of delay.

Use of resources

- 84** Until the discussions with the contractor are finally concluded, there remains a risk that the contract could terminate. Contract termination could have a significant impact on the financial standing of the councils, because termination clauses in the contract require the council to make severance payments eg shareholder equity in exchange for bringing waste management assets and facilities back in-house. In such a situation the councils are also likely to have to enter into a new contract in order to achieve the objectives of the Waste Management Strategy. Re-procurement costs are likely to be significant and the councils would be unlikely to secure the level of government PFI funding that was made available for the existing contract.

Other performance work

- 85** We will shortly be finalising our review of Adult Social Care which was included in the 2007/08 audit plan. This timing of this work was changed at the request of the Council to better fit with the Council's own work in this area.

Looking ahead

- 86** The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 87** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate area assessment and reporting performance on the new national indicator set, together with an organisational assessment which will combine the external auditor's assessment of value for money in the use of resources with a joint inspectorate assessment of service performance.
- 88** The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new National Indicator Set and key aspect of each area's Local Area Agreement.

Closing remarks

- 89** We have discussed and agreed this letter with the Chief Executive and Director of Resources. We will present the letter at the Audit and Governance Committee in March 2009 and I will provide copies to all Authority members.
- 90** Further detailed findings, conclusions and recommendations on the areas covered by audit work are included in the reports issued to the Authority during the year.

Table 3 **Reports issued**

Report	Date of issue
Audit plan	March 2007
Report to those charged with governance	September 2008
Opinion on financial statements	September 2008
Value for money conclusion	September 2008
Use of Resources	January 2009
Annual Audit and Inspection letter	February 2009

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- 91** The Authority has taken a very positive and constructive approach to all the audit and inspection work. I wish to thank officers for their excellent support and cooperation during my first year.

Mary-Ann Bruce

Comprehensive Area Assessment Lead

February 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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