

AGENDA

Audit and Governance Committee

Date: **Friday 29 January 2010**

Time: **10.00 am**

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

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

For any further information please contact:

Paul Rogers

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Agenda for the Meeting of the Audit and Governance Committee

Membership

| | |
|----------------------|--------------------------------|
| Chairman | Councillor ACR Chappell |
| Vice-Chairman | Councillor RH Smith |
| | Councillor MJ Fishley |
| | Councillor JHR Goodwin |
| | Councillor PJ McCaull |
| | Councillor R Mills |
| | Councillor AM Toon |

Non Voting

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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AGENDA

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| 2. | NAMED SUBSTITUTES (IF ANY) To receive details any details of Members nominated to attend the meeting in place of a Member of the Committee. | |
| 3. | DECLARATIONS OF INTEREST To receive any declarations of interest by Members in respect of items on the Agenda. | |
| 4. | MINUTES To approve and sign the Minutes of the meeting held on 20 November 2009 | 5 - 12 |
| 5. | ANNUAL AUDIT AND INSPECTION LETTER 2009 To note the Audit Commission's Annual Audit and Inspection Letter for 2009 and approve the response to each of the four action points raised. | 13 - 38 |
| 6. | USE OF RESOURCES 2009 To report to the Audit and Governance Committee on the Use of Resources 2009 and identify the improvement opportunities and next steps. | 39 - 66 |
| 7. | INTERNATIONAL FINANCIAL REPORTING STANDARDS To report to the Audit and Corporate Governance Committee on the progress for implementing International Financial Reporting Standards. | 67 - 78 |
| 8. | TENDERING OF THE CONTRACT TO BUILD THE NEW HEREFORD LIVESTOCK MARKET To inform the Audit and Governance Committee of the process used during the procurement of the contract to construct the New Livestock Market. | 79 - 88 |
| 9. | REVIEW OF PROCEDURES AND PROCUREMENT WITHIN PROPERTY SERVICES To report to the Audit and Governance Committee the review of procedures and procurement within Property Services | 89 - 92 |
| 10. | AUDIT AND GOVERNANCE CODE To present to members of the Audit and Governance Committee the Audit and Governance Code previously approved by Council on 13 th November 2009. | 93 - 102 |
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12. INTERIM AUDIT SERVICES ASSURANCE REPORT 2009/10 NO.2

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To update Members on the work status and bring to their attention any key internal control issues.

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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 The Council Chamber, Brockington, 35 Hafod Road, Hereford on Friday 20 November 2009 at 10.00 am

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

Councillors: JHR Goodwin, G Lucas, PJ McCaull, R Mills and AM Toon

In attendance: Councillor PJ Edwards

23. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor MJ Fishley.

24. NAMED SUBSTITUTES(IF ANY)

Councillor G Lucas substituted for Councillor MJ Fishley.

25. DECLARATIONS OF INTEREST

Councillor RH Smith declared a personal interest in Item No.5 on the Agenda, Minute No. 27 refers, being a representative of the Council on the West Mercia Police Authority.

Councillor ACR Chappell declared a personal interest in Item No.6 on the Agenda, Minute No.28 refers, being a representative of the Council on the Board of Wyebridge Academy.

26. MINUTES

RESOLVED: That the Minutes of the meeting held on the 28 September 2009 be approved as a correct record and signed by the Chairman.

27. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Head of Financial Services presented a report on the progress for implementing the International Financial Reporting Standards (IFRS). She advised the Committee on the following:

- The potential impact of the employee accrual costs on the Council and Schools budgets as a consequence of the new reporting standards.
- On the guidance expected from Chartered Institute of Public Finance and Accountancy (CIPFA) on the way in which local authorities will need to deal with employee accrual costs so that the impact on Council Tax is not affected.
- Concerns about the current system to deliver IFRS requirements and that she would be attending a demonstration that could possibly deliver an automated solution which may satisfy requirements which were highlighted at year end.

- The re-stating of the Council's Balance Sheet as at the end of December 2009 to conform to IFRS, will in fact slip into the new calendar year.

The Chairman referred to the effect that the IFRS would have on schools and suggested that a letter be written to all Councillors drawing attention to the fact that if they were a school Governor, that the IFRS would have an effect on their school.

In discussing the effects that the IFRS would have on the Council and schools, the Director of Resources advised that unless the government amended accounting requirements, the introduction of IFRS would have a one-off impact on the Council.

RESOLVED: That the report be noted.

28. INTERIM AUDIT SERVICES ASSURANCE REPORT 2009/10 NO.1

The Chief Internal Auditor presented a report which updated the Committee on the work status and brought to Members' attention any key internal control issues. He referred to an update note prepared by the Interim Assistant Chief Executive - Legal and Democratic Services which had been circulated to Members after the Agenda for the meeting had been circulated. A copy of the update note is attached as an Appendix to these Minutes.

In discussing Appendices 2 and 3 attached to the report, the following points were made:

- Start and completion dates should be stated against each item.
- Certain Items, see resolution (i)(a) below, should be closed and that action on the remaining open Items be closed and deleted to the satisfaction of the Committee by the next meeting. Failing this, the respective Directors and Executives should attend the next meeting in person to explain why each issue remains open and when it would be completed.
- The matter regarding the quorum of the Committee being amended, Item No.86 refers, should be pursued and should remain open.
- Reference was made to Item No.42, election contributions from Parish Councils, and the present position in relation to an audit plan on election contributions and action plans which separate who is responsible. The Director of Resources would update the Member on the issues referred to by email. It was stressed that this process must be concluded in time to inform the setting of precepts for 2010/11.

Responding to a comment raised in reference to the exclusion of property services from the Amey review, the Director of Resources informed the Committee that a report had been submitted to him by the Chief Internal Auditor's team which had highlighted certain issues which were now being addressed. In his contract monitoring role, he referred to certain contract work which was not being awarded to Amey and that the Chief Internal Auditor was looking into the matter.

Following discussions on Property Services and issues relating to value for money in contracts, the disposal of property, forward planning and a schedule of rates, the Chairman requested that a report be submitted to the next meeting by the Head of Property Services giving details on the issues raised.

The Vice-Chairman referred to Item No.44 regarding the Drugs Forum Partnership and that the Committee had not received a report back. He took the view that it was

unacceptable that a report had not been submitted to the Committee and that the officers concerned should be made aware of the need to adhere to the Committee's requests and to treat such requests seriously. The Director of Resources advised Members that in his view officers took the work and decisions of the Committee seriously. He further informed Members that the Audit Commission viewed this Council's Audit and Corporate Governance Committee as one of the better local authority Audit Committees.

With regard to Item No. 78, Wyebridge Academy, the Chief Internal Auditor informed Members that the handover of assets had not yet been signed off by the Cabinet Member. He would be reporting on the progress in the matter at the next meeting. The Director of Resources advised that Property Services had produced a joint accommodation strategy which would be presented to Cabinet in December and that he would be involving the Strategic Monitoring Committee.

With regard to Item No.94, the Head of Policy and Performance advised that over 800 staff were in need of data quality training. Regarding Item No.95, he had received all the policies and procedures from officers. The Vice-Chairman suggested that the Committee needed to know the numbers of officers that needed training in each directorate thereby showing the pressure points. The Head of Policy and Performance informed Members that he would provide that information to Members following the meeting.

The Chief Internal Auditor referred to Garway primary school and the Department of Children Schools and Families Standard Audit, Appendix 4 refers, and expressed his thanks to the staff at the school for their cooperation in working with the audit services team to develop a template for small schools. He also referred to Llangrove primary school and informed Members that the new Headteacher had requested a review of processes and procedures at the school after raising some concerns. The review had been carried out, no fraud had been found and that an action plan had now been put in place.

RESOLVED: That

- (i) The following amendments be made to the status of items in Appendices 2 and 3 to the report:**
 - (a) Item Nos. 3, 29, 39, 44, 79, 80, 82, 83, 84, 85, 86, 87, 88, 93, 94, 97, 98, 99, 100, 101, 102, 103, be confirmed closed.**
 - (b) Item Nos. 40, 41, 42, 47, 61, 67, 78, 89, 90, 91, 92, 95, 96 be confirmed open.**
 - (c) The Committee does not accept that Item No. 86 is closed and that it will remain open and be pursued in accordance with the resolution/recommendation as stated;**
- (ii) Start and completion dates be stated against all items in Appendices 2 and 3 of the report to be submitted to future meetings;**
- (iii) The Committee requires all action on the remaining 13 items in Appendices 2 and 3 to the report to be completed to the Committee's satisfaction by the time of the next meeting, or that the respective Directors and executives attend the meeting in person to explain why each issue remains open and when it will be completed;**
- (iv) A report be submitted to the next meeting detailing the review of the procedures and procurement within Property Services; and**

- (v) **A report be submitted to the next meeting detailing the tendering for the cattle market contract;**

29. DATA QUALITY - 6 MONTH PROGRESS REPORT

The Head of Policy and Performance presented a report on the progress against the data quality action plan. He advised Members that the numbers of staff in each directorate requiring data quality training would be circulated to Members as would the number of relevant local procedures identified so far. He informed Members that since the report had been circulated, more data sharing partners had responded leaving the following partners who had not yet responded:

- Stonham Housing Association
- Salvation Army Housing Association
- St John Kemble Housing Association
- Gloucestershire Housing Association
- Probation Service

The Chairman was of the view that the above partners should be asked to attend the next meeting to explain why they had not responded.

The Head of Policy and Performance emphasised that the Council had fundamentally come a long way through its attention to data quality despite not yet completing all the tasks set out in the data quality action plan. He advised that the way data quality was now being addressed nationally was changing with the emphasis being on how well the data is being used in managing performance and in supporting decisions.

In discussion the Committee noted the following points:

- Additional resources could result in a shorter timescale for the completion of the action plan, ref.4.2 Task 53 in Appendix 1 refers.
- Approximately 180 staff had been trained since April 2009 with over 800 staff requesting training, ref.4.2 Task 54 in Appendix 1 refers. Partners were welcome to send delegates to a training session if they requested this.
- A number of the data quality assessments were being looked at by data quality champions ref.4.2 task 54 in Appendix 1 refers.
- The data quality policy would be reviewed by April 2010.
- The research team establishment was designed to deliver a core programme of work for the authority and partners for which there was no additional charge. Some directorates funded work and thus increased capacity. While research were always willing to assist, work outside the programme that required additional resources to complete would need to be charged or the agreed work plan amended. Charging could be avoided usually if directorates included future research needs in their service plans and discussed these early on with the Head of Research as required. Statistical research skills were a scarce resource and it was generally better to channel activity through the existing team as a cost effective and quality guaranteed way of producing what was required.

Responding to a question raised regarding the quality of the data survey which had been carried out in respect of the Buttermarket, the Head of Policy and Performance advised

that he would give a view on the quality of the survey if the Committee instructed him to do so.

The Head of Policy and Performance informed the Committee that the risk score as stated in the Risk Register had been put in place for data quality prior to the start of the action plan for data quality and had not been amended. Even though certain matters were not progressing as planned, the score had not increased significantly. In his view this was appropriate as the risk had not materially increased, arguably it had declined. However he was concerned that the risk remained on the register at an appropriate level and was not removed without his knowledge. The Director of Resources advised that a small team coordinated Risk Management and that the team also looked after Insurance. He added that officer awareness around risks was not always as it should be but the awareness was good around major projects and that training in awareness of risks was a key factor.

RESOLVED: That

- (i) The progress now being made against the data quality action plan be noted; and**
- (ii) A letter be sent to the data sharing partners regarding their non response to the data quality policy and invite them to the next meeting of the Committee to give their reasons for their non response.**

30. CREDITOR PAYMENT AUTHORISATION

The Head of Benefit and Exchequer Services presented a report on the process for ensuring that Creditor Payment Authorisations are managed in accordance with the Council's constitution. As well as the notification to all key managers of the need to ensure that vouchers are completed correctly, he informed Members that non-compliance with procedures were highlighted to managers and Directors. It was agreed that regular reports about this issue would be presented to the Committee.

RESOLVED: That the actions being taken to ensure compliance be noted.

The meeting ended at 11.45 am

CHAIRMAN

AUDIT AND CORPORATE GOVERNANCE COMMITTEE**20 NOVEMBER 2009****ITEM 6 – INTERIM AUDIT SERVICE ASSURANCE REPORT****ASSISTANT CHIEF EXECUTIVE – LEGAL AND DEMOCRATIC****UPDATE NOTE – FOR CIRCULATE WITH AGREEMENT OF THE CHAIRMAN**

This note supplements the report by providing commentary to assist members from the ACE – Legal and Democratic in her absence. References are to the item numbers in Appendix 2.

I apologise for its late circulation but I was unable to provide an earlier update due to my focus on producing the new Constitution for Council on 13 November 2009.

Item 41- Financial/contract standing orders

The Contract Procedure Rules at paragraphs 6.2.3 to 6.2.8 contain provisions that provide for the calculation of financial limits for contracts (in the context of the EU procurement regulations). The non aggregation principle reflected in those provisions is a fundamental principle of EU procurement law and the Council must follow the EU principles in all its contracting activities. Therefore, the provisions of paragraph 6.2.4 apply and are applied to the limits in paragraph 5.1.7 of the Contract Procedure Rules to prevent the splitting of contracts into smaller low value ones in order to avoid the application of that principle. It is accepted that it would be clearer if the principle was also reflected and a similar provision to that in paragraph 6.2.4 included in paragraph 5.1. However, it is not essential.

By way of reassurance, the Legal team provide advice on contracting and apply this principle when giving such advice.

The Contract and Financial Procedure Rules in the new Constitution (to take effect on 1 January 2010) have not been reviewed as part of the recent constitutional review. Council agreed on 13 November 2009 that these rules should be reviewed as part of the next phase of work on the Council's constitution. That review is currently being planned and the Audit and Governance Committee will be involved in that work.

Item 42 – Election contributions from Parish Councils

There is a review of elections services underway that is intended to identify and remedy some recent problems in that service area. These are matters for the Returning and Registration officer but I can confirm that the arrangements for parish elections e.g. local count arrangements, the charges levied for parish elections and the arrangements for recovery of election costs from parishes and elsewhere are all being reviewed and will be updated as necessary.

Item 67 - Review of the Code of Corporate Governance

I am unclear as to whether any review of the Code of Corporate Governance took place prior to June 2009 when I joined the Council. In any event, the Code of Corporate Governance was considered and used as a guiding document in the recent constitutional review process and it was raised as a matter for further review by the Chair of the Standards Committee in his comments to Council on 13 November 2009. I am proposing that the Code of Corporate Governance be reviewed as part of the next phase of work on the Council's Constitution.

Item 82 – Scrutiny of Crime and Disorder activities

On 13 November 2009, the Council agreed that the Community Safety Scrutiny Committee should be the Council's designated Crime and Disorder scrutiny committee for this purpose. This responsibility will be reflected in the terms of reference of the Community Safety Scrutiny Committee in Part 7 of the new Constitution. This item should now be considered closed.

Item 86 – Terms of reference and quorum for Audit and Governance Committee

The Audit and Governance Committee functions in Section 6 of Part 3 (The Functions Scheme) of the new Constitution reflect the terms of reference proposed by this committee. Section 12 of Part 5 of the new Constitution contains further details set out in the form of an Audit and Governance Code. The membership of the Committee remains unchanged and no change to quorum has been made. This matter should now be considered closed.

Item 98 – Quality of information in reports

There is no a new template for reports in place that provides for all relevant considerations and options to be included in reports. Training is ongoing and I propose to deliver further training on report writing in the New Year. I have put in place a system for legal services to clear reports in future. I would encourage Councillors to continue to question those who present reports if it appears relevant information is missing. I am working on improving legal and committee services support so that at formal meetings members have that support to ensure that decisions that are taken are fully informed and legally robust.

I hope that this update is helpful and would ask the Committee to agree that my comments be reflected as appropriate in the minutes and future update of the interim assurance report.

Charlie Adan
Interim Assistant Chief Executive – Legal and Democratic Services

18 November 2009

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|------------------------------|--|
| MEETING: | AUDIT AND GOVERNANCE COMMITTEE |
| DATE: | 29 JANUARY 2010 |
| TITLE OF REPORT: | ANNUAL AUDIT AND INSPECTION LETTER 2009 |
| DIRECTOR OF RESOURCES | DAVID POWELL |

CLASSIFICATION: Open

Wards Affected

County-wide.

Purpose

To note the Audit Commission's Annual Audit & Inspection Letter for 2009 and approve the response to each of the four action points raised.

Key Decision

This is not a Key Decision.

Recommendations

- THAT**
- (a) **Audit and Governance Committee comment on the Audit Commission's Annual Audit & Inspection Letter for 2009; and**
 - (b) **receive an update report on progress at the next meeting.**

Key Points Summary

1. The assessment contained in the Annual Audit & Inspection Letter is positive noting the Council has improved the way it manages itself in many areas. However, more time is needed to see the full results. The joint working between the Council and NHS Herefordshire including planning improves ways of delivering and procuring services should place the Council in a good position for the future. The Council manages its finances well and is also aware of the difficulties that will be caused by future cost pressures such as an ageing local population and tighter public sector funding settlements. The planned changes to the asset base should also bring benefits.

Further information on the subject of this report is available from
David Powell, Director of Resources on (01432) 383519

Alternative Options

2. There are no alternative options.

Reasons for Recommendations

3. To ensure Audit and Governance Committee are aware of the Audit Commission's assessment of the Council.

Introduction and Background

4. The Annual Audit & Inspection Letter provides an overall summary of the Audit Commission's assessment of the Council. It draws on the Commission's audit, inspection and performance assessment work over the last year. Many of the comments will therefore be familiar as this report summarises the key points of previous Audit Commission reports.

Key Considerations

5. The Audit Commission has identified four issues that it feels need action. These are set out in paragraph 10 of the Letter as follows:
 - (a) Continue to actively pursue a satisfactory conclusion to waste management as soon as possible
 - (b) Continue to make progress in changing the way planning services are provided.
 - (c) Respond to recommendations in my follow up report on Adult Social Care in early 2010
 - (d) Ensure that the recommendations in the use of resources report are delivered.
6. Actions in response to the recommendations will be developed by the relevant Directors and progress overseen by the Joint Management Team within existing performance management arrangements

Value for Money

7. The Letter notes the progress made on planning services that should also save money. The setting up of the Integrated Commissioning Directorate between the Council and NHS Herefordshire is seen as a positive method to deliver improvements.
8. It is acknowledged that the future of waste disposal in Herefordshire is linked to finalising discussions with partners. The work to reduce waste amounts going to landfill is acknowledged along with the need to deal effectively with biodegradable waste.
9. The new Use of Resources assessment was used for the first time in 2009. The outcome is that the Council is performing adequately in managing and using its resources to deliver value for money and better and sustainable outcomes for the county. The letter confirms the new assessment is broader and more demanding than the previous regime but that the Council has continued to make progress. The Audit Commission notes the Council performs well managing its finances with a good medium term financial planning process. Budgets are closely monitored. The close link between priorities and financial planning means that the Audit Commission has seen many positive outcomes from this process. Needs analysis has driven policy making and resource allocation. An area for improvement is the annual reporting of reducing the Council's environmental footprint.

10. Given the Letter covers the period when some public bodies were affected by the collapse of Icelandic Banks it is useful to note that the Council's treasury management arrangements are robust and a risk based approach has allowed arrangements to be adapted to recent events.

Procurement Issues

11. The Council is making steady progress embedding good procurement practice and monitoring adherence to the procurement framework. The Council has put in place effective arrangements to manage and challenge the change in partnership arrangements with Amey.

Comprehensive Area Assessment

12. The Letter covers the new Comprehensive Area Assessment framework for the independent assessment of local public services. The main highlights are

- People are healthy overall – but work is ongoing to reduce deaths in road and other accidents, strokes amongst women and obesity in adults and children and to improve children's dental health and ambulance response times.
- Crime is low and reducing – public bodies work well together to prevent and reduce crime and anti social behaviour.
- CO2 emissions are high due to reliance on cars and limited public transport.
- Rural areas have been particularly affected by the recession but overall levels of unemployment are still relatively low.

13. The organisational assessment is 2 out of 4. The Council is viewed as being "on a springboard for future improvement". Improvements to the way it manages itself are evident in many areas but more time is needed to see the full results. Major changes have been made to the way the Council and NHS Herefordshire work together.

14. Managing performance is assessed as 3 out of 4 with good plans for the future of the county which will lead to radically changing the way that organisations work together. Changes to services have led to improvements for people.

15. The overall assessment is a combination of the scores for Use of Resources and managing performance. The Council performs adequately rather than well because the changes to the way services are provided will be very challenging and it is too early to see all the results.

16. Ofsted has rated the Council's children services as performing well with A level exam results being amongst the best in the West Midlands. GCSE rates are showing improvements. The Council looks after the children in its care well.

17. Services for adults are improving and people are being more involved in planning and deciding the care they get. Further improvements can be made by making the process more systematic and collecting views of these who use the Council's services.

18. The Council has a good understanding of the needs and view of the people in the county. People's satisfaction with individual services is better than their satisfaction with the Council as a whole. Research is underway to understand this difference.

19. Targets for processing new Housing and Council Tax benefit claims are ahead of target and being produced efficiently. This along with the creation of 80 apprenticeships for young people created in conjunction with NHS Herefordshire indicate the Council has responded well to the problems caused by the recession.

Financial Statements and Annual Governance Statement

21. The Audit Commission notes that the Council's financial statements and annual governance statements are an important means by which it accounts for its stewardship of public funds. The Audit Commission's significant issues were that the Council includes in the balance sheet in future years an estimate of the non material liabilities in relation to added years of pension awarded to teachers by the former Hereford and Worcester County Council.
22. A review of the level of insurance provision is also recommended.
23. Of note is the likely impact of International Financial Reporting Standards in Local Government on the level of capital accounting information required. To deal with this the bringing forward of a new integrated capital accounting systems to replace existing spreadsheets is essential.
24. The Audit Commission has been complimentary about the financial statements, find officers to be very responsive to requests for additional information and that our working papers are of a good standard. We received an unqualified opinion on our accounts and this was reported to the Audit and Governance Committee in September 2009.
25. The Audit Commission did not find any material weaknesses in our internal control arrangements. However, three internal financial systems were considered "inadequate" by Internal Audit.
26. Authorisation control weaknesses such as in the creditors systems must continue to be addressed.
27. Grant Claims went well and this is important given the Audit Commission audit approximately twelve claims on behalf of sponsoring government departments. No amendments were made to any of the three largest claims with audits going well. The Audit Commission felt the largest claim, Housing and Council Tax benefit, went particularly well with a greater requirements on self-checking by Council staff. In the Audit Commission's view this approach has saved the Council a significant sum of money. Smaller grant claims could be more efficiently handled and improvements are in hand

Next Steps

28. The Annual Audit Letter made four recommendations. These are broad in nature and include a recommendation around continuing to make progress changing the way planning services are provided. It is proposed the next Audit and Governance Committee receives an update on progress.

Financial Implications

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

Risk Management

30. The response to the issues identified by the Audit Commission in their Annual Audit & Inspection Letter 2009 will underpin an improvement in the Council's audit, inspection and performance assessments over the next 12 months.

Consultees

The Audit & Governance Committee will be consulted on the Annual Audit & Inspection Letter for 2009.

Appendices

Appendix 1 – The Annual Audit & Inspection Letter 2009.

Background Papers

None identified.

Annual Audit Letter

Herefordshire Council

Audit 2008/09

December 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.
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Key messages

This report summarises the findings from my 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources. It also provides a summary of Comprehensive Area Assessment Lead's review of how well public services are delivering results for local people.

Overview

- 1 The Council has improved the way it manages itself in many areas this year but it is too early to see the full results. Major changes have been made, and are continuing to be made, to the way the Council and NHS Herefordshire, in particular, are working together such as the establishment of the Joint Management Team. Significant work has taken place to plan much improved ways of delivering health and social care across the county and to jointly procure support services. It should place the Council in a good position for the future.
- 2 The Council manages its finances well but is aware that future cost pressures such as an ageing local population and reductions in central government funding, will mean that the medium term financial position will be very difficult. This means that ways of reducing expenditure will need to be robustly pursued and the implementation closely monitored by Members. The Council plans to make major changes to its asset base which should not only save money and make buildings more appropriate for current purposes but will also reduce the Council's own carbon footprint.

Value for money

- 3 The Council has responded very well to my report on planning services in January 2009. A new constitution was approved in November which is leading to the introduction of a new single planning committee and new planning delegation arrangements to Officers. This should not only save money, but improve the quality and credibility of decisions made.
- 4 The Council has made progress in its adult social care service. We found in late 2008 that Herefordshire was addressing its charging arrangements and had acted to increase the income it received towards the cost of social care services. However, it did not have an effective commissioning strategy. The Council had a traditional commissioning process and the NHS focused mainly on making placements and block contracting. Herefordshire Council and NHS have, however, set up a new Integrated Commissioning Directorate. This appears to address the issues we had raised and now that it is fully in place, we plan to review in early 2010 see if it will deliver improvement.

- 5 The future of waste disposal within the County continues to be uncertain. Whilst the Council has been involved in lengthy discussions with potential partners to try and reach a solution which will reduce the amount of waste going to landfill, a solution is yet to be finalised. As a result there continues to be a risk that the contract in place to deal with waste disposal will have to terminate. The Council has worked to reduce the tonnage of waste collected, increase the amount of recyclable waste, and reduce the amounts going to landfill. However a waste treatment facility is needed to deal effectively with biodegradable waste and until this happens, the Council will incur financial penalties. Given the potentially long process to provide the new facility and the financial implications of delay, the Council needs to do everything it can to find a solution.
- 6 The new assessment of use of resources this year is broader and more demanding. Against the new criteria, I have assessed Herefordshire Council as performing adequately in managing and using its resources to deliver value for money and better and sustainable outcomes for the people of Herefordshire. In relation to those areas I have reviewed previously, I consider that the Council has continued to make progress.
- 7 I issued an unqualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources.

Financial statements

- 8 The audit of your financial statements went well. Good quality statement of accounts and supporting papers were produced and Officers gave priority to ensuring the audit went smoothly. I gave an unqualified opinion on these accounts in September 2009.
- 9 A new joint approach to the audit of some of the larger grant claims this year has saved the Council a significant sum of money but the Council can still improve its administration of smaller grant claims.

Comprehensive Area Assessment

- 10 The Council has responded very positively to the Comprehensive Area Assessment (CAA) process and has worked well with partners on evaluating successes and risks. This has been very helpful in the delivery of CAA.

| Recommendations | |
|-----------------|--|
| R1 | Continue to actively pursue a satisfactory conclusion to waste management as soon as possible. |
| R2 | Continue to make progress in changing the way planning services are provided. |
| R3 | Respond to recommendations in my follow up report on Adult Social Care in early 2010. |
| R4 | Ensure that the recommendations in the use of resources report are delivered. |

Value for money and use of resources

I considered how well the Herefordshire Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Herefordshire Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 11 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 12 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 13 The Council's use of resources theme scores are shown in Table 1 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in our use of resources report.

Table 1 Use of resources theme scores

| Use of resources theme | Scored judgement |
|------------------------|------------------|
| Managing finances | 3 |
| Governing the business | 2 |
| Managing resources | 2 |

-
- 14 The assessment of use of resources this year is broader and more demanding. Against the new criteria, I have assessed Herefordshire Council as performing adequately in managing and using its resources to deliver value for money and better and sustainable outcomes for the people of Herefordshire. I think it is important to stress that I consider that the Council has continued to make progress on those areas I have reviewed previously.

Managing finances including treasury management

- 15 The Council performs well in managing its finances. It has good medium term financial planning and monitors its budgets closely. There is a good well integrated system for medium term financial planning linked to priorities and we have seen many positive outcomes from this process. It is improving its use of information on costs and performance in decision making and commissioning but this is not yet done consistently. Needs analysis in key areas such as social and community health care has driven policy making and resource allocation. The Council wants to integrate testing for value for money into its joint commissioning with partners such as the NHS. Debt collection is good. The process for the production and audit of financial statements is good. Annual reports are very accessible and understandable and the public appreciate this. There is no reporting of the Council's progress in reducing its environmental footprint in the report. Internal users view financial information positively.
- 16 Treasury management arrangements are robust and a risk based approach has meant arrangements have been adapted to recent events. The Council did not have any Icelandic investments at the time of their collapse. Given the risks prevalent now, consideration should be given to enhancing the scope of reporting to Members but this is clearly a matter for local determination. This should consider issues such as the audience, content and frequency of monitoring reports (including benchmarking of performance), training for Members and the content of the annual treasury management framework/policy approved by Members. Six monthly briefings on treasury management have started to be circulated to Members.
- 17 The last year has seen the country in a significant economic recession. The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position. Members will need to ensure that financial savings are actively pursued and monitor the implementation closely.
- 18 The impact of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area.

Governing the business including the National Fraud Initiative

- 19 The way that the Council monitor and manage its performance has improved. Data quality now has a high corporate profile and the Audit and Corporate Governance Committee has shown an effective interest in this issue. The Council had to do a lot of work to make sure that the data that it produces is accurate. This is starting to pay off as the information that it uses to make decisions is getting better although it is not complete yet. Councillors and senior managers actively challenge how services are being delivered and make sure that improvements are made where necessary. But some of the reports that Councillors get to help make decisions are not always clear and need to be improved.

Value for money and use of resources

- 20 There is a developing understanding of local needs. There is some emerging good practice in the involvement of users in the commissioning of services in some areas but the involvement of councillors in key commissioning decisions is under developed. A range of work is ongoing to restructure the way services are delivered in response to need but it is not yet resulting in consistently improved outcomes across key services. Although some joint procurement with the PCT has occurred its impact on services for the public is not yet clear. Comparative data to help gain a more rounded picture of the supply market has been collected and the Council has begun to use this to commission services. Different options for service procurement are being explored but this is not done comprehensively. Regular reviews of service competitiveness are becoming common although the process has not yet had a consistent impact. Procurement is increasingly aimed at delivering value for money although the Council does not always check that this has been subsequently achieved.
- 21 Internal control is generally good but weaknesses were found in some material systems. The Council has responded to these findings. The Audit and Corporate Governance Committee provides robust challenge. Risk management is adequate but the Council needs to review the effectiveness and impact of risk management e.g. in helping deliver innovative projects or reducing uninsured claims costs. There is proactive anti-fraud work achieving good outcomes in Benefits. The Audit Commission's National Fraud Initiative (NFI) involves comparing information held on many government systems to identify potential frauds and I assessed the Council's use of this is satisfactory.

Managing resources

- 22 The Council has a joint environmental policy with the NHS but as this is recent, it has not yet delivered outcomes. Targets are being set for improving the Council's use of natural resources but it does not yet have a full set of information that it can monitor progress against. The Council also has plans for major changes to its asset base to ensure that it is fit for its purpose, improves energy efficiency and access to services for the public but these are also at an early stage. The Council is keen to share buildings with other organisations like the Police and the health service so that costs can be reduced and the public get better access. Work on this is starting but the Council also knows that it has a lot of buildings that are not suitable and this will take time to change.

VFM conclusion

- 23 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission specifies each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 24 I issued an unqualified conclusion stating that the Herefordshire Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Delivering value for money in Older Person services

- 25 Demand for the services that support older people in Herefordshire is increasing. Council officers expect an extra 55 per cent of older people will need help by 2020.
- 26 The Council and NHS understand that meeting this increase in demand will have a major impact on the way it delivers services to older people in Herefordshire. They realise that to meet this demand they must make best use of their resources.
- 27 I agreed to work with Herefordshire to review how it has changed its services for older people to deliver better Value for Money.
- 28 I undertook the work in two parts.
- I completed phase one (which looked at how the Council charge for care services and how it managed the cost of its care services) in August 2008. In September 2008, I agreed my findings with the Council. I reported that the Council:
 - was addressing its charging arrangements and had acted to increase the income it received towards the cost of social care services;
 - had set up a ‘re-commissioning project’ designed to address issues we had identified in the way it managed the cost of its care services, including arrangements for analysing the local care market, making homecare pricing simpler and improving monitoring of homecare services: and
 - did not have an effective commissioning strategy.
 - I initially completed phase two (which looked at joint commissioning) in November 2008 and met with senior officers to discuss my findings in December 2008. I reported that the Council:
 - had started to develop a commissioning strategy, but it was still at an early stage in its development;
 - Herefordshire Council had a traditional commissioning process, with older people commissioning only developing in specific areas, such as day care. Social services commissioning lacked direction, with a limited focus on proactive commissioning;
 - NHS Herefordshire commissioning focused mainly on making placements and block contracting (for example acute services and specialist services). It gave little priority to managing local markets and achieving best price;
 - Joint Commissioning was managed through the IMPACT team and overseen by the Adult Commissioning Board, but the team's role had been eroded;
 - An Intermediate Care Strategy had been agreed by the Adult Commissioning Board and several developments were planned (for example, Telecare/ Assistive technology, Extra Care Sheltered Housing, and Reablement Beds);
 - Social Care was represented on the PCT's Professional and Commissioning Executive; and
 - Herefordshire had started to offer individual budgets.

Value for money and use of resources

- 29 The Council explained that it was developing plans to improve joint commissioning. I therefore agreed to review the Council's plans again in February 2009. At that time the Council and PCT told me they had agreed to set up a new 'Integrated Commissioning Directorate' and that the new Directorate would be in place by 31 March 2009. The new structure appeared to address the issues I raised at the end of phase 2, but until restructuring had been completed I could not say if it would deliver improvement. I therefore agreed to review what improvement had been delivered after allowing sufficient time for the changes to make a difference. I plan to do this early in 2010.

Planning services

- 30 The planning system plays an important role in people's lives. Effective land use is vital for the well being of the country. Planning is about delivering what people want: jobs, homes, lively city centres, better transport, and sensitive care for our historic buildings and the countryside.
- 31 An effective, progressive service will enable local community, regional and national priorities to be realised, and do so efficiently, and in a manner which enhances public satisfaction and confidence with both the process and the outcome of the planning decisions the Council makes.
- 32 My work in Herefordshire focused on a narrow range of issues which I had previously identified as potential areas of risk for the Council. I found a number of issues that needed addressing to ensure that in the future more serious problems are avoided.
- 33 I considered that existing planning decision-making arrangements at committee were cumbersome. Key characteristics included a system where all Councillors play a part in decision making through area committees, a two-tier committee structure, and complex referral and delegation mechanisms. Furthermore, I felt the way Councillors participated in planning decision making within these arrangements was having a negative impact on the efficiency and effectiveness of the service.
- 34 The Council was not effectively using the judgements of external bodies, such as the Local Government Ombudsman, the courts, or the Planning Inspectorate to improve the soundness of its planning decision making and its service delivery, and thereby reduce potential risks. The service had overspent by more than £400,000 in legal costs alone in the last four years in defending appeals, yet the Council had so far not accepted the findings of external bodies and initiated appropriate action to minimise future reoccurrence. The Council was also missing the chance to use existing contact with stakeholders, such as the Agent's Forum, as a means of gaining users' views on service quality. There were no mechanisms in place to seek such feedback which could be used to gain external views about the planning service to improve future delivery.

- 35** The existing decision-making procedures for determining planning applications were complex and unlikely to be readily understood by the public. As a consequence, the perception was that they were not consistent, fair or transparent despite the fact that the procedures were formally set out in the constitution. Planning files and reports to committee provided a clear account of how applications have been handled, but on occasions Members were perceived to be voting and making decisions in the absence of established reasons. The call in and referral processes lacked transparency and added delay and uncertainty to the decision-making process. This also led to a lack of accountability for the final decision. The delegation agreement identified what decisions were delegated to officers but its wording was confusing and the number of applications referred to committee remained high. This adversely impacted on the capacity of the planning service.
- 36** Councillors were not effectively balancing their different responsibilities. Councillors took their local representational role very seriously: they had a deep-seated belief that this is the purpose for which they have been elected. However this local advocacy carried over into planning decision-making which was then unduly influenced by the local perspective. This meant decision-making could be overly parochial although it did not routinely raise significant probity issues. This bias was amplified by the existing committee and decision-making arrangements and by the way debate was conducted.
- 37** The quality of training was generally good and it was well received by those members who attended. However, there was no clear structure to training and development opportunities to ensure learning and experience was consolidated, and training was not mandatory or needs based.
- 38** The Council has responded very well to my report to date. A detailed action plan was agreed in July to bring about the delivery of all the recommendations in my report and the recommendations made by the Council's own Environmental Scrutiny Committee Review Group. A new constitution was approved in November which is leading to the introduction of a new single planning committee, new planning delegation arrangements to Officers, a new code of practice on planning matters for officers and members and detailed advisory notes on the operation of the new system.

Follow up of procurement

- 39** In Autumn 2008, I carried out an audit of the Council's developing approach to procurement and of the process for developing the partnership arrangement with Amey Wye Valley and Amey Owen Williams (Amey). I made seven recommendations for improvement and agreed that I would follow up the Council's progress in implementing them.
- 40** I recommended that the Council embeds good procurement practice across the organisation and monitors adherence to the framework: The Council is making steady progress. A revised procurement strategy has been in place since June 2009 and the importance of corporate procurement guidance is being reinforced through a series of training courses.

Value for money and use of resources

- 41 The recommendations I made regarding the change in partnership arrangements with Amey were made whilst the process was on-going to ensure that they were taken on board in good time. These recommendations ranged from performance monitoring, the transfer of risk to the contractor and clarity about the expected savings to be gained from the new approach.
- 42 The Council has responded positively to the recommendations regarding the Amey partnership in our report. It has worked with Amey to develop a performance management framework for the contract. This involves regular reporting on service performance and allows for the contract's contribution towards sustainable community strategy and other Council corporate outcomes to be defined and tracked. Arrangements for the client team include a defined challenge role. In addition to regular internal monitoring and reports to the Strategic Board, progress reports will be provided for Cabinet, Scrutiny and Audit Committee Members. Mechanisms to monitor and report on the delivery of value for money are being put in place. Definitions of the services within the contract identify the key risks and define which partner is responsible for managing the risk. The Council engaged external advice to clarify the expected source and level of savings to be achieved by the revised contract and the findings were built into the performance management framework.

Waste disposal

- 43 The Council is seeking with its partner Worcestershire County Council to vary its privately funded (PFI) contract for waste management which will allow both parties to meet new national targets for recycling and reduce the amount of waste which ends up in landfill sites.
- 44 The Government has set Councils exacting targets for recycling which are above those agreed for the current contract. Targets for reducing the amount of waste which ends up in landfill sites have also been set. The tax on waste going to landfill sites is set to increase year on year providing a major 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.
- 45 Targets for the amount of biodegradable waste which can be sent to landfill sites without financial penalty first impact in 2010 when waste going to landfill needs to fall to 75 per cent of that produced in 1995. Subsequent targets become increasingly hard to meet and failure to meet such targets will result in significant extra costs.
- 46 The Council has worked to reduce the tonnage of waste collected, increase the amount of recyclable waste, and reduce the amounts going to landfill. However, a waste treatment facility is needed to deal effectively with biodegradable waste and until this happens, the Council is at risk of financial penalty.
- 47 Given the potentially long process to achieve a contract variation, the Council needs to be aware of the financial implications of delay.

- 48 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 finances of both Councils because termination clauses in the contract require the Council to make severance payments 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 funding that would be necessary to meet the additional costs.
- 49 I will shortly be carrying out a detailed review of waste collection and disposal arrangements in Herefordshire and Worcestershire as part of my 2009/10 audit.

Financial statements and annual governance statement

Herefordshire Council's financial statements and annual governance statement are an important means by which it accounts for its stewardship of public funds.

Significant issues arising from the audit

- 50** The audit of your financial statements was completed efficiently with the help of good working papers and officers being very responsive to requests for additional information. I reported my findings from this audit to the Audit and Governance Committee in September 2009 and gave an unqualified opinion on these accounts in the same month.
- 51** Our main recommendation in this report was for the Council to include in the balance sheet in future years an estimate of the non-material liabilities in relation to added years of pension awarded to teachers by the former Hereford and Worcester County Council. I also recommended a review of the level of the Council's insurance provision and that the Council brings forward the implementation of a new integrated capital accounting system to replace existing spreadsheets. This will be particularly important with the imminent introduction of International Financial Reporting Standards in Local Government.
- 52** I did not identify any material weaknesses in your internal control arrangements although three material financial systems were considered 'inadequate' by Internal Audit. It is particularly important that the Council continues to address the authorisation control weaknesses such as in the creditors system because of the opportunity they present for fraud.

Grant claims

- 53** I also audit around twelve grant claims on behalf of sponsoring government departments. We made no amendments to any of three largest claims and the audits went well. The audit of the largest claim, Housing and Council Tax Benefit, went particularly well. I applied a different approach this year, relying more on testing carried out by your own Benefits quality checkers. Due to the excellent co-operation and quality of your staff doing this work, the audit of this claim was carried out in a smoother and quicker way. Relatively few errors were found compared to previous years and other councils. This approach has saved the Council a significant sum of money. The Council can improve its administration of smaller grant claims so I am made aware of claims to be audited and they arrive with me in good time to meet deadlines. The working papers for some of these claims could be further improved which would help reduce audit costs further.

Comprehensive Area Assessment

The Comprehensive Area Assessment Lead considered how well public services in Herefordshire are delivering results for local people, focusing on their agreed priorities and how likely it is that services will improve in the future.

She also assessed how well Council is delivering its priority services and outcomes, as well as the Council's capacity to improve.

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- 54** Comprehensive Area Assessment (CAA) is the new framework for the independent assessment of local public services in England. It has two main elements which inform each other.
- 55** The area assessment looks at how well local public services are delivering better results for local people across the whole area. It focuses on their agreed priorities, and how likely they are to improve in the future and Organisational Assessments for councils, combining the external auditor's assessment of value for money in the use of resources with a joint inspectorate assessment of council service performance which is referred to as the managing performance assessment.
- 56** The key findings of the area assessment for Herefordshire are summarised below but more detailed information is on the Audit Commission's OnePlace website www.oneplace.direct.gov.uk/Pages/default.aspx.
- 57** Flags are used to highlight our judgements if, and only if, our assessment shows that the following special circumstances are met in relation to a major issue. A green flag is used to highlight where others can learn from outstanding achievements or improvements or an innovation that has very promising prospects of success. A red flag is used to highlight where we have significant concerns about results and future prospects that are not being tackled adequately. This means that local partners need to do something more or different to improve these prospects. No red or green flags have been identified for Herefordshire. The main highlights of the area assessment were as follows.
- People are healthy overall – but work is ongoing to reduce deaths in road and other accidents, strokes amongst women and obesity in adults and children and to improve children's dental health and ambulance response times.
 - Crime is low and reducing – public bodies work well together to prevent and reduce crime and anti social behaviour.
 - CO2 emissions are high due to reliance on cars and limited public transport.
 - Rural areas have been particularly affected by the recession but overall levels of unemployment are still relatively low.

Organisational assessment

- 58** The Council's organisational assessment score is 2 out of 4. This means that the Council performs adequately. It is on a springboard for future improvement. It has improved the way it manages itself in many areas this year but it is too early to see the full results. It is recognised that very major changes have been made, and are continuing to be made, to the way the Council and NHS Herefordshire, in particular, are working together. Significant work has taken place to plan much improved ways of delivering health and social care across the county. It places the Council in a good position for the future. There is a difference between the scores for use of resources and managing performance. The CAA Lead and I decided that the score should be that overall Herefordshire Council performs adequately rather than well because although the Council are doing well in changing the way services are provided, these changes will be very challenging and it is too early to see all the results.
- 59** The Council scores 3 out of 4 for managing its performance. It has good plans for the future of the county which means radically changing the way that organisations work together. These plans are clearly based on the needs and views of a wide range of local people. It has made changes to services that have led to improvements for people. For example, more affordable housing is being provided, homelessness is being prevented more effectively, Telecare and extra care housing means older people are able to live more independently.
- 60** Ofsted has rated the Council's children's services as performing well. A level exam results are amongst the best in the West Midlands and GCSE rates are improving. The Council knows it needs to improve results up to Year 6. It looks after the children in its care well.
- 61** Services for adults are improving and people are being more involved in planning and deciding the care they get although this needs to be done more systematically. The Care Quality Commission has rated the Council's adult social care services as performing well. The Council is helping more people to live independent lives and is making major changes to how services are provided so that the numbers can increase in the future. However, the Council does need to get better at collecting the views of people who use services and make changes as a result. Improvements are also needed to ensure that people continue to get the support they need when being discharged from hospital and that older people get assessed quickly.
- 62** The Council understands the needs and views of people in Herefordshire very well. It carries out annual surveys to find out what people want and need from the Council and collects information through a range of other methods. And it uses this information to change the way it does things. Its new Herefordshire 100 programme is helping it improve understanding of the full range of communities in the area and it is working well to provide information and support for the migrant workers in the area. It is beginning to use its information on peoples needs to commission services from organisations who can provide specialist care and help but this is not happening consistently yet.

- 63 A recent survey shows that 87 per cent of people in Herefordshire are satisfied with their immediate local area as a place to live. This is broadly the same as the average for similar areas and higher than the national average of 81 per cent. The Council is carrying out research to find out why people's satisfaction with its individual services is better than their satisfaction with the Council as a whole.
- 64 The Council has responded well to the problems caused by the recession. It is ahead of its targets for processing new Housing and Council Tax benefit claims and has worked with NHS Herefordshire to create 80 apprenticeships for young people. Housing and Council tax benefits are being provided efficiently.
- 65 As part of their new closer working, the Council and NHS Herefordshire are taking a very detailed look at services that they and other organisations could provide together.
- 66 The Council suffered a high profile set back in 2007 as a result of the publication of a report into its purchase of IT systems and the expenses claimed by some IT staff. The Council has addressed the issues in the report well and is now better placed to manage the improvement of its IT systems.

Closing remarks

- 67 I have agreed this letter with the Chief Executive and the Director of Resources. I will present this letter at the January Cabinet meeting and will provide copies to all Members.
- 68 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Herefordshire Council during the year.

Table 2

| Report | Date issued |
|---------------------------|---------------|
| Audit plan | March 2008 |
| Planning Services Review | January 2009 |
| Procurement review | May 2009 |
| Adult Social Care | November 2008 |
| Annual Governance Report | June 2009 |
| Final Accounts Memorandum | October 2009 |
| Use of Resources | November 2009 |

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- 69 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence. The actual audit fee for 2008/09 was reported to the Audit and Governance Committee in September 2009.
- 70 Herefordshire Council has taken a very positive and constructive approach to our audit. I wish to thank the staff for their excellent support and co-operation during the audit.

Elizabeth Cave
District Auditor
December 2009

Appendix 1 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|---|--|--------------------------------------|--------|----------|-------------|
| | Annual Audit Letter 2008/09 Recommendations | | | | | |
| 4 | R1 Continue to actively pursue a satisfactory conclusion to waste management as soon as possible. | 3 | Director of Environment and Culture | Yes | | August 2010 |
| 4 | R2 Ensure that the recommendations in the detailed use of resources report are delivered. | 3 | Director of Resources | Yes | | April 2010 |
| 4 | R3 Continue to make progress in changing the way planning services are provided. | 3 | Director of Regeneration | Yes | | May 2010 |
| 4 | R4 Respond to recommendations in my follow up report on Adult Social Care in early 2010. | 3 | Director of Integrated Commissioning | Yes | | June 2010 |

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.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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| | |
|------------------------------|---------------------------------------|
| MEETING: | AUDIT AND GOVERNANCE COMMITTEE |
| DATE: | 29 JANUARY 2010 |
| TITLE OF REPORT: | USE OF RESOURCES 2009 |
| DIRECTOR OF RESOURCES | DAVID POWELL |

CLASSIFICATION: Open

Wards Affected

County-wide.

Purpose

To report to the Audit and Governance Committee on the Use of Resources 2009 and identify the improvement opportunities and next steps.

Key Decision

This is not a Key Decision.

Recommendations

- THAT**
- (a) **Audit and Governance Committee comment on the report;**
 - (b) **Audit and Governance Committee comments on the opportunities for improvement; and**
 - (c) **Agrees to receive an update on progress at the next meeting.**

Key Points Summary

1. The new assessment of use of resources is broader and more demanding.
2. The Council's performance is assessed as adequate.
3. The Council has continued to make progress.
4. Management of finances is assessed as performing well.
5. The deep partnership with the PCT is leading to improved working at service level.

Further information on the subject of this report is available from
David Powell, Director of Resources on (01432) 383519

Alternative Options

6. No alternative options have been identified.

Reasons for Recommendations

7. Under the Constitution the Audit and Governance Committee considers reports of external audit and inspection agencies and takes appropriate action where relevant to the committee remit. This includes reviewing and commenting on external audit reports.

Introduction and Background

8. The Use of Resources assessment has become a key component in the overall judgment about how well councils manage and use their resources. Under the original assessment criteria there was evidence of average scores improving. This was true of Herefordshire which achieved an overall “3” in the final year of the old assessment.
9. In order for the process to play a more appropriate outcome based approach in line with the new Comprehensive Area Assessment (CAA) the new assessment of Use of Resources has become broader and more demanding. It is fair to say it covers a wider area than just core elements that included finance, internal control and value for money. These three areas accounted for the five themes under the old assessment.

Key Considerations

10. The new assessment has three themes and these are as follows:
 - (a) Managing finances, which covers how effectively the organisation manages its finances to deliver value for money;
 - (b) Governing the business, which covers how well the organisation governs itself and commissions services that provide value for money and delivers better outcomes for local people; and
 - (c) Managing resources, which covers how well the organisation manages its natural resources, physical assets and people to meet current and future needs and delivers value for money.
11. The three themes outlined above are further divided into Key Lines of Enquiry (KLOEs). The following table gives the detailed scores.

| | |
|---|--------------------|
| THEME 1 – MANAGING FINANCES | 3 (OVERALL) |
| KLOE 1.1 – Financial Planning | 3 |
| KLOE 1.2 – Understanding Costs and Achieving Efficiencies | 3 |
| KLOE 1.3 – Financial Reporting | 3 |
| THEME 2 – GOVERNING THE BUSINESS | 2 (OVERALL) |
| KLOE 2.1 – Commissioning and Procurement | 2 |
| KLOE 2.2 – Data Quality and Use of Information | 2 |

| | |
|---|--------------------|
| KLOE 2.3 – Good Governance | 2 |
| KLOE 2.4 – Risk Management and Internal Control | 2 |
| THEME 3 – MANAGING RESOURCES | 2 (OVERALL) |
| KLOE 3.1 – Use of Natural Resource | 2 |
| KLOE 3.2 – Strategic Asset Management | 2 |

THEME 1 – MANAGING FINANCES

12. The integration of the Medium Term Financial Strategy (MTFS) with other processes has been effective and transferred money into priority areas. A good track record of staying within overall budget is assisted by a collective responsibility for managing finances.
13. Good financial challenge from members has supported the overall assessment.
14. Revenue collection by the Benefit & Exchequer Service has been a continuing success despite the economic downturn.
15. The assessment confirms the Council remains a generally low cost authority. Benchmarking is carried out across a range of key services but is inconsistent. The Council acknowledges it needs to extend its developing understanding of value for money. Information on cost of services has been used in service redesign but not all key areas.
16. Financial reporting is assessed as timely, comprehensive and understandable which provides a reliable base for decision-making. CIPFA's benchmarking data indicates a high degree of customer satisfaction with financial information.
17. The assessment noted good collaborative preparations being put in place for the introduction of IFRS. The challenge and review of accounts by the Audit and Governance Committee was very comprehensive.
18. Treasury management arrangements have responded well to the recent events but the assessment notes it may therefore be timely to enhance the scope for reporting to members. Training for members and the content of the annual treasury management policy may also require review.
19. In summary the managing finances themes performs well.

THEME 2 – GOVERNING THE BUSINESS

20. A developing understanding of inequalities, diversity and need for the range of Council Services is noted in the assessment along with the collection of up to date information on local needs and views. This is starting to be used to shape the delivery of key services.
21. The Council is developing a track record of effective involvement of users and stakeholders in commissioning services.
22. There is a developing understanding of the supply market that when allied to the exploration of different options for procuring services indicates that improvements can be delivered. However, there is the need for greater consistency and a more comprehensive approach.

23. The assessment indicated data quality has improved but overall progress towards the data quality action plan has been slower than expected. Services are improving the validation of data although there is still a reliance on manual systems.
24. Good evidence of progress was evident in the domiciliary care review that used higher quality data to make decisions around service improvement.
25. The assessment also noted the outcome of the Planning Review that concluded better use could be made of the judgement of external bodies to improve decision making. The council responded to the findings in a positive manner.
26. Stretching targets are set but delivery is not consistent. It is positive that steady improvement is being made in the historically underperforming areas of adult social care.
27. The good governance KLOE notes good progress to embed a strong ethical framework and culture. This is evidenced by the high profile given to ethical issues.
28. The alignment of arrangements to monitor and review performance of the Council and PCT (NHS Herefordshire) is on-going.
29. The Council's constitution has been reviewed by INLOGOV and it is positive that this has informed the revised constitution.
30. The deep partnership with the PCT and the process around developing joint plans is beginning to inform how services work together to deliver better outcomes. Improved joint working is evident at service level around issues such as swine flu and emergency planning.
31. The risk management and internal control KLOE notes the role of the Audit and Governance Committee in providing very effective challenge and scrutiny on governance, audit and accounting issues with a consequent influence on outcomes and actions.
32. Internal Audit's key role in the Council's assurance framework is acknowledged. The reports from internal audit provided assurance that all but three of the key financial systems operated at a satisfactory level.
33. In summary the governing the business theme performs adequately.

THEME 3 – MANAGING RESOURCES

34. The Council's use of natural resources is developing but gaps such as a lack of comprehensive information on energy use remain. On a positive note the Council's Carbon Management Action Plan and Local Climate Impacts Programme will help better planning in the future to adapt to the effects of climate change.
35. Planned major changes to the asset base will support reduced CO² use as well as other improvements. Work on this is starting but the Council acknowledge it has a lot of buildings that are not sustainable and this will take time to change.
36. The overall assessment of theme 3 is that the Council is performing adequately.

Next Steps

37. The Use of Resources assessment makes 16 recommendations and these are to be the subject of an action plan to joint management team. It is proposed that the next Audit and Governance Committee receives a position statement on the action plan along with timeline for delivering progress in 2010.

Community Impact

38. The new Use of Resources assessment focuses on outcomes and these have a key impact on communities. There is also an assessment made about how well the Council engages with users and communities.

Financial Implications

39. There are no financial implications.

Legal Implications

40. There are no legal implications

Risk Management

41. There are no risk implications

Consultees

None

Appendices

Use of Resources Report

Background Papers

None

Use of Resources

Herefordshire Council

Audit 2008/09

Date November 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

This report summarises our key findings from my assessment of how Herefordshire Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people.

- 1** The new assessment of use of resources this year is broader and more demanding. Against the new criteria, I have assessed that Herefordshire Council has adequate arrangements for managing and using its resources to deliver value for money and better and sustainable outcomes for the people of Herefordshire. In relation to those areas I have reviewed previously, I consider that the Council has continued to make progress.
- 2** The Council performs well in managing its finances. It has good medium term financial planning and monitors its budgets tightly. However it is not yet using information on costs and performance consistently in making decisions, although this is advancing. Its overall costs remain generally low although there are some high spending areas
- 3** The Council has a joint environmental policy with the PCT but as this is recent, it has not yet delivered outcomes. Targets are being set for improving the Council's use of natural resources but it does not yet have a full set of information that it can monitor progress against. The Council also has plans for major changes to its asset base to ensure that it is fit for its purpose, improves energy efficiency and access to services for the public but this is also at an early stage. The Council is keen to share buildings with other organisations like the Police and the health service so that costs can be reduced and the public get better access. Work on this is starting but the Council also knows that it has a lot of buildings that are not suitable and this will take time to change.
- 4** The way that the Council and other organisations monitor and manage their performance has improved. The Council had to do a lot of work to make sure that the data that it produces is accurate. This is starting to pay off as the information that it uses to make decisions is getting better although it is not complete yet. Councillors and senior managers actively challenge how services are being delivered and make sure that improvements are made where necessary. But some of the reports that Councillors get to help make decisions are not always clear.
- 5** Our detailed findings are shown in Appendix 1.

Introduction

- 6** This report sets out my conclusions on how well Herefordshire Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people and give scored use of resources theme judgements.
- 7** In forming my scored theme judgements, I have followed the methodology set out in the [use of resources framework: overall approach and key lines of enquiry \(KLOE\) document](#) and the use of resources [auditor guidance](#). For each of the specific risks identified in relation to our use of resources work, which were set out in our audit plan, I considered the arrangements put in place by the Herefordshire Council to mitigate the risk and plan our work accordingly.

Use of resources framework

- 8** From 2008/09, the new use of resources assessment forms part of the [Comprehensive Area Assessment \(CAA\)](#) and comprises three themes that focus on:
- sound and strategic financial management;
 - strategic commissioning and good governance; and
 - the management of natural resources, assets and people.
- 9** The scores for each theme are based on the scores reached by auditors on underlying KLOE. The KLOE are generic and applicable equally to all organisations subject to use of resources judgements under CAA. This promotes consistency, demonstrating all organisations within a CAA area are treated in the same way, and to the same standards.
- 10** The Commission specifies in its [annual work programme and fees document](#), which KLOE are assessed over the coming year.
- 11** Judgements have been made for each KLOE using the Commission's current four point scale from 1 to 4, with 4 being the highest, please see Table 1. Level 1 represents a failure to meet the minimum requirements at level 2.

Introduction

Table 1 **Levels of performance**

| | |
|----------------|---|
| Level 1 | Does not meet minimum requirements – performs poorly |
| Level 2 | Meets only minimum requirements – performs adequately |
| Level 3 | Exceeds minimum requirements – performs well |
| Level 4 | Significantly exceeds minimum requirements – performs excellently |

Source: [use of resources framework: overall approach and KLOE document](#)

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Use of resources judgements

Scored judgements

12 Herefordshire Council's use of resources theme scores are shown in Table 2.

Table 2 Use of resources theme scores

| Use of resources theme | Scored judgement |
|--|------------------|
| Managing finances How effectively does the organisation manage its finances to deliver value for money? | 3 |
| Governing the business How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people? | 2 |
| Managing resources How well does the organisation manage its natural resources, physical assets and people to meet current and future needs and deliver value for money? | 2 |

Managing finances

13 The Council is operating at level 3 for the managing finances theme. There is a good well integrated system for medium term financial planning linked to priorities and we have seen many positive outcomes from this process. It is advancing its use of costs and performance in decision making and commissioning but this is not yet done consistently. Needs analysis in key areas such as social and community health care has driven policy making and resource allocation in adult social care but the Council acknowledges the need to extend its developing understanding of value for money (VFM) and extend this approach to its work in partnership (with the PCT and more generally) by means of joint commissioning processes that have VFM testing as an integral part. Debt collection is good. The process for the production and audit of financial statements is good. Annual reports etc are very accessible and

Use of resources judgements

understandable and the public appreciate this. Internal users view financial information positively. Treasury management arrangements are robust and have been adapted to recent events. The Council did not have any Icelandic investments at the time of their collapse. Given the risks prevalent now, consideration should be given to enhancing the scope of reporting to members. This should consider issues such as the audience, content and frequency of monitoring reports (including benchmarking of performance), training for Members and the content of the annual treasury management framework/policy approved by Members. Six monthly briefings on treasury management have started to be circulated to Members.

| Recommendation | |
|-----------------------|--|
| R1 | Report the Council's progress in reducing the Council's environmental footprint to the public. |
| R2 | Review reporting arrangements to Members on treasury management issues. |
| R3 | Provide training to Members on treasury management activities |
| R4 | Embed benchmarking and use of comparative information on costs, performance and whole life costs across all services |

Governing the business

- 14** The Council is operating at level 2 for the Governing the Business theme. There is a developing understanding of local need. There is some emerging good practice in the involvement of users in the commissioning of services in some areas but the involvement of councillors in key commissioning decisions is under developed. A range of work is ongoing to restructure service design and delivery in response to need but it is not yet resulting in consistently improved outcomes across key services. Although some joint procurement has occurred, its impact on services for the public is to date limited. Understanding of the supply market is developing although it is not embedded across the Council and the PCT. Comparative data to help gain a more rounded picture of the supply market has been collected. The Council has begun to use this to commission services but as this work is ongoing it is not yet having a consistent impact. Different options for service procurement are explored but this is not done comprehensively. A new Learning Disabilities contract is in place and block contracts are used to ensure effective social services provision in rural areas but in other areas such as the new highways contract the impact on outcomes is not established. Regular reviews of service competitiveness are becoming embedded although the process has not yet had a consistent impact on outcomes. Procurement frameworks are increasingly focused on delivering vfm although there are gaps in tracking of whether this is being achieved.

- 15 The deep partnership with the PCT is beginning to inform the way that services work together. A joint corporate plan is being developed with the PCT. There is a shared risk management framework in place for the two organisations. The deep partnership with the PCT is beginning to lead to improved joint working at service level. activity around swine flu & emergency planning is leading to greater joint working.
- 16 Data quality has a high corporate profile and influences the development of protocols and outlines of staff responsibilities. Internal control is generally good but weaknesses were found in some material systems. The Audit and Governance Committee provides robust challenge. Risk management is adequate. There is proactive anti-fraud work achieving good outcomes in Benefits.

| Recommendation | |
|----------------|---|
| R5 | Improve the information provided for decision makers to ensure that it includes sufficient detail and background information on options |
| R6 | Ensure that the principles of good governance are applied to all significant partnerships |
| R7 | Formally review the effectiveness of Internal Audit |
| R8 | Review the effectiveness and impact of risk management for example in helping deliver innovative projects or reducing claims costs |
| R9 | Formally review the effectiveness of counter fraud arrangements and expand the reporting of results of both proactive and reactive fraud work |
| R10 | Review the effectiveness of business continuity plans. |
| R11 | Ensure that understanding of the supply market is developed and consistently used across all services |
| R12 | Ensure that revised procurement arrangements and guidance are understood and consistently adhered to across all services |
| R13 | Ensure that arrangements for monitoring & review of performance of the Council & PCT are effective & embedded |

Managing resources

- 17 The Council is operating at level 2 for the Managing Resources theme. There is a joint environmental policy between the Council and PCT to address carbon management and climate change, as well as protect and enhance biodiversity, landscape and historic assets helps develop and embed the concept of joint planning and delivery of public services across the two organisations. However as this plan has been recently produced its impact on outcomes is limited to date. Targets are being set for arrangements for improving the use of natural resources but there is not yet a full set of information against which progress can be monitored. A Corporate Asset

Use of resources judgements

Management Plan has been updated for 2008/09. The Council is planning major changes to its asset base to ensure that it is fit for purpose. These include the disposal of a range of existing buildings and the investigation of options for co-location with partners. These plans are aimed at reducing CO2 use, improving energy efficiency and access to services for the public but as they are at an early stage these benefits are not yet being delivered

Recommendation

R14 Improve and embed the use of asset management considerations in service planning and delivery

R15 Actively publicise awareness of the community asset transfer scheme once finalised

R16 Develop and implement an action plan for the proposed reduction in CO2 emissions

Detailed findings

18 The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

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Use of resources 2009/10

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2009/10. My work on use of resources informs my 2009/10 value for money conclusion.

- 19** An additional KLOE, 3.3 - Managing Workforce will apply for 2009/10. KLOE 3.1 - Natural resources will not be assessed for single tier and county councils in 2009/10.

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Appendix 1 – Use of resources key findings and conclusions

20 The following tables summarise the key findings and conclusions for each of the three use of resources themes.

Table 3 Theme 1 - managing finances

| | |
|--|----------|
| Theme 1 score | 3 |
| KLOE 1.1 (financial planning) | 3 |
| Key findings and conclusions | |
| <p>The Council has a very comprehensive and well integrated medium term financial planning and budgeting processes to support the delivery of the corporate and community plans. There have been several examples where money has been transferred into priority areas such as adult social care and childrens services (to get more experienced social workers and better foster care), which have lead to service improvement. Increases in funding for foster care have come from rationalisation of school transport service costs which also improved the Council's carbon footprint. The Medium Term Financial Plan (MTFP) includes implications of other internal plans e.g. ICT strategic spend and joint plans e.g. waste. The framework of collective responsibility for financial management has underpinned a good track record of spending within available resources. There was yet again a small predicted under spend in 2008/09. The Council has recognised the need to better communicate the key aspects of its financial strategies to stakeholders and to demonstrate how the outcomes of stakeholder consultation and equalities initiatives feed into future plans. Outcomes have included more resources for the community protection team.</p> <p>Revenue collection targets have been stretched with collection close to or above target for much of 2008-2009 despite the economic downturn. The collection rates for major income sources such as council tax are in upper quartile comparatively. Individual and collective responsibility for financial issues are taken seriously. Good financial training has been delivered which has contributed to good challenge on financial matters from Members and officers and the good financial outturn position.</p> | |

55

| | |
|---|----------|
| Theme 1 score | 3 |
| KLOE 1.2 (understanding costs and achieving efficiencies) score | 2 |
| Key findings and conclusions | |
| <p>The Council remains a generally low cost authority with a mixture of performance. In some higher spending areas such as Education performance is good whereas in other instances spending has been directed to deliver the improvements that the council acknowledges need to be made.</p> <p>Benchmarking is carried out across a range of key services but this is inconsistent and in some areas membership of benchmarking clubs is new so details of comparative performance and outcomes are not available. Services are building their knowledge of comparative service costs and are using this in their future planning although gaps remain in some areas (e.g. Benefits and Exchequer services) because collection of information is at an early stage so comparative data is limited. The Council acknowledges the need to extend its developing understanding of vfm and extend this approach to its work in partnership (with the PCT and more generally) by means of joint commissioning processes that have vfm testing as an integral part.</p> <p>Challenge to existing delivery of services is improving. Services are required to regularly review delivery to ensure it meets priority needs. This process is beginning to result in some improved outcomes for users across some, but not all, services including the introduction of a roving night care service.</p> <p>Information on costs and performance has been used in the redesign of some but not all key services. A comprehensive needs analysis of social and community health care, benchmarked against good practice and expenditure in comparable, high performing areas was carried out and resulted in an additional £2.8m being put into adult social care and £0.7m into children’s services in 2007/08. Further resources were added in 2008/09. The Council is seeking to improve areas of under performance through this additional investment. Additional social workers have been recruited to address gaps in capacity to carry out safeguarding requirements. However there have not been similar initiatives on this scale in other service areas. Some services are beginning to use information on service costs in planning future commissioning but this is not yet resulting in consistently improved outcomes. For example in the Children’s and Young peoples directorate there is an acknowledgement of high spending on external placements and a commitment to secure improved services and vfm through better commissioning but this is not yet having an impact.</p> <p>Commissioning and procurement is influenced to an extent by information on whole life costing but this is incomplete. The recent letting of the waste contract has been directly informed by the assessment of the whole life costs of the contract but the Council recognises that this approach needs</p> | |

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Appendix 1 – Use of resources key findings and conclusions

| | |
|---|----------|
| Theme 1 score | 3 |
| to be built on and used across the organisation. Training on whole life costing is being included in corporate procurement training. The Council has exceeded its efficiency targets. It has made £14m savings in the last 3 years against a target of £10m | |
| KLOE 1.3 (financial reporting) score | 3 |
| Key findings and conclusions | |
| <p>Internal users receive regular, timely, comprehensive and understandable financial information which provides a reliable base for decision-making. Outturn forecasting was very accurate for revenue expenditure but the material slippage of the Council's sizeable capital programme was not foreseen. The ledger system uses tailored budget profiles. Financial Services consulted users on their financial reporting needs and provided training to help users make the best use of upgraded reporting tools. CIPFA 2008 benchmarking data indicates a high degree of user satisfaction with the adequacy, timeliness and clarity of financial information compared to other councils. Reports to Members provide a sound base to support strategic decision-making and identify the recovery actions needed where overspending is identified.</p> <p>There are good and effective arrangements for producing annual financial statements. Working papers and co-operation were good which lead to a very efficient audit process. The challenge and review of the accounts by the Audit and Governance Committee was very comprehensive. Good collaborative preparations are being made for introduction of IFRS.</p> <p>The Council publishes its financial information widely and in accessible formats/languages for external users but as yet has not published information on the Council's carbon footprint. The Council magazine "Herefordshire Matters" goes to all Herefordshire households. It includes information on the Council's finances. The 2007/08 and 2008/09 financial information for the public went through a comprehensive review and assessment process involving the Council's communications team to help deliver an understandable document. Consultation on publications providing financial information has led to more use of plain language and avoidance of jargon. This has contributed to the increase in the proportion of people surveyed who understood how their Council Tax was spent.</p> <p>Treasury management arrangements are robust and have adapted to recent events, but given the risks prevalent now, consideration should be given to enhancing the scope of reporting to Members. This should consider issues such as the audience, content and frequency of monitoring reports (including benchmarking), training for Members and the content of the annual treasury management</p> | |

57

| | |
|---|----------|
| Theme 1 score | 3 |
| framework/policy approved by Members. Six monthly briefings have started to be circulated to Members. | |

Table 4 Theme 2 - governing the business

| | |
|--|----------|
| Theme 2 score | 2 |
| Key findings and conclusions | |
| KLOE 2.1 (commissioning and procurement) score | 2 |
| Key findings and conclusions | |
| <p>The Council has a consistent and improving vision of the intended outcomes for local people. It has a developing understanding of inequalities, diversity and need for the range of Council services. The Council complements regular reviews of its corporate plans with strategic needs assessments (JSNA) for key groups and carries out an annual satisfaction survey which mirrors the biannual national survey and enables tracking of local views year on year. This ensures that the Council is collecting up to date information on local needs and views and this is beginning to be used to shape the delivery of key services. The JSNA is augmented by a prioritised programme to fill key gaps</p> <p>There is a developing track record of effective involvement of users and stakeholders in commissioning services. The new Learning Disabilities contract involved input from partner organisations. Partner organisations and the third sector are actively involved in The Supporting People Commissioning Body to develop new services although outcomes are limited at this stage.</p> <p>The Council is seeking to improve customer experience, quality and vfm through the redesign of services and effective use of IT but this is at an early stage. Major changes to the Amey contract looked at whether service redesign is the best way forward and a number of significant joint procurement opportunities in relation to hardware, software and service support, including ‘quick wins’ (e.g. ICT training). As yet however these initiatives have not led to improved outcomes for the public. Services are aiming to provide improved services through better use of IT but again the impact on outcomes for service users are limited to date. The Benefits and Exchequer service is exploring opportunities for greater automation of processes and wider system integration including links with the PCT as part of the move to deeper partnership.</p> | |

58

Appendix 1 – Use of resources key findings and conclusions

| | |
|--|----------|
| Theme 2 score | 2 |
| <p>Understanding of the supply market is developing but this is at an early stage. Historically the Council has not had the information it needs from the local market to plan services. In particular there has been a poorly developed relationship with residential care providers. The Council has taken a range of steps to improve this and the new commissioning directorate created in January 2009 aims to embed use of information to improve outcomes for service users. The Council is beginning to embed the use of Spikes Cavell data to develop understanding of the market but it also recognises that areas of improvement include further work needed to review the market, working more closely with the NHS.</p> <p>There is a developing corporate vision for procurement that aims to respond to the information collected on user need. Work to revise procurement arrangements is ongoing and is progressing well although translating this into action in directorates is not complete.</p> <p>Different options for procuring services are explored but this is not done comprehensively. The new contract for Learning Disabilities services with Midland Heart has taken a range of information on the needs of service users and commissioned a reconfigured set of services as a result. However the Council also acknowledges the need for greater working with other organisations to deliver procurement savings. As yet the evaluation of different options alone or with partners is not undertaken as a matter of course.</p> <p>Systems are in place for regularly reviewing the competitiveness of Council services although their full impact is unproven. The Directorate and service planning guidance notes that as part of the planning process services should evaluate the effectiveness and efficiency of existing services to ensure that they meet prioritised needs and aspirations and re-prioritise to meet new challenges. However as the guidance was introduced for the 2009-11 planning round its full impact on outcomes for local people has not yet been felt.</p> | |
| KLOE 2.2 (data quality and use of information) score | 2 |
| <p>Key findings and conclusions</p> <p>Data quality has improved. It has a high corporate profile and this influences the development of protocols and outlines of staff responsibilities. However overall progress towards the data quality action plan has been slower than expected although this has improved recently. Services are improving the validation of data to ensure its quality and support for staff with data quality responsibilities is improving although there is still a reliance on manual systems and in knowledge of contracts. Progress is being made on data sharing protocols with key partners and the Council is continuing to raise staff awareness of the need to comply with them. Effective progress has been made on the embedding of measures to secure data security.</p> | |

Theme 2 score

2

Improved data is increasingly being used to support decision making. In Social Care the improvements provided by the Frameworki database and the processes now in place to ensure its continued quality mean that the Council can has more complete, accurate and easily retrieved data. As a result it can more accurately model changes to service provision across the County. The domiciliary care review carried out last year is an example of higher quality data being used to make decisions that improve the services provided. This helps delivery of the personalisation agenda which is a key Local Area Agreement (LAA) target.

Improved data is also being provided to help inform decision making in Education although it is not yet resulting in improved outcomes. By giving schools access to an extended range of code-sets for both ethnicity and first language and supporting them throughout, results from the school census have enabled the Council to identify more specifically the ethnic origin of pupils and those whose first language is other than English. This will enable the Council to target resources more specifically and appropriately to those pupils who might need extra support.

The Council has not been consistently providing information that is fully fit for purpose for decision makers. Our recent review of Planning concluded that the Council is not effectively using the judgements of external bodies, such as the Local Government Ombudsman, the courts, or the Planning Inspectorate to improve the soundness of its planning decision making and its service delivery, and thereby reduce potential risks. In response to the report the Council has made changes to the way that reports are prepared. The review of procurement noted that reports to Councillors on key strategic decisions lacked background detail.

Corporate objectives and targets are cascaded through the organisation. The Council’s performance improvement cycle integrates all aspects of corporate, directorate, service, financial and workforce planning. It clearly 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. However reporting of financial information is still not consistently aligned with that on performance.

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. Steady improvement is being made in the historically under performing area of adult social care. 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. Although education performance is generally strong the Council did not meet its

g

Appendix 1 – Use of resources key findings and conclusions

| | |
|--|----------|
| Theme 2 score | 2 |
| <p>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</p> | |
| KLOE 2.3 (good governance) score | 2 |
| Key findings and conclusions | |
| <p>The Council is aiming to improve its governance arrangements to ensure that they are transparent, fit for purpose and understood internally and externally but this work is still ongoing. INLOGOV have been carrying out a review of the Council's constitution and the Council have included their recommendations in its revised constitution produced in 2009/10.</p> <p>Good progress is being made to develop and embed a strong ethical framework and culture. The induction day for Councillors includes a session on the role of the Standards Committee. The independent chair of the committee has a high profile and has delivered training and awareness raising sessions for members, backed up by written information in a briefing pack for members. The Council has held two joint training sessions with the Herefordshire Association of Local Councils. Briefing papers have been produced for those involved in or attending Standards Committee hearings. The Committee has responded effectively to its increased role in assessing and reviewing local complaints. The high profile given to ethical issues and the repeated reference to the code helps build awareness of the importance placed upon it across all Councillors.</p> <p>Procedures for whistle blowing are clearly communicated to the public and to partners.</p> <p>The Council aims to apply the same principles and values of good governance to the LSP as to its internal arrangements but it is not clear whether this is also done for the other significant partnerships. There is a Joint Assurance Framework with the PCT, which is reviewed by the Herefordshire Public Service Steering Group. However there is no information on the arrangements for other key partnerships.</p> <p>The Council and PCT are working to align arrangements for monitoring and review of performance of the two organisations but this work is at an early stage. Work on the development of a performance management framework for both organisations is ongoing and a review of corporate performance management and of what basket of PIs is needed to report to Members & PCT Non Executive Directors to give them enough information to know if priorities are being delivered has been completed although its findings have not been implemented yet.</p> | |

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| | |
|--|----------|
| Theme 2 score | 2 |
| <p>The deep partnership with the PCT is beginning to inform the way that services work together. A joint corporate plan is being developed with the PCT. There is a shared risk management framework in place for the two organisations. The deep partnership with the PCT is beginning to lead to improved joint working at service level. activity around swine flu & emergency planning is leading to greater joint working.</p> | |
| KLOE 2.4 (risk management and internal control) score | 2 |
| Key findings and conclusions | |
| <p>The Council has implemented an appropriate risk management framework which encompasses partnership. Risk management arrangements are embedded to varying degrees in directorates and business processes. We have not identified reports that set out the impact that the Council's risk management arrangements have had in terms of, for example, helping to deliver innovative or challenging projects, organisational change or reduced claims and costs.</p> <p>The Council has appropriate policies and policy statements in place which are kept up-to date and has established a corporate fraud group. There is a good level of proactive benefits fraud investigation and outcomes from this including eight cautions and 15 penalties. Reporting of the results of the proactive and re-active fraud investigation work that takes place is on an exception basis only. Revised terms of reference for the Audit and Governance Committee in July 2009 include the role of considering the effectiveness of counter-fraud and corruption arrangements, but these arrangements have not yet been formally reviewed or assessed against professional guidance or best practice.</p> <p>The Council's influential Audit and Governance Committee provides very effective challenge and scrutiny on governance, audit and accounting issues and influences outcomes and actions. The process for follow up is very robust. Internal audit reports on controls testing provided assurance that all but three of the Council's key financial systems operated satisfactorily in 2008-09. Internal audit play a key role in the Council's assurance framework, but the Council has not yet formally assessed the effectiveness of its system of Internal Audit. There have not yet been reports that provide assurance to Members on the effectiveness of business continuity plans.</p> | |

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Appendix 1 – Use of resources key findings and conclusions

| | |
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| Theme 2 score | 2 |
|----------------------|----------|

Table 5 **Theme 3 - managing resources**

| | |
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| Theme score | 2 |
| Key findings and conclusions | |
| KLOE 3.1 (use of natural resources) score | 2 |
| Key findings and conclusions | |
| <p>The Council is developing useful information on its use of natural resources although gaps remain. Council owned buildings, including schools, are all metered and data is collected on readings and intelligent estimates for Council buildings. The Council's Emissions Inventory shows that energy use in Council buildings varies considerably from year to year and that further work is needed to establish the causes of these variations. Consistently accurate comparisons between periods cannot be made. Therefore the Council does not yet have comprehensive information on its energy use on which to base its decision making or to monitor progress against.</p> <p>Some good progress is being made to develop strategies for improving the Council's use of natural resources. The Council has a Carbon Management Action Plan to drive its annual 1.5 per cent carbon reduction target and has recently completed a draft Local Climate Impacts Programme, which looks at the effects of climate change on the county and Council service delivery by examining severe weather effects over the last ten years. This enables the Council to better plan to adapt to the effects of climate change.</p> | |

64

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|---|-----------------|
| <p>Theme score</p> | <p>2</p> |
| <p>The Council is developing targets to aid its management of performance to reduce its impact on the environment but this is at an early stage. It is leading a local contribution to tackling climate change through the LAA target for a 13.1 per cent per capita reduction in CO2, countywide. As an action plan is not yet in place the Council and its partners are not yet able to gauge whether current activity is having the desired impact on the LAA target. It is building carbon reduction targets into refurbishment plans for office accommodation and for development of IT infrastructure. The Council recognises that it needs to set more ambitious targets for minimising its impact on the environment to enable it to demonstrate that it is taking a lead in this area. A report to Environment Scrutiny committee in March 2009 notes that its internal target for year on year reductions in emissions is lower than the reduction set by leading local authorities and lower than the LAA target for the county of Herefordshire (average 1.6% a year).</p> <p>The Council is committed to reducing its impact on the environment and has managed a range of schemes to help achieve this. Schemes include installing grey water systems in new build establishments to store and re-use rain water; supporting Halo to invest in energy saving initiatives via the Salix fund investment; more efficient use of school transport planning and purchasing of local produce for school meals to reduce food miles and better controls on ventilation systems including variable speed controls and better zoning.</p> <p>There is a joint environmental policy between the Council and PCT to address carbon management and climate change, as well as protect and enhance biodiversity, However as this plan has been recently introduced its impact on outcomes is limited.</p> | |
| <p>KLOE 3.2 (strategic asset management) score 2</p> | <p>2</p> |
| <p>Key findings and conclusions</p> | |
| <p>A strategic approach to asset management is beginning to become embedded through the deployment of supporting documents and guidance. There is a corporate asset management plan updated for 2008/09. Roles and responsibilities are clearly outlined and a mini asset management guidance document for staff has been provided to raise awareness and ensure that best practice is followed when acquiring, occupying or selling land. However the Council acknowledges that the guide needs to be more widely used and that the inclusion of asset management considerations into service planning and delivery needs to be more consistent</p> | |

Appendix 1 – Use of resources key findings and conclusions

| Theme score | 2 |
|---|---|
| <p>The Council is planning major changes to its asset base to ensure that it is fit for purpose. These include the disposal of a range of existing buildings and the investigation of options for co-location with partners. These plans are aimed at reducing CO2 use, improving energy efficiency and access to services for the public but as they are at an early stage these benefits are not yet being delivered. The Council is keen to share buildings with other organisations like the Police and the health service so that costs can be reduced and the public get better access. Work on this is starting but the Council also knows that it has a lot of buildings that are not suitable and this will take time to change.</p> <p>A draft community asset transfer strategy is in production and as a result the Council does not yet have a strategic framework to explore the possibility of this with community groups.</p> | |

DRAFT

Appendix 2 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|----------------|--|----------------|--------|----------|------|
| | | | | | | |
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DRAFT

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|-------------------------------------|---|
| MEETING: | AUDIT AND GOVERNANCE COMMITTEE |
| DATE: | 29 JANUARY 2010 |
| TITLE OF REPORT: | INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) |
| TECHNICAL ACCOUNTING MANAGER | HEATHER FOSTER |

Wards Affected

None affected.

Purpose

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

Key Decision

This is not a Key Decision.

Recommendation

THAT the Audit and Governance Committee comment on the report.

Key Points Summary

- The council will be required to produce IFRS compliant accounts from 2010/11, with restated comparative data for 2009/10. PFIs and similar contracts are being accounted for under IFRS a year early, from 2009/10.
- A detailed project plan has been prepared and is attached as Appendix A.
- An asset register system has been procured and will be used to set up the IFRS compliant register for 2010/11.
- The Government has issued draft regulations to mitigate the effect of IFRS accounting on council tax.

Alternative Options

1. There are no alternative options as all councils are required to produce IFRS compliant accounts from 2010/11.

Further information on the subject of this report is available from Heather Foster, Technical Accounting Manager on 01432 260284

Reasons for Recommendations

2. Not applicable.

Introduction and Background

3. It was agreed at the Audit and Governance Committee meeting on the 23 January 2009 that the progress report and action be presented at future meetings.

Key Considerations

Project plan

4. Since the report to the Audit and Governance Committee on 20th November 2009, a detailed project plan has been developed and is attached as Appendix A.
5. The initial outline plan included a deadline for restatement of the 1st April 2009 balance sheet by December 2009, as suggested by the CIPFA project template. However, this deadline has now slipped partly due to staff sickness, the volume of work and the late publication of the IFRS Code. At a recent CIPFA event it was recognised as being an aspirational date which most councils were not achieving. The IFRS Code itself was not published by CIPFA until December 2009 and received by the council on Christmas Eve. The slippage is not considered critical to the overall achievement of the IFRS implementation. In the 2010/11 budget, subject to Council approval, £40,000 has been set aside for the implementation of IFRS if additional resources are required.
6. The Audit Commission is being kept informed of progress.

PFI and similar contracts

7. Accounting for PFI and similar contracts under IFRS has been brought in a year early, from 2009/10, so work on this has been made a priority.
8. The council has two PFI contracts, Whitecross school and Waste Disposal, both of which will be brought onto the council's balance sheet in the 2009/10 accounts. The calculations for the Waste Disposal contract are being undertaken by Worcestershire County Council and the treatment for both contracts are being audited by the Audit Commission in February, in advance of the main year-end audit.
9. A review of contracts with private contractors that include services and provision of assets is to be undertaken in order to identify any which may fall under the definition of a service contract and therefore treated in the same way as a formal PFI. The two main tests are:
 - (1) Does the authority control or regulate what services the operator must provide with the property, to whom and at what price?
 - (2) Does the authority control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the property at the end of the term of the arrangement.

Asset Register

10. The council's fixed asset register is currently a stand alone spreadsheet-based system, which in the Audit Commission's Final Accounts report was described as 'cumbersome, labour intensive and creaking at the seams'. The system would not have been able to effectively

cope with the requirements of IFRS and posed a risk to the auditors' opinion on the accounts.

11. An integrated property management and asset register system, K2, has now been procured from Tribal. This will be implemented over the next few months and will provide a single source of property data and functionality to deal with the additional requirements of IFRS (e.g. component accounting).

Draft Regulations

12. The government has issued draft regulations to mitigate the financial impact of implementing IFRS so that there is no impact on council tax.
13. Councils often own and grant leases on buildings (e.g. shops and industrial units) from which rents make a substantial contribution to revenues. Under IFRS some of these leases may be reclassified as finance leases instead of operating leases. This would result in the rent ceasing to be revenue income and instead becoming a capital receipt and therefore no longer able to support revenue expenditure. The draft regulations protect councils from the revenue shortfall by allowing a concession that this will only apply to leases entered into post November 2009. Leases granted after this date will be treated under the new accounting rules.
14. The IFRS accounting standards require local authorities to make a charge each year for the value of holiday entitlements that employees have not taken by the end of the financial year. However, the draft regulations negate this impact by providing that this is not actually charged to the council's revenue account.

Community Impact

15. Not applicable.

Financial Implications

17. There may be financial implications as set out in the report.

Legal Implications

18. None.

Risk Management

19. 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 evidenced by attendance of staff on relevant training courses.
20. The successful delivery of unqualified accounts will require greater involvement from non-financial services staff than has previously been the case.
21. 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. £40,000 has been earmarked in the 2010/11 budget to purchase additional support if required.

Consultees

22. None.

Appendices

23. Appendix A – IFRS Detailed Project Plan.

Background Papers

- CIPFA LAAP Bulletin 80 March 2009 – Implementation of IFRS – Outline Project Plan

| | | | | |
|---|--|---|---|---|
| <p>Transition Balance Sheet / accounts</p> <p>72</p> | <ul style="list-style-type: none"> • Obtain information required to restate 1 April 2009 balance sheet • Set up IFRS compliant financial statements templates • Need to prepare transition balance sheet by restating opening 1.4.09 balances for IFRS. | <p>Nov 09 Revised date Mar 10</p> <p>Nov 09</p> <p>Dec 09 Revised date Mar 10</p> | <ul style="list-style-type: none"> • Equipment leases have been reviewed. Land leases are being reviewed. PFI calculation with external audit for review. Contracts being reviewed to identify embedded leases. Holiday and flexi calculation completed Meetings held with external audit to discuss approach • Skeleton accounts prepared based on draft code • Key areas identified and being progressed. Cipfa have acknowledged that Dec was an aspirational target, which councils are not achieving. | <p>Finance project team</p> <p>Heather Foster</p> <p>Heather Foster</p> |
| <p>IFRS Statement of Accounts</p> | <ul style="list-style-type: none"> • Complete comparative shadow accounts and notes for 2009/10 under IFRS • Full statement of accounts required 30th June 2011 (for year ended 2010/11) | <p>Aug 2010</p> <p>June 2011</p> | <ul style="list-style-type: none"> • Key areas identified | <p>Heather Foster</p> |
| <p>Produce reconciliation statement where implementation of IFRS has a significant impact. Need to reconcile taxpayers equity between 31/3/09 accounts produced under UKGAAP and IFRS accounts produced at 1/04/09 under IFRS</p> | <ul style="list-style-type: none"> • Financial statements need to be amended to the new format (statement of financial position, statement of income, cash-flow statement, statement of changes in equity etc). • 3rd column on balance sheet to be added for prior year adjustments • Need to produce a reconciliation between UK GAAP and IFRS | <p>Mar-10</p> | | <p>Heather Foster</p> |

| Key Areas in detail | Action Required | By | Progress to date | Lead role |
|---|---|-----------|--|-------------------------|
| Format of Accounts | | | | |
| Format of financial statements, main statements and disclosure required in the notes significantly changes under IFRS | <ul style="list-style-type: none"> Review CIPFA Guidance and training materials Review format of the financial statements and new notes etc required Set up financial statements pro-forma template will all revised statements and notes | Nov 09 | Completed in line with draft Code by mid Dec. To be reviewed on publication of final Code. | Heather Foster |
| Operating segments: | | | | |
| This objective is to do with the disclosure of information that enables the reader of the financial statements to evaluate the nature and financial effects of business activities. | <ul style="list-style-type: none"> Review alignment of internal and external reporting formats Review need to produce balance sheet for each "segment" i.e. each SLB level council service? Still need to prepare accounts on BVACOP basis. | Nov 09 | Skeleton accounts include BVACOP analysis in I&E statement with Directorate analysis in notes. Awaiting guidance on B/S – anticipating only one segment required. | Heather Foster |
| Leases (IAS 17) | | | | |
| Leases need to be split between the land and building elements and re-assessed as operational or finance. | <ul style="list-style-type: none"> Obtain list of all leases (land and buildings, equipment etc), incl. schools Split assets of leased properties between value of land and value of buildings List all properties and lease end dates / annual lease payments Identify those leases where buildings lease is equal 20 years or more and review leases against IAS 17 criteria For leased buildings under 20 years, identify significant leases and review against IAS 17 criteria Review all equipment leases where lease payment significant or lease term is majority of asset life Determine whether leases are operational or finance | Dec 09 | <ul style="list-style-type: none"> Property list received Operating and car leases available Large number of property leases below £10k deminimus Lindsey reviewing major contracts list and periodic payments | Josie Smith/Alison Hext |

| | | | | |
|---|---|--|---|---|
| | <ul style="list-style-type: none"> List and Review all contracts for embedded leases Ensure there is a timetable for collection of data from third parties if necessary (identify who these third parties may be and the data required) Produce schedule / WP on classifications Produce schedule / WP of accounting adjustments required for transition balance sheet | | | |
| Private Finance Initiative | | | | |
| <p>Where the public sector body controls both the assets usage and the residual interest, it will come on to their balance sheet as an asset. Also an entry will need to go on the balance sheet in the form of a liability in a manner similar to a finance lease.</p> <p><i>Brought in 1 year early – from 2009/10 accounts</i></p> | <ul style="list-style-type: none"> Draw up schedule of PFI schemes Review PFI agreements under IFRIC 12 to determine if on or off balance sheet Obtain details for each scheme for the project agreement, variations, financial model etc Apply control tests under IFRIC 12 to determine if each scheme is on or off balance sheet Determine fair value of assets at inception date Calculate interest rate implicit in contract Split unitary charge between principal, interest / finance charge and service cost Remove all unitary charge costs from accounts Recognise assets and liabilities on balance sheet, account for service costs and MRP Restate balance sheet as at 1.4.08 and 08/09 comparative figures: <ul style="list-style-type: none"> Value assets as at 1 April 09 Action accounting entries for revaluation Calculate revised CFR and adjust Prudential indicators Audit commission review of PFI treatment Treatment of PFI support grant needs to be accounted for in line with IAS 20 Produce 2009/10 accounts on PFI IFRS basis | <p>Nov 09</p> <p>Jan 10</p> <p>Feb 2010 May 2010</p> | <ul style="list-style-type: none"> 2 PFIs – Whitecross school and waste disposal. WCC leading on Waste. Both to be brought ‘on-balance sheet’ Contract cash flows identified and initial calculations sent to Audit Commission Meeting held with Audit Commission and WCC. | <p>Josie Smith</p> <p>Alison Hext</p> <p>Sarah Curtis</p> <p>Audit Comm</p> |

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| Service Concessions –IFRIC 12 | | | | |
| ‘Similar contracts’ to PFI where the operator constructs or enhances infrastructure used in the provision of a public service, and operates and maintains that infrastructure for a specified period of time. | <ul style="list-style-type: none"> Identify potential contracts through contracts register Obtain legal advice on potential contracts | Feb 2010 | Initial list of potential contracts; <ul style="list-style-type: none"> Waste collection – not IFRIC 12 Shaw Homes | Josie Smith Martin Watts/Linden Dunham |

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|--|--|--------|--|----------------|
| Financial Instruments: (IAS 23 & 39) | | | | |
| (Financial instruments were adopted in UK GAAP for local Government for the 2007/08 closedown.) This necessitated an examination of all financial contracts the Local Authority was a party to. Further work will be needed to extend the information further. | <ul style="list-style-type: none"> Update IFRS financial statements templates for any new notes / disclosure requirements | Nov-09 | | Heather Foster |

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|--|--|-------------------------------------|-----------|--------------------------------|
| Employee Benefits: (IAS 19) | | | | |
| This IFRS specifically requires Authorities to accrue for untaken holiday entitlement and flexi-leave at year end. | <ul style="list-style-type: none"> Design form for collecting holiday and flexi information – non-schools Agree approach with external audit Collect data for 31/3/09 from sample of staff to restate the balance sheet 1/4/09 Calculate 2008/09 closing accrual for non-schools staff Estimate accruals for school based staff using CIPFA methodology | July-09 Aug-09 Oct 09 | Completed | Shirley Coultas/Julia Hathaway |

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| | <p>under IFRS balance sheet.</p> <ul style="list-style-type: none"> • Restate 2009/10 transactions for revaluations, depreciation and acquisitions | Aug 2010 | | |
|--|---|----------|--|--|

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|---|--|--|--|--------------------------|
| Non Current Assets Held for Sale | | | | |
| <p>IFRS definition is much tighter than the SORP definition for Surplus Properties.</p> | <ul style="list-style-type: none"> • Review all Surplus assets for compliance with the IFRS definitions of Held for Sale and transfer any out which do not meet this definition. • Transfer any properties currently within Operational categories, which are due for sale and restate values at lower of carrying cost or fair value less costs to sell. • Restate the opening balance sheet for these changes • Write back any depreciation charged on assets held for sale in transition balance sheet. | | | Alison Hext/Sarah Curtis |

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| Intangible Assets: (IAS 38) | | | | |
| <p>As the SORP rules for identifying Intangible Assets was tighter than allowed under IFRS, It is unlikely that any transition actions will be required.</p> | <ul style="list-style-type: none"> • Review Intangible assets for compliance with IFRS and restate balance sheet for any which are affected. | Dec-09 | | |

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|--|---|----------|--|--|
| Impairment of Assets: | | | | |
| <p>IFRS requires a different approach to charging for impairment costs. Under IFRS only the amount which exceeds any balance on the Revaluation Reserve is charged to I&E.</p> | <ul style="list-style-type: none"> • Determine whether any changes required for 1/4/09 balance sheet. • Review 2009/10 impairments accounting for possible restatement. | Mar 2010 | | |

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|--|---|----------------------|--|-------------------------------|
| There is a clear distinction between Impairment and Revaluation. | | | | |
| Infrastructure Assets | | | | |
| Valuation of infrastructure assets to move to current valuation after 2010/11 | <ul style="list-style-type: none"> There are no transition changes to Infrastructure Assets as the basis of valuation is unaltered in 2010/11 WGA return for 2009/10 will require gross replacement cost to be identified | TBC July 2010 | | Julia Hathaway |
| Cashflow statement | | | | |
| New format - Simplified headings .Cashflow reconciles cash and cash equivalents rather than liquid resources. | <ul style="list-style-type: none"> Restate 2009/10 cash flow for IFRS format | Aug-10 | | Heather Foster |
| Group Accounts | | | | |
| Accounting for subsidiaries not significantly different to UK GAAP. Definition of associates changed under IAS 28 | <ul style="list-style-type: none"> Review group account arrangements under IFRS 3, IAS 28 and IAS 31 Review joint arrangements as to whether they constitute a joint venture | Mar 2010 | | Heather Foster/Legal Services |
| Capital Grants | | | | |
| | <ul style="list-style-type: none"> Review disclosure notes for grants and income against revised income recognition guidance Government grants to be recognised in I&E account as received under IFRS Government Grants Deferred Account to be written off to CAA on transition Review treatment of Unapplied and unspent capital grants. | Mar-10 | | Josie Smith |

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|------------------------------|---|
| MEETING: | AUDIT AND CORPORATE GOVERNANCE COMMITTEE |
| DATE: | 29 JANUARY 2010 |
| TITLE OF REPORT: | TENDERING OF THE CONTRACT TO BUILD THE NEW HEREFORD LIVESTOCK MARKET |
| DIRECTOR OF RESOURCES | DAVID POWELL |

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To inform the Audit and Governance committee of the process used during the procurement of the contract to construct the New Livestock Market.

Key Decision

This is not a Key Decision.

Recommendation(s)

THAT:

- (a) **The committee comments on the report**

Key Points Summary

- The Livestock Market procurement process was primarily driven by the requirement to keep the site build within the quoted cost.
- There was also a secondary requirement to keep the time to procure as short as possible.
- The most timely and cost effective route to procure a contractor to develop the scheme was to make use of an existing local government framework agreement.
- At the time of the procurement process the SCAPE framework was identified as being the only local government framework that could support the potential value of the works.

Further information on the subject of this report is available from
David Powell, Director of Resources (01432) 383519

Alternative Options

- 1 Alternative options were considered and are detailed in Appendix 1.

Reasons for Recommendations

- 2 This report has been drawn up in response to a requirement from the Audit and Corporate Governance Committee that: “a report is submitted to the next meeting detailing the tendering for the cattle market contract”

Introduction and Background

- 3 A new livestock market enables the existing livestock market to move from its current dilapidated seven acre city centre site in Hereford. A new livestock market will provide the county’s farming industry with a modern, well-designed facility which will support the rural economy. A consequence of this will be to release prime development land for the city’s new retail and leisure quarter. A project board and team are currently directing the project.
- 4 The justification, legal position and site option appraisal for the relocation of the livestock market was reported to Cabinet on the 21st December 2006 when Cabinet agreed the site and, in principal, the relocation of the Livestock Market
- 5 A further report was submitted to Cabinet on 24th January 2008 and it was resolved that agreement be given to complete the purchase of the preferred site. It was also agreed that amendments to the restrictive covenants on the site should be taken forward and that further work be undertaken on funding and procurement of the livestock market and seeking planning permission for its construction.
- 6 A further report was submitted to Cabinet on 1st October 2009 and it was resolved that the allocation of funding for the construction of a new livestock market and associated transportation improvements be approved and that delegated authority to the Director of Regeneration to proceed with the procurement and appointment of a contractor to develop the new livestock market be approved.

Key Considerations

- 7 The most timely and cost effective route to procure a contractor to develop the scheme is to make use of an existing local government framework agreement. The SCAPE framework agreement has been used to scope the costs of construction. An outline of the SCAPE framework is given in Appendix 1. The main benefit of this scheme is the guarantee of a capped construction cost. Preliminary negotiations with SCAPE, in conjunction with the Livestock Market Auctioneers have produced a saving in the order of £1,000,000 over the original design. Flexibilities within the framework have meant that we are examining further possible savings. Wilmott Dixon Construction Ltd are the current preferred contractor that will deliver the scheme within the framework.

Community Impact

- 8 The proposals to build a new Livestock Market are consistent with the Community Strategy and its commitment to support economic development and enterprise in the county by investing in key infrastructure to support the local economy. The market has been developed in consultation with HMA and the National Farmers Union who are the key users of the development. There has been significant community consultation over a number of years with regard to the selection of the site and the proposals to relocate the market. The provision of a

new livestock market will ensure ongoing continuity of local supply in the local food chain.

- 9 Wilmott Dixon Construction Ltd have indicated that they have an approved list of Herefordshire based contractors who have been appointed based on a number of criteria including health and safety, quality, management and financial stability. Should Wilmott Dixon Construction Ltd be confirmed as the contractor they have indicated they will ensure that local companies are given the opportunity to tender for a range of work which could include but not limited to Concrete Production, Steelwork and Block/Brickwork. Wilmott Dixon have also indicated that both in terms of their direct needs and sub-contractor requirements they would be looking to recruit local labour where possible.

Financial Implications

- 10 The cost of developing the site (building and infrastructure) and hence the total value of the contract is currently estimated at £7.1million.
- 11 As part of the original Cabinet decision and as a condition of the application it has been agreed that a number of traffic improvements and transport schemes on the surrounding road network be added to the work required to develop the site. These are likely to cost in the order of £530,000. The final figure will be confirmed subject to a separate tender process.
- 12 A total of £7.7m has been identified for allocation to the project from capital receipts reserves. It may be possible to drive further savings from the capital costs through value engineering with the contractor, however if this is not possible it may be necessary to make a further bid to the capital programme particularly for the required transport improvements
- 13 Work will continue with the contractor throughout the term of the contract to drive down costs further. The appointment of independent assessors to confirm value for money is also being explored.

Legal Implications

- 14 The legal position in respect of the council's responsibility to provide a new Livestock Market is set out in the Cabinet report of 21st December 2006. This includes the provisions of the historic charters, case law and the Hereford Markets Act 2003. The council also has legal obligations in respect of its lease arrangements with the Hereford Market Auctioneers.
- 15 The procurement process for the construction contract was carried out by the Council's strategic procurement officer with the full support of the Council's legal services. Due process was followed and Council's standing orders with regards to procurement were adhered to. A Contract Approval Request dated 18th September 2008 is included in Appendix 2.

Risk Management

- 16 The primary risk associated with the placing of any large contract is that of cost overrun. The use of the SCAPE framework agreement will mitigate the risk of cost overruns as will the introduction of some budget for contingency as per industry standards.

Appendices

- 18 Appendix 1 – The New Livestock Market Procurement Process
Appendix 2 – Contract Approval Request

Background Papers

19 Cabinet Report - 1st October 2009, Item 1 on the agenda

APPENDIX 1 – THE NEW LIVESTOCK MARKET PROCUREMENT PROCESS

The New Livestock Market Procurement Process

The Livestock Market procurement process was driven by the requirement to keep the site build within the quoted cost. There was also a secondary requirement to keep the time to procure as short as possible.

The initial decision was with regard to whether a “design and build” or straightforward “build” contract should be used.

The appraisal of this was carried out by the council’s strategic procurement manager in December 2007. (Results below)

PROCUREMENT ROUTE OPTIONS

DESIGN AND BUILD

An arrangement where one contracting organisation takes sole responsibility, normally on a lump sum fixed price basis, for the bespoke design and construction of a client’s project.

| | |
|---------------------------|---|
| ADVANTAGES: | <ul style="list-style-type: none"> ❑ Complete service from a single source – one point of responsibility. ❑ Easier to integrate the design and construction components resulting in better time and cost performance. ❑ Fewer defects due to closer working relationship. ❑ Strict adherence to agreed programmes and budgets. ❑ Less administrative work for the client (post contract award). ❑ Full understanding of design and client requirements. |
| POINTS TO WATCH: | <ul style="list-style-type: none"> ❑ Changes to requirements can be very expensive and destroy price certainty. ❑ Output specification must be very clear to prevent a reduction in the finished quality of the facility. |
| RISK: | <ul style="list-style-type: none"> ❑ Risk of design not working is passed to the supplier. |
| COST MANAGEMENT: | <ul style="list-style-type: none"> ❑ Cost certainty with fixed lump sum payment. ❑ R.I.C.S. research states 20% cost reduction achievable throughout project. |
| TIMESCALE CONSIDERATIONS: | <ul style="list-style-type: none"> ❑ Lost time from re-starting procurement process (PQQ stage and OJEU notice issue = 37 days). ❑ End to end procurement time period will be 5 calendar months est. |

BUILD ONLY

| | |
|---------------------------|--|
| ADVANTAGES: | <ul style="list-style-type: none"> ❑ Easier to assess and evaluate the tender responses as all based on the same design |
| POINTS TO WATCH: | <ul style="list-style-type: none"> ❑ Lack of understanding of the design process. ❑ Poor planning of design (budget and time). ❑ Conflict of perception of design between contractors and designers. ❑ Uncertainty over cost and build time. |
| RISK: | <ul style="list-style-type: none"> ❑ Risk of design not working remains with the Council. |
| COST MANAGEMENT: | <ul style="list-style-type: none"> ❑ Uncertainty over final build cost. ❑ Cost may be driven down but possibly reducing the quality of the facility. ❑ May not be able to reduce costs without significantly changing the design plans. |
| TIMESCALE CONSIDERATIONS: | <ul style="list-style-type: none"> ❑ PQQs ready to evaluate then further 3.5 calendar months to contract award. |

With the approval of the Council's Property Services department the decision was taken to go down the "Design and build" route in January 2008.

At this time the PB looked at using a framework contract as a means of ensuring a rapid "design and build" contractor engagement with a capped cost.

Comparitive Key Issues/Advantages –

Pre-Existing Framework Versus Traditional New Tender Process :

| Existing Framework | New Process |
|--|---|
| <p>Much quicker to establish, simply sign up to use the Framework agreement. Deadlines re vacating the old site make this a vital Issue. Also note it saves Officers a significant amount of time.</p> | <p>Will take three months or more longer to award a Contract from 'scratch' (including the option to set up a new, specific, Framework Agreement).</p> <p>Complex tenders can take many months to conclude.</p> |
| <p>Opportunity (as in this case) to select a Framework and Supplier set up by Local Authorities and with experience of working with LA's.</p> | <p>In a new Tender Process it would not be allowed to exclude bidders that do not have Public sector experience which adds risk in the suitability of suppliers coming forward .</p> |
| <p>Opportunity (as in this case) to select ; a). open book arrangement, and</p> | <p>Both would have to be negotiated/offered by winning bidder and therefore not guaranteed.</p> |

| | |
|---|--|
| <p>Opportunity (as in this case) to select ;</p> <p>a). open book arrangement, and b). a capped cost,</p> <p>thus increasing budgetary control and the ability to achieve best value.</p> | <p>Both would have to be negotiated/offered by winning bidder and therefore not guaranteed.</p> |
| <p>Early engagement is possible with the Supplier (as soon as signing up to use the Framework), Thus enabling advice to be sought on ;</p> <p>a) The Programme; b) Costings; c) Specific project details,</p> <p>immediately.</p> | <p>Cannot start on this until after Contract award which would be several months later (see above).</p> |
| <p>Selecting a suitable Framework offers the chance to include work on Flood Alleviation and seek cost efficiencies on both projects.</p> | <p>Setting up a new Contract that allows this opportunity would take longer (as above), and is not a guaranteed outcome. May require each Project to be separate processes and Contracts.</p> <p>The key benefit of a clean start is, it offers the chance to set up a highly-tailored solution, but takes longer, is not guaranteed re timescales, and quality of outcome, and is only an advantage if a suitable Framework is not already available.</p> |

After concluding that a framework contract would be best suited to the needs of the project the SCAPE framework was proposed by the council's property services department as a suitable partner.

The council's strategic procurement and legal departments examined the SCAPE agreement and process. The following assessment was made:

Scape Construction Framework Agreement

What is it?

Scape is a Local Authority controlled company offering a framework agreement for design, build, consultancy for bespoke projects as well as "system build" technology.

The framework supplier is Wilmott Dixon, who have local sites at Birmingham, Bristol and Cardiff.

Flexibilities within the framework

- Ability to conduct pre-build dialogue and use Wilmott Dixon in a consultative capacity to discuss aspects of the project.
- Customer nominated design team or contractor nominated design team.

Legal and procurement considerations

- The framework has been through an “OJEU” tender satisfying requirements of EU Procurement Directives.
- Accessible by any UK public sector organisation.
- Open book costing ensuring VfM can be demonstrated.
- All sub-contract work subject to competitive tendering allowing local suppliers to bid for aspects of the project.

Principle features of the framework

- Cost control and ordering procedures.
- Engaging the client in the process.
- Simple process to follow.
- Risk management.
- Open book and transparent.
- Performance monitoring procedures.

Target costs

- Savings up to 100% of target cost – shared 50:50.
- 100-105% target cost – client pays.
- Over 105% target cost – contractor pays.

Key benefits of framework

- Reduced procurement timescales.
- A framework developed by Local Authorities understanding the needs of Local Authority projects.
- Cost certainty and cost management.
- Value for money
 - Use of open book accounting providing thorough audit trail
 - Works packages subject to competitive tendering
- Buildings which fit the client’s needs.
- Pre-build discussions allowed.
- Commitment to sustainable development.

In an update to Community Services Scrutiny committee on 18/04/08 Members were advised that work had started with the SCAPE framework organisation on driving down the cost of constructing the new livestock market.

Informal meetings between officers and lead councillors took place in order to guide officers in taking preliminary steps. It was agreed that the framework contract initial stage be commenced with SCAPE for Willmot Dixon to provide an estimate of the works and other pre-construction services. A contract for these initial stage services was entered into on 4th November 2008.

The result of this initial stage is a capped quote for £7.1m.

APPENDIX 2 – CONTRACT APPROVAL REQUEST

NEW LIVESTOCK MARKET

Contract Approval Request

FROM : GEOFF HUGHES, Director of Regeneration – H11

TO : ALAN McLAUGHLIN, Assistant Chief Executive – Legal and Democratic Services – H11

DATE : 18th September 2008

Purpose

Following consultation with Officers and necessary Cabinet Approval and in accordance with section 7 of Appendix 5 of the Council's standing orders, this memo authorises the Assistant Chief Executive – Legal and Democratic to formally execute an access agreement with the SCAPE framework organisation and place a Project Order authorising the initial costing and feasibility activity for the new Livestock Market.

Background Information

The council followed guidance from its Head of Property Services and Strategic Procurement Manager and identified the SCAPE local government framework as being able to offer the range of construction services required for the Livestock Market Project.

The terms of the framework agreement also guarantee a capped cost for any project orders placed within it.

To date, preliminary negotiations with the SCAPE framework organisation have been overseen by the Council's Legal and Strategic Procurement services and have been carried out in accordance with Council's contract procedure rules extant at the time.

Authorisation

I would be obliged if the Assistant Chief Executive – Legal and Democratic could arrange for the signature of the attached framework access agreement and initial stage Project Order with the SCAPE framework organization (in duplicate).

GEOFF HUGHES

Director of Regeneration

| | |
|------------------------------|--|
| MEETING: | AUDIT AND GOVERNANCE COMMITTEE |
| DATE: | 29 JANUARY 2010 |
| TITLE OF REPORT: | REVIEW OF PROCEDURES AND PROCUREMENT WITHIN PROPERTY SERVICES |
| DIRECTOR OF RESOURCES | DAVID POWELL |

CLASSIFICATION: Open

Wards Affected

County-wide.

Purpose

To report to the Audit and Governance Committee the review of procedures and procurement within Property Services

Key Decision

This is not a Key Decision.

Recommendations

THAT Audit and Governance Committee note the report.

Key Points Summary

1. A contract review handled by Property Services found that procedures needed enhancement.
2. The selection of potential suppliers to tender for the works followed the Contract Procedure rules.
3. Property Services had applied appropriate in-scope definition to works under the Partnership Agreement.
4. Schedules of Rates would enhance the agreement.

Further information on the subject of this report is available from
David Powell, Director of Resources on (01432) 383519

Alternative Options

2. No alternative options have been identified.

Reasons for Recommendations

3. The Council needs to ensure it has appropriate procedures and procurement within Property Services to demonstrate value for money and compliance with existing partnership arrangements.

Introduction and Background

4. At the Audit and Governance Committee held on 20th November 2009 the Chief Internal Auditor's Interim Audit Services Assurance Report updated committee on the work status whilst also bringing to committee's attention any key internal control issues. As part of the discussion a member felt it appropriate that Value for Money issues should be considered by the committee. The committee resolved that a report be submitted to the next meeting detailing the review of procedures and procurement within Property Services.
5. The content of this report draws on two key documents. The first covered contract letting in the Resources Directorate that was carried out during April and May 2009. The second document was commissioned by the Director of Resources in September 2009 to establish whether Property Services had followed relevant contractual arrangements. Both documents were produced by Internal Audit.

Key Considerations

6. The review of contract letting focussed on one specific contract with a value of £50,001. The audit found that whilst Property Services contract selection and award procedures were conducted fairly, in accordance with formal quotation procedures and in a regularised manner they did not adhere to elements of the Council's Standing Orders Contract Procedures Rules. When the audit was carried out formal tendering procedures were handled by Property Services without the involvement of Legal and Democratic services.
7. Property Services selected five contractors from the approved contractors list. Assessment was made primarily on price.
8. The audit also noted that formal tendering procedures were applied to the contract as the total cost was between £50,001 and the prevailing European Procurement Limit.
9. The audit noted that improvements could be made to the controls covering invitation and receipt of tenders. Officers present at the tender opening signed the "opening register" but the recording of other key documents was not done. The approach taken when opening the tenders involved appropriate numbers of officers
10. Other issues noted included lack of evidence that the unsuccessful tenderers received "apology letters".
11. Contract Procedure rules at that time stated all contracts must be signed by the Head of Legal and Democratic Services. The order for the Building Works was raised and signed by an officer in Property Services.
12. The audit indicated concerns that resulted in a "marginal" assessment being reached by Internal Audit.

13. Committee should note that following the appointment of the Contracts and Commissioning Officer in January 2009 a comprehensive review of Property Services procurement practices was initiated following discussions between the Director of Resources and Head of Asset Management and Property Services. The starting point was the Approved Supplier Register that was reviewed from both a policy and procedural point of view in accordance with the Corporate Property Strategy, and the Council's Constitution (Appendix 3). This exercise was completed in August 2009 and involved Strategic Procurement, legal Services, Environmental Sustainability and Corporate Diversity. New criteria are in place to ensure compliance with Corporate Policy.
14. The second key document informing this report is a system review that assessed whether Property Services had followed relevant contractual arrangements with AMEY Wye Valley. This review was carried out in September and October 2009 at the request of the Director of Resources.
15. The review looked at procedures and controls surrounding the commissioning of works by Property Services specifically in relation to in-scope works and to consequent commissioning of such work through the Service Provider.
16. The test checking of certain works found that all bar one were correctly assessed as, correctly, not in-scope. The one found to be in-scope was covered by exceptional circumstances. The audit gave rise to a number of issues for consideration:
 - Formal acknowledgement by both parties of working arrangements that have developed to identify and resolve day to day issues surrounding commissioning of works;
 - Modification to standard documentation, specifically the works control sheet, to record the basis for the assessment of works as being not in-scope prior to approval;
 - Agreed schedules of rates and, where appropriate, market based pricing;
 - A formal agreement between the parties concerning the commissioning of specialist work;
 - Formal guidelines prepared by Property Services surrounding joint funded works and works commissioned by other Council departments; and
 - A formal process for identifying the Service Provider's resource capacity.
17. This is the first audit of this type, however the Partnership Board received a report that included reference to work categorised as "schemes which are bundled together to make the total exceed the core works threshold of £200,000". The Partnership Board that included representatives of the Council agreed that "bundling" of work, to take it above the *de minimis* level should cease.
18. The agreement also notes that specialist work is outside of the capability of the Service Provider.
19. One issue that should be resolved is the absence of a schedule of rates. This makes it difficult to demonstrate that in scope works offered to the provider represent Value for Money. However, one of the clauses in the agreement effectively allows Property Services to determine the price for which all in scope work is carried out. This would require the proposed price to be based on reasonable market rates.

20. However, it is much preferred that we do have a schedule of rates and discussions about setting this up have commenced between the Resources Directorate and the Service Provider.

Financial Implications

21. The Council must be able to demonstrate and evidence value for Money. Effective contract letting and delivery of the Service Delivery Agreement can help deliver this outcome.

Legal Implications

22. Contract letting has a clear legal requirement. If this is not carried out in an acceptable manner the Council is open to legal challenge.

Risk Management

23. The risk that can arise is that officers through lack of awareness or unclear procedural frameworks do not apply consistency to contract letting. This can be mitigated by training and effective internal controls.

Consultees

Internal Audit

Appendices

None

Background Papers

Property Services: AMEY In Scope Works
Contract letting – Resources Directorate 2008/09 Systems Review

| | |
|-------------------------------|---------------------------------------|
| MEETING: | AUDIT AND GOVERNANCE COMMITTEE |
| DATE: | 29 JANUARY 2010 |
| TITLE OF REPORT: | AUDIT AND GOVERNANCE CODE |
| CHIEF INTERNAL AUDITOR | TONY FORD |

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To present to members of the Audit and Governance Committee the Audit and Governance Code previously approved by Council on 13th November 2009.

Key Decision

This is not a Key Decision.

Recommendation

THAT subject to any comments by the Committee the report be noted.

Key Points Summary

- The new Audit and Governance Code is operational from 1st January 2010.
- The **annual governance statement framework** identifies the individual systems and sources of evidence used to support the preparation of the **annual governance statement**.
- 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.
- 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.
- 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

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

Alternative Options

- 1 As the Audit and Governance Code forms part of the Council's Constitution there are no alternative options.

Reasons for Recommendations

- 2 To update members on the requirements of the new Audit and Governance Code.

Introduction and Background

- 3 The Council has appointed the Audit and 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.
4. The main purpose of this Committee is therefore to review and approve the Council's annual governance statement and annual statements of account.
5. 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.

Key Considerations

6. 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.
7. The Committees terms of reference is summarised in paragraph 8 to 18 below.
8. To consider the effectiveness of the Council's risk management arrangements, the control environment and associated counter fraud and corruption arrangements.
9. Seek assurance that action is taken on risk related issues identified by auditors and inspectors.
10. 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.
11. Approve internal audit's strategy and plan and oversee performance.
12. Review summary internal audit reports and the main issues arising, and seek assurance action is taken where necessary.
13. Receive the annual report of the Head of Internal Audit.
14. Consider the reports of external audit and inspection agencies and take appropriate action where relevant to the committee remit.
15. Ensure there are effective relationships between external and internal audit, inspection agencies and other relevant bodies.

16. Ensure the organisation actively promotes the value of the audit process.
17. 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.
18. Other matters not covered by CIPFA's latest best practice guidance for audit committees.
19. The Joint Management Team and the Internal Audit Team will put in place appropriate management arrangements to ensure that the Audit and Governance Committee receive reports required under the Code.

Community Impact

20. N/a

Financial Implications

21. There are no financial Implications.

Legal Implications

21. There are no Legal Implications.

Risk Management

22. Although the Audit and Governance Code was approved by Council, there is the possibility that some members are not fully aware of the new requirements, which could have an adverse impact on them discharging their responsibilities. This report by the Chief Internal Auditor will ensure that all members of the Committee have been made aware of their new responsibilities under the code.

Consultees

23. There were no consultees.

Appendices

Appendix 1 - Section 12 Audit and Governance Code.

Background Papers

- None

Section 12 - Audit and Governance Code

5.12.1 Composition

- 5.12.1.1 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 Council Procedure Rule 4.1.5.2 (Part 4 section 1).

5.12.2 Purpose

- 5.12.2.1 The Council appoints the Audit and 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.

5.12.3 Key Terms

- 5.12.3.1 The **annual governance statement framework** identifies the individual systems and sources of evidence used to support the preparation of the **annual governance statement**.
- 5.12.3.2 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.
- 5.12.3.3 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.
- 5.12.3.4 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.

5.12.4 Scope of the Audit & Governance Committee

- 5.12.4.1 The functions, powers and duties of the Audit and Governance Committee are set out in its Terms of Reference at 5.12.5. 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.
- 5.12.4.2 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).

- 5.12.4.3 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.

5.12.5 Terms of Reference

- 5.12.5.1 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.

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

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

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

- a Monitoring acceptance by management of audit recommendations and progress in implementing agreed action plans.
- b 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.
- c Monitoring progress upon the further improvements identified in the annual governance statement.
- d Monitoring progress in respect of resolutions and recommendations made by the Committee.

5.12.5.4 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:

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

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

- a 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 5.12.5.12 (f).
- b 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.
- c Noting the external auditor's opinion on the quality and effectiveness of the internal audit function.
- d Commenting on the scope for further improvement in internal audit performance and / or cost effectiveness where it is appropriate to do so.

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

- a 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.
- b 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.
- c 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.

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

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

- 5.12.5.8 **Consider the reports of external audit and inspection agencies and take appropriate action where relevant to the committee remit by:**
- a Reviewing and commenting on external audit and inspection reports.
 - b Reviewing and commenting on the management response to external audit and inspection recommendations.
 - c Monitoring progress in implementing the management response to external audit and inspection recommendations.
- 5.12.5.9 **Ensure there are effective relationships between external and internal audit, inspection agencies and other relevant bodies by:**
- a Reviewing and agreeing the external auditor's annual audit plan, including the annual audit fee.
 - b Receiving regular update reports on progress from the external auditor.
 - c Meeting privately with the external auditor once a year, if required.
 - d Monitoring the effectiveness of relationships between the external and internal auditors to ensure that the combined value of the two audit processes is maximised.
- 5.12.5.10 **Ensure the organisation actively promotes the value of the audit process by:**
- a Providing effective and objective scrutiny of the Council's governance arrangements, that are relevant to the committee's remit.
 - b Reviewing and commenting on any issue referred to it by the Chief Executive, a Director, or Cabinet Member or by any Herefordshire Council body.
 - c 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.
- 5.12.5.11 **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:**
- a Receiving biannual forecasts of revenue and capital outturn, satisfying itself that appropriate and timely measures are in place to ensure compliance with paragraph 4.7.10 of the Council's Financial Procedure Rules (Part 4 section 7).
 - b 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.
 - c Reviewing and approving the annual letter of representation.

- d Receiving the external auditor's annual governance letter and commenting on the management response to any recommendations made.

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

- a 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.
- b The Committee shall ensure that its members receive adequate training on the areas covered by the Terms of Reference.
- c 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.
- d 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.
- e The Committee shall comment on the scope, depth and value for money of external audit.
- f 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.
- g The Committee shall review its effectiveness and Terms of Reference on an annual basis.
- h The Committee shall monitor progress in developing joint internal audit arrangements on matters of mutual or shared interest with NHS Herefordshire (the Primary Care Trust).
- i The Committee will contribute to the Council's programme of improvement in the standards of accuracy, clarity, comprehensiveness and conciseness in the Council's financial and associated documentation

| | |
|-----------------------------------|---------------------------------------|
| MEETING: | AUDIT AND GOVERNANCE COMMITTEE |
| DATE: | 29 JANUARY 2010 |
| TITLE OF REPORT: | RISK MANAGEMENT |
| CORPORATE RISK MANAGER | ANDREW REWELL |

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To update the Audit and Governance Committee on the current Risk Management process and the way the risk register is used.

Key Decision

This is not a Key Decision.

Recommendation(s)

THAT Audit and Governance Committee:

- (a) **Note the joint risk management procedures in place with NHSH; and**
- (b) **Note the way the risk register is used and updated.**

Key Points Summary

- As stated within the current Risk Management policy a review of the risk management policy and guidance documents is undertaken annually to ensure that they are fit for purpose. If strategic priorities are to be met and if positive assurances are to be given then a robust risk management process must be in place.

Alternative Options

- 1 None.

Further information on the subject of this report is available from
Andrew Rewell Corporate Risk Manager on (01432) 260295

Reasons for Recommendations

- 2 To provide the Audit and Governance Committee with the assurance that the Council has a robust process in place for the identification and management of risk and that this is providing management with a positive tool.

Introduction and Background

- 3 Since February 2007 the Council and NHS Herefordshire have had an integrated risk management team. A shared Risk Management Strategy, Policy and Toolkit were approved by Cabinet in May 2008.
- 4 In April 2009 a review of the existing toolkit was undertaken and along with an internal audit of risk management practices across the Council in 2009, led to revised joint policy and guidance documents being produced, these were approved by Cabinet on 26 November 2009.

Key Considerations

- 5 The Council follows nationally recognised procedures for the identification, management and recording of the risks that it faces. The process is detailed within the current risk management policy and guidance documents and is a shared process with NHS.
- 6 There is a clear path for the escalation of risk to ensure that those which present a corporate risk are clearly identified and reported on in the quarterly Integrated Corporate Performance Report. All Heads of Service and Directors are encouraged to review the risks that they are responsible for, to the achievement of Corporate objectives on a regular basis and to update their risk registers (see attached checklist). Any risks that cannot be managed at any one single level, due to lack of authority, resources or finances, is escalated to the next level. By carrying out this review management can be confident in the decisions they are making.
- 7 Major corporate projects incorporate the management of risk to the Council, partners, contractor and other stakeholders. The Corporate Risk Manager is invited to sit on such project boards to provide this corporate steer.
- 8 The introduction of the new Performance and Risk Management System, Performance Plus, will enable the recording and managing of risks to be fully integrated across the authority. Cross checking and matching of risks will be possible, as will the ability to ensure risks are reviewed on a regular basis and mitigation measures put in place.

Community Impact

- 9 None.

Financial Implications

- 10 None.

Legal Implications

11 None.

Risk Management

- 12 Unless the risks to the achievement of corporate priorities are identified and managed the limit resources available cannot be channelled in the right direction, thus resulting in a decline of service provision, reputation and customer satisfaction.
- 13 The new Comprehensive Area Assessment (CAA) process calls for a more robust management of risk across the organisation. Within the Use of Resources assessment one of the three themes, 'Governing the Business' highlights the need to have clear and robust processes in place for managing risks, particularly those relating to partnerships and fraud and corruption.

Consultees

14 None.

Appendices

- HPS Risk Management and Assurance Policy
- HPS Risk Management and Assurance Guidance
- Management Monthly RM Process

Background Papers

- None identified.

| | |
|-------------------------|-------------------------------|
| <i>Reference number</i> | G031 |
| <i>Approved by</i> | Cabinet and PCT Board |
| <i>Date approved</i> | March 2008 |
| <i>Version</i> | 3 |
| <i>Last revised</i> | October 2009 |
| <i>Review date</i> | October 2010 |
| <i>Category</i> | General |
| <i>Owner</i> | Deputy Chief Executive |
| <i>Target audience</i> | All Staff |

Herefordshire Public Services Risk Management and Assurance Policy

After the Review Date has expired, this document may not be up-to-date. Please contact the document owner to check the status after the Review Date shown above.

If you would like help to understand this document, or would like it in another format or language, please contact the document owner.

Contents

1. Introduction & Purpose of Policy
2. Policy Statement
3. Organisation & Responsibilities
4. Planning & Implementation
5. Monitoring of this policy
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8. Cross Reference documentation

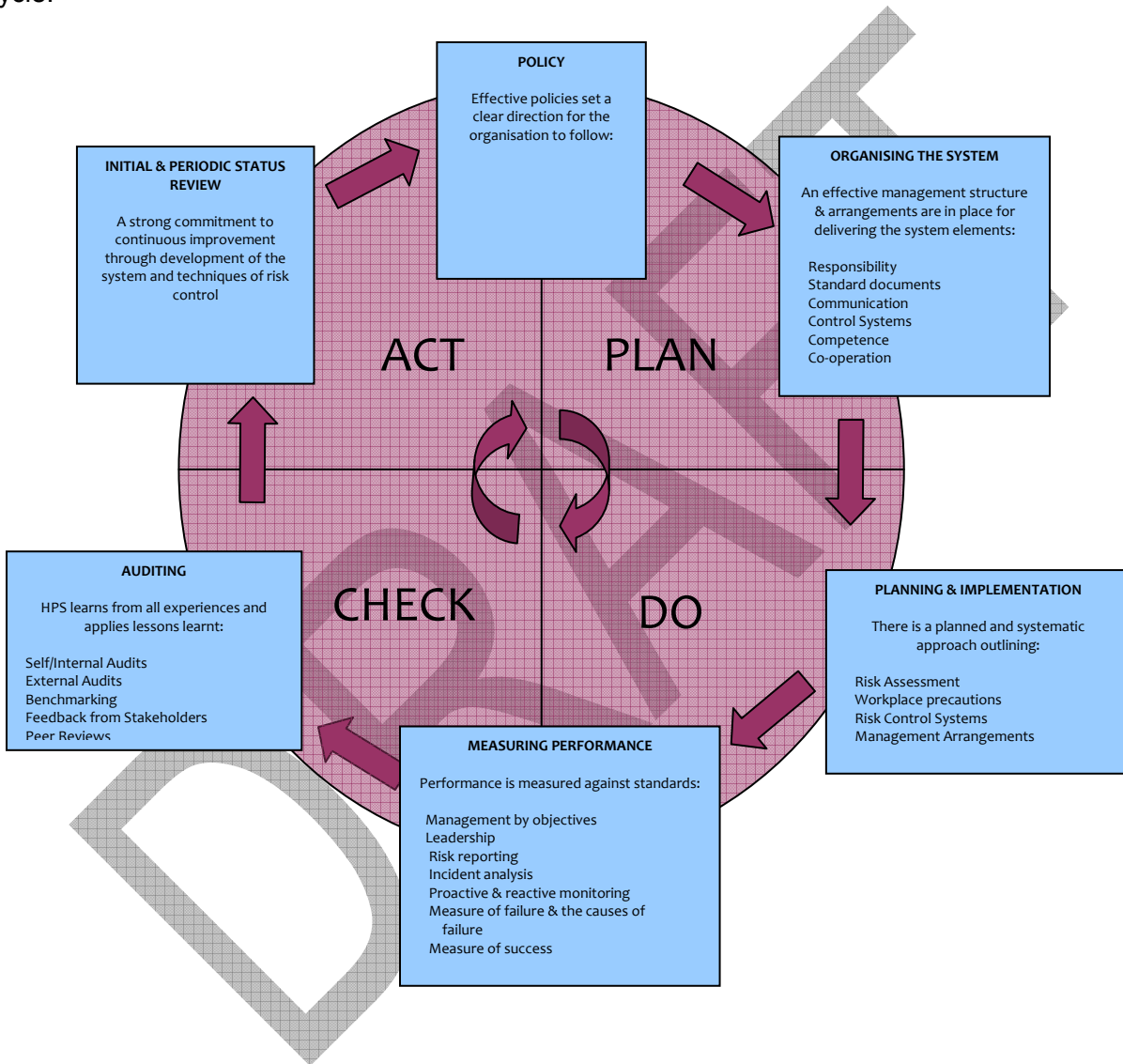
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1. Introduction & Purpose of Policy

This policy clearly identifies the accountability arrangements and processes to be used for identifying and managing risks and opportunities in Herefordshire Council (HC) and Herefordshire Primary Care NHS Trust (HPCT). Where they are referred to together they are described here as Herefordshire Public Services (HPS).

This policy covers all areas of risk within HPS: organisational; clinical; service provision; financial, strategic and the wider, non organisational risks to the achievement of their individual or collective objectives and priorities.

The diagram below shows the key stages of policy development based on a continuous improvement cycle.



Who does the policy apply to?

This document applies to all employees of HPS, and to managers at all levels to ensure that risk and opportunity management is a fundamental part of the total approach to quality, corporate and clinical governance. In addition HPS will actively promote and support good practice in risk and opportunity management particularly within primary care and education.

2. Policy Statement

HPS is committed to having a shared system in place to understand, monitor and minimise the risks within our organisations and the services they provide and which will contribute to continued improvement.

Effective risk and opportunity management will help to ensure:

- clarity in our plans about what we need to do to achieve our objectives and priorities
- the delivery of our plans through effective performance management
- a safe environment for all our staff, clients and members of the public
- best service provision for clients and clinical care for patients
- the reputation of the partner organisations is maintained
- costs are saved by reducing dissatisfaction and claims
- the promotion of innovation to achieve objectives
- the realisation of opportunities
- a positive report on risk management in the Annual Governance Statement, Statement of Internal Control and compliance with external accreditation bodies – Audit Commission, Care Quality Commission

HPS aim to take all reasonable steps in the management of risk with the overall objective of protecting service users, staff and assets.

Approach to Risk and Opportunity Management and Assurance

Herefordshire Public Services' approach to risk and opportunity management and assurance has been developed to support the key requirements of good corporate governance:

Open and Transparent: The HPS approach to managing risks will be open and transparent and blame will not be attributed if decisions made in good faith turn out to be the wrong decision. Staff, Directors, PCT Non-Executive Director, Councillors, members of the public, partners and outside organisations should have access to information on our current risks and opportunities and how they are being managed. Risk management supports and enhances the decision making process and Board and Cabinet reports include information on the risks and opportunities in taking or not taking a recommended course of action.

Consistent: There will be consistency in the approach to identifying, assessing and managing risks across the organisation. Risks will be reviewed regularly and any changes in circumstances will be recorded and acted upon.

When managing and controlling risks, actions will be proportionate - the cost and time of efforts should be in balance with the potential impact of the risk.

Accountable: There will be clear accountability for HPS risks. This will include a public statement on risk management as part of our decision making process; an annual statement of internal control signed by the Chief Executive, approved by the Board and Cabinet, included in the Annual Finance Statement; and the risk register will be open to regular internal audit and audit inspection by external agencies (e.g. External Auditors, SHA, Department of Health, Audit Commission).

Appropriate risk-taking and innovation will be encouraged and promoted through a 'no blame' culture.

HPS will manage risk to add value, i.e. it will aim to achieve the balance between under-managing risks i.e. unaware and therefore no control, which could damage performance, and over-managing them i.e. an obsessive level of involvement in the fine details, which could become overwhelming and stifle innovation and creativity.

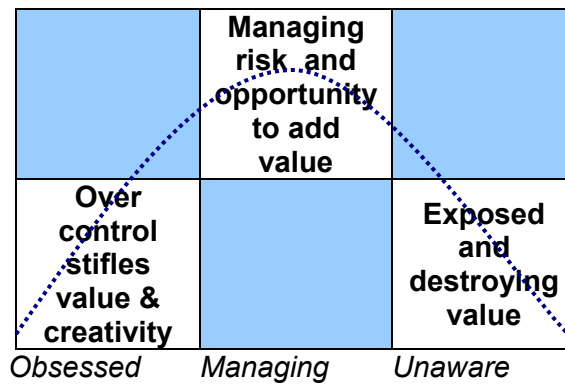


Figure 1: Managing risk and opportunity to add value

Risk and Opportunity Management goals for HPS are to:

- Minimise chances of adverse incidents, injuries or losses to patients, service users, staff and the general public
- Improve the quality of services, care and outcomes for people, bettering their life-chances and quality of life
- Encourage and train staff to identify risk areas and become involved in reducing risk
- Reduce risks by developing evidence based clinical and professional practice
- Reduce risks by maintaining a skilled and properly trained workforce.
- Encourage open communication and support staff in order to promote the policy of being a transparent and “no blame” organisation which can learn from incidents.
- Promote good risk management practice amongst independent contractors, suppliers and partners.
- Avoid damage to reputation, including through complaints, litigation or failures in organisations from which services have been commissioned
- Achieve key corporate objectives including National Performance targets
- Ensure compliance with the Annual Health Check and Comprehensive Area Assessment.
- Ensure the best interests of the public are served by the continuation of the organisations to commission and deliver required services
- Minimise avoidable financial losses, or the cost of risk transfer, e.g. Increased insurance premiums or the failure to win discounts.
- Work in conjunction with other organisations’ risk management strategies and policies when undertaking joint pieces of work or managing projects on behalf of others.

In order to meet these general and specific objectives, HPS will adopt a pro-active risk management programme which has our total support and we look to each member of staff for your complete commitment to and co-operation in its implementation.

3. Organisation and responsibilities

The Cabinet and Board Commitment to Risk Management

The Cabinet and Board recognise that risk management is an integral part of good management practice and to be most effective must become part of the culture of both organisations. The Cabinet and Board are therefore, committed to ensuring that risk management forms an integral part of their philosophy, practices, business plans and performance management rather than being viewed or practised as a separate programme, and that responsibility for implementation is accepted at all levels within both organisations.

The Cabinet and Board believe it is important to recognise that risk taking can bring both rewards and penalties. Modernisation and innovation cannot be achieved without risks being taken. But by understanding fully the consequences of taking those risks staff can have greater confidence in what they do. We aim to fully identify, evaluate and respond to those risks that may prevent us from achieving our objectives and to enable us to take advantage of opportunities in a “risk informed” manner.

Responsibility of HC Cabinet and HPCT Board

HC Cabinet and HPCT Board are responsible for reviewing the effectiveness of internal controls and for monitoring the work of the Committees with delegated responsibility for risk management.

The Cabinet and Board are required to produce annual statements of assurance that they are doing their "reasonable best" to manage the organisation's affairs efficiently and effectively and managing its risks through the implementation of internal controls. They must “sign off” their organisations Statement of Internal Control and HPCT's self assessment against the Healthcare Commissions Core Standards for Better Health.

Board and Cabinet members are responsible for:

- approving the risk management strategy and policy
- ensuring that risk information is available to them to support their decision making processes
- participating in the identification and evaluation of risks appropriate to the decisions they are asked to make.

HC Members and HPCT Non Executive Directors

Members/Non Executive Directors have a key role to play in monitoring executive management of risk within their organisation and contributing to the development of the HPS strategy for managing risk.

They must satisfy themselves that the systems of risk management each organisation has in place are robust and defensible.

HC Member Champion and PCT Non Executive Director

The Leader of the Council shall actively support the risk management process and encourage all Councillors to play their full part.

The Non Executive Director who chairs the PCT Audit and Assurance Committee shall actively support the risk management process and encourage all PCT Board Members to play their full part.

The Chief Executive

The Chief Executive has overall responsibility for Risk Management within HPS.

Directors

The Director of Quality and Standards has overall accountability for Clinical Risk and together with the Clinical Governance GP Lead is responsible for Clinical Governance systems and processes in HPCT.

HPS Directors of Resources are accountable for Financial Risks and the preparation of the annual financial statements which will include the Annual Governance Statement and Statement of Internal Control for their respective organisations.

Directors and Managers

HPS are working towards ensuring that all levels of management understand and implement the Risk Management Policy and Guidance. Directors/managers:

- Are responsible for managing risks assigned to them on the Assurance Framework and Risk Register
- Must ensure all new employees, through local induction, are made aware of the Risk Management Policy and Guidance. They must also ensure existing employees are made aware of any revisions to the policy.
- Are responsible for ensuring that appropriate and effective risk management processes are in place within their designated area(s) and scope of responsibility; and that all staff are made aware of the risks within their work environment and of their personal responsibilities.
- Are responsible for ensuring that all necessary risk assessments are carried out within their directorate/department in liaison with appropriate identified relevant advisors where necessary e.g Health and Safety, Infection Control, Security, Environmental, which may include the preparation of specific departmental policies and guidance.
- Are responsible for implementing and monitoring any identified and appropriate risk management control measure within their designated area(s) and scope of responsibility. In situations where significant risks have been identified and where local control measures are considered to be potentially inadequate, or where the cost of implementation exceeds locally agreed limits and/or requires capital expenditure, Executive Directors/managers are responsible for bringing these risks to the attention of the relevant Committee/Board if local resolution has not been satisfactorily achieved.
- If control measures which were originally believed to be adequate fail and lead to realisation of the risks, Executive Directors/managers must follow relevant policies (Incident reporting, Major Incident Plan) and inform the Chief Executive/ Executive Directors.
- Have the authority to accept risks within their scope of responsibility. This must follow completion of a full risk assessment and adhere to the definition of Acceptable Risk on page 13.
- Must ensure that all staff must be given the necessary information and training to enable them to work safely. These responsibilities extend to any one affected by HPS operations including sub-contractors, members of the public, visitor's etc.

Executive Directors/managers or their designated representatives will implement the policy by:

- a. Ensuring that they have adequate knowledge and/or access to all legislation relevant to their area and as advised by appropriate experts ensure that compliance to such legislation is maintained.
- b. Ensuring that adequate resources are made available to provide safe systems of work. This will include making provision for risk assessments, appropriate controls measures, raising outstanding concerns, ensuring safe working procedures/practices and continued monitoring and revision of same.
- c. Ensuring that only suitably trained and accredited personnel are appointed into posts.
- d. Ensuring that appraisals are completed for their staff according to HPS policies

- e. Ensuring that there is a core of appropriate mandatory training for all employees to attend e.g. Health and Safety, Fire, Moving and Handling, Dealing with Violence and Aggression, Conflict Resolution, Child Protection, etc, and that appropriate mandatory updates are maintained.
- f. Identifying and releasing suitable staff to be trained as risk assessors, first aiders, moving and handling, health and safety co-ordinators etc.
- g. Monitoring clinical and professional performance, health and safety standards including risk assessments, infection control measures, use of personal protective equipment, lone worker arrangements, stress at work assessments etc and ensuring that these are reviewed and updated regularly.
- h. Ensuring that risk issues are considered when setting individual staff objectives which reflect their role in the organisation.

Individuals Supporting HPS in Risk Management

A number of individuals have key roles in supporting HPS to achieve this policy and contact details are included in Appendix 1 and Appendix 2:

HC Corporate Risk Manager and HPCT Head of Corporate Risk

Co-ordinate and facilitate the risk management process and raise staff awareness of risk management through educational programmes. They are responsible for the maintenance and development of the overall risk registers and Board Assurance Framework and support risk owners and project boards in the identification and management of their risks.

HC Corporate Risk Manager ensures that appropriate insurance arrangements are in place to manage significant financial risks and to comply with the relevant legal framework for the handling of third party claims.

HPCT Head of Corporate Risk manages claims under the Employers Liability, Property Expenses, Liability to Third Parties and Clinical Negligence schemes according to the NHS Litigation Authority requirements.

HPCT Clinical Governance Manager

Highlights and presents quality, audit and patient incident information and trends.

HPCT Deputy Director of Resources (Financial Governance) and HC Head of Financial Services

Co-ordinates work with internal audit in order to achieve a satisfactory Statement of Internal Control for their respective organisations.

Responsibilities of all Employees

- a. Be familiar with this Policy
- b. Attend risk management training relevant to their post and maintain clinical or professional skills where appropriate
- c. Report incidents/accidents and near misses using HPS procedures
- d. Lead or participate in risk assessment processes, and develop and implement plans to address risks identified in their area (according to the nature of their post)
- e. Comply with all HPS policies and procedures aimed at eliminating or reducing risk e.g. health and safety, fire, emergency procedures, handling equipment safely
- f. Provide safe clinical or professional practice within their area of competence
- g. Be involved in appraisal.

Committee Structures:

Audit & Assurance Committee (HPCT)

The Audit and Assurance Committee is a statutory committee with expanded responsibility for Integrated Governance. The committee will also seek assurance on the organisational preparations for the World Class Commissioning (WCC) Assurance process. In particular its remit includes:

- Core functions of audit including financial systems, financial information and compliance with laws and regulations governing the NHS; governance, risk management and control.
- Delivery of core audit committee functions, including carrying out an independent, objective and informed review of financial systems, information and control.
- Assessment of internal systems, policies and procedures.
- Reviewing and maintaining effective systems of integrated governance, risk management and internal control.
- Seeking support and advice from external and internal audit and any other professional expertise as required
- Assurance of organisational development planning and delivery.

The Audit and Assurance Committee is chaired by a Board Non-Executive Director.

The Commissioning Performance and Quality Committee (HPCT)

The Commissioning Performance and Quality Committee will have oversight of health economy performance and the overall finance and contract performance of the PCT as a commissioner will be reported routinely to this Committee. In particular its remit includes:

- Measurement, monitoring and management of performance, including: finance, activity, quality of health and healthcare, including safety, clinical outcomes and patient experience secured through commissioned services
- Directing the development, monitoring and managing of integrated measures of performance – including finance, activity and quality – across all providers in line with commissioning plans.
- Compliance with statutory and regulatory duties particularly in the commissioning of safe and appropriate clinical care

The Commissioning Performance and Quality Committee is chaired by a Board Non-Executive Director.

Strategy and Planning Committee (HPCT)

The Strategy and Planning Committee has a key role in recommending strategy for NHS Herefordshire to the Board. As such it will be active in identifying opportunities and therefore applying the risk management process to Opportunity Management.

Audit and Corporate Governance Committee (HC)

This committee will monitor the effective development and operation of risk management and corporate governance in the Authority.

Responsibilities include:-

- Consider the effectiveness of the risk management arrangements, the control environment;
- Seek assurances that action is being taken on risk related issues identified by auditors and inspectors;
- Be satisfied that the Authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it;
- Review and update of the risk management policy statement every year
- Annual review of the risk management framework; and
- Quarterly review of progress against any risk management action plans.

Provider Board (PCT Provider Services)

The Provider Board is responsible for reviewing the effectiveness of internal controls and for monitoring the work of the Provider Committees with delegated responsibility for risk management.

The Provider Board is required to produce annual statements of assurance that they are doing their "reasonable best" to manage the organisation's affairs efficiently and effectively and managing its risks through the implementation of internal controls. They must "sign off" their self assessment against the Healthcare Commissions Core Standards for Better Health.

Provider Board members are responsible for:

- approving the risk management strategy and policy
- ensuring that risk information is available to them to support their decision making processes
- participating in the identification and evaluation of risks appropriate to the decisions they are asked to make.

HPS Steering Group (HPS)

The HPS Steering Group sets the strategic direction for HPS development and the priorities for realising that strategy. It does this by establishing the criteria for measurement of success including the identification, quantification and effective delivery of benefits to be achieved through the development of an integrated approach to services in Herefordshire. It also holds the partnership system to account for progress against those success criteria

The risk management responsibilities of the Steering Group include:

- Ensuring that robust partnership arrangements are in place
- Holding Joint Management Team to account for the development and implementation of a framework for the prevention and prompt resolution of disputes presenting significant risk to the integrity of the HPS partnership
- Maintaining an effective system of integrated governance, internal control and risk management, across the whole of its activities (both non-clinical and clinical), in support of the achievement of its aims and objectives

Joint Management Team (HPS)

This is a high level management group with specific risk management responsibilities to:-

- Identify strategic and cross cutting risks;
- Promote a culture of risk awareness.

Whistle-blowing

If staff are concerned that there are very serious risks in the organisation, which they have raised through the normal management channels without response, it may be appropriate for them to use HPS Whistle-blowing policy.

Specific links to other policies are detailed in **appendix 5**.

4. Planning and implementation

Risk Management Process

General Principles

HPS is committed to developing a pro-active and systematic approach to risk management. A separate document – **Risk Management and Assurance Guidance** - sets out in detail the approach to identifying and assessing risks – whether they be risks to achieving strategic, corporate, programme, project, operational or partnership objectives.

The process will:

- be multi-faceted, drawing on the experience of multi-disciplinary teams, with knowledge of the range of HPS functions and risks
- be iterative, i.e. improving and refining over time
- ensure the stages are clearly recorded

The stages of the risk management process are to:

- a. identify any actual and potential risks
- b. identify the controls in place and evaluate the level of risk remaining
- c. determine what action may be necessary - this could range from stopping the activity, to reducing the risk, to transferring some of the risk to another party, to accepting the risk (see definition in 9.2)
- d. implement the additional control measures
- e. monitor that actions are completed and these, together with existing controls are effective i.e. **Assurance**

Risk and Opportunity Assessment

Each directorate, service, department or operational area needs to complete a risk and Opportunity assessment in order to identify operational and strategic risks and opportunities. Directorate and Operational managers are responsible for ensuring that risk assessments are completed as an ongoing process and reviewed quarterly following the steps in the Risk Management and Assurance Guidance, a proforma template for undertaking a risk assessment is included in the guidance to ensure a consistent approach to the risk assessment process.

Risk assessments will address a range of issues – operational, service delivery, strategic as well as financial, health and safety and staffing risks. The process is the same for all and an example list of areas to consider can be found in appendix 1 of the Guidance. This is not an exhaustive list but is initial guidance.

It is important that risk management is integrated into the existing business processes and risks identified as part of the following must be included on risk registers:

Strategic /corporate /service planning - At the time of the development of corporate/directorate/service plans and “in year” corporate policy development the risks to the achievement of objectives need to be identified and managed.

Financial planning - Risk registers will inform the financial planning process in relation to:

- allocation of resources required to improve the management of unacceptable risks
- allocation of resources to the change programme, projects, ongoing operations and partnerships
- taking into account the impact of budget decisions, both for budget plans and in year budget changes, on the risk profile of the organisation.

Performance management - At the operational level risk registers will be developed alongside the annual business plans for directorates and the service plans for service areas. The registers will be reviewed when monitoring performance against objectives to identify any risk related causes of underperformance and act as an early warning.

Organisational Change Programme - Managing a change programme will bring a range of risks relating to strategic alignment, partnerships, programme planning, competing demands of day to operations and projects and the availability of appropriate skills and capabilities. These will be considered when the business case for major projects within the programme are being reviewed.

Major projects including major procurements and major partnerships - Risk will be assessed and registers created to support project initiation documents (or business cases) for major projects, procurements and partnerships. These risk registers should inform the business case decisions. The risk registers will demand ongoing review throughout the life of the project/procurement/partnership life cycle.

Where risk registers are shared, we will work in conjunction with the risk management strategy and policy of our partners. When undertaking projects on behalf of others, we will manage risks consistent with their strategies and policies.

ICT Programmes and Projects - Where ICT Programmes and Projects are managed under MSP or PRINCE2 Programme and Project Management Methodologies, Risks and Issues will be managed according to these methodologies, consistent with this policy and the Risk Management Strategy. Where risks and issues are required to be escalated to the Board/Cabinet, they will conform to the standards laid out in this policy.

Health and Safety - Those groups designated to monitor Health and Safety are responsible for ensuring the annual health and safety audits are completed.

Incident Reporting - All reported incidents (and near misses), will also be assessed by the person completing the form and reviewed by an appropriate manager as described in HPS Incident Reporting Policy.

Following assessments within any of the above, any high ranking risks and those which could impact on whether or not HPS can meet a strategic objective must be included on the Assurance Framework and reported to the Cabinet/Board.

Risk Register

The Risk Register is a record of all the risks identified (a blank example is in appendix 3 of the Risk Management and Assurance Guidance) through the Risk Management process, their score and risk treatment. It is a dynamic document which will cover all risks. It will inform the decision making of the risk committees and managers by providing them with a central reference of all risks and will be regularly updated. It will be held centrally by the HPCT Head of Corporate Risk and HC Corporate Risk Manager but will be accessible and available to all managers.

Assurance Framework

Risks scored as extreme which could impact on HPS achieving their strategic or principal objectives are known as principal risks and additional information on these is required to be reported to the Board and Cabinet. This is termed the Assurance Framework and an example is included in appendix 4 of the Risk Management and Assurance Guidance. The Assurance Framework provides assurance about those risks which are being managed effectively and objectives are delivered and will also identify which of HPS objectives are at risk because of gaps in controls or assurance about them. The Board and Cabinet will formally review the Assurance Framework twice a year as a minimum.

Principal risks cannot be considered in isolation, they will be derived from the prioritisation of risks fed up through the whole organisation and in this way the Risk Register will contribute to the Assurance Framework

Risk Quantification and Acceptability

HPS has adopted a common approach to quantifying risk as described in the Risk Management Guidance. Each risk will be assessed and scored on the likelihood of occurrence and the severity/impact in the current circumstances, a matrix of the quantification of risk is detailed in the Risk Management and Assurance Guidance.

The score of a particular risk will determine at what level decisions on acceptability of the risk should be made and where it should be reported to within HPS. The Board and Cabinet have defined as "Significant" any risk that has the potential to damage the organisation's objectives

General guidelines are:

| | | |
|---------------|---------------|---|
| Extreme Risk | Score 15 - 25 | Report to a Director for more detailed analysis of the risk, to be included on the Assurance Framework and reported to the Board and Cabinet with proposed treatment/action plans |
| High Risk | Score 8 - 12 | Report to a Director and then to an appropriate Risk Committee with proposed treatment/action plans |
| Moderate Risk | Score 4 – 6 | Report to Senior Manager with proposed treatment/action plans, for particular monitoring. |
| Low Risk | Score 1 – 4 | Report to local manager for local action to reduce risk |

Acceptable Risk

Setting levels of acceptance is referred to as **risk tolerance or risk appetite** and is defined as follows:

- the likely consequences are insignificant
- a higher risk consequence is outweighed by the chance of a much larger benefit (e.g. In rehabilitation people may accidentally burn themselves while learning how to prepare food and drink but the benefit of independence outweighs that risk)
- occurrence is rare
- the potential financial costs of minimizing the risk outweighs the cost consequences of the risk itself
- reducing the risk may lead to further unacceptable risks in other ways

Therefore a risk with a high numerical value may be acceptable to the organisation, but that decision would be taken at an appropriate level.

Analysis of Risks

All Directors, Managers, Non Executive Directors and Councillors will be trained in risk analysis using HPS Risk Scoring Matrix.

The HC Corporate Risk Manager and HPCT Head of Corporate Risk are responsible for ensuring that information on incidents, claims, complaints, risks and hazards are analysed for trends and that such information is made available to the appropriate Director/manager so as to be included in the Risk Register and also reported to the committees with delegated responsibility for risk management within HPS.

Unacceptable Risk

Where control measures are deemed unacceptable to control the risks from the hazards identified, additional control measures must be implemented, these should be detailed within the risk assessment documentation and transferred into the action plans and the risk register where applicable.

Communication

All staff will be made aware of the Risk Management Policy and Guidance through induction, team brief and mandatory training. A copy will also be placed on the intranet site of HPS. The policy will be distributed to HPS sites to ensure that staff with specific management responsibilities receive a copy.

Other stakeholders will be made aware of the Risk Management Policy and will be involved and consulted as appropriate. For example, this could be during consultation on development of other policies or strategies, or through coverage of Risk Management in the HPS Annual Report and public Board and Cabinet papers. Stakeholders will include:

- Users and Carers
- The General Public
- Local GPs, Dentists, Pharmacists, Optometrists
- Schools
- Strategic Health Authority
- Regional Government
- Hereford Hospitals Trust and West Midlands Ambulance Trust
- PALS
- The Third Sector
- Fire Brigade and Police
- The Utility Companies
- Chamber of Commerce, Hereford
- Chamber of Commerce, Powys
- Audit Commission
- Herefordshire Partnership

Training

The Board and Cabinet acknowledges that the provision of appropriate training is central to the successful implementation of the risk management process.

Training needs will be identified and a suitable programme implemented for all staff including those with specific responsibilities under this policy, including members of the Board, Cabinet, Governance Committees and managers in HPS.

5. Monitoring of this policy

In order to ensure that this policy is effective all risk registers and action plans must be reviewed at appropriate intervals along with this policy. The monitoring process should confirm:

- all current risks have been reviewed and any additional action/s identified have been entered on the Action Plan;
- that the Action Plan has been reviewed and actions are on track for completion within agreed deadlines;
- whether any risks need to be removed, e.g. the end of a specific project;
- whether any new risks have been identified that need to be added to the register;
- that the risk register is up to date for new and existing risks;
- whether any operational risks have been identified by heads of service/key managers that could, if not managed become a risk for the directorate; and
- that updated Risk Registers and Action Plans have been entered onto each organisations central database or passed to the relevant Risk Manager after updating and review.

6. Audit

In order to measure the successful implementation of the Risk Management Policy the following Key Performance Indicators have been agreed for 2009/2010:

- The establishment of an Assurance Framework for Herefordshire Council.
- The development and delivery of an integrated risk management training programme to be used in HPS
- Demonstration that the Assurance Framework risks inform the Board and Cabinet Agenda.

7. Reviews at initial and periodic stages

This Policy will be reviewed in 12 months time

8. Cross reference documentation

Please refer to Appendix 3.

Appendices

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Appendix 1

**KEY INDIVIDUALS RESPONSIBLE FOR ADVISING AND CO-ORDINATING
RISK MANAGEMENT IN HEREFORDSHIRE COUNCIL**

| Title | Area of Responsibility | Contact Details |
|--|--|------------------------|
| Corporate Risk Manager | Co-ordinates all risk management activity. Responsible for Risk Register | 01432 260295 |
| HR Manager | Coordinates OH support and advice | 01432 260232 |
| Head of Financial Services | Liaise with internal audit to achieve Annual Governance Statement | 01432 263173 |
| Health and Safety Advisor | Provides Health & Safety advice, support and training | 01432 260448 |
| Head of Asset Management & Property Services | Provides inspection of property and advice on fire risk assessments | 01432 260227 |
| Audit Services Manager | Ensure robust Corporate Governance and liaise with external auditors | 01432 260425 |
| Emergency Planning Manager | Coordinate the County wide response in an emergency | 01432 260567 |
| Information Security Officer | ICT Risk Assessment | 01432 260160 |

Appendix 2

**KEY INDIVIDUALS RESPONSIBLE FOR ADVISING AND CO-ORDINATING
RISK MANAGEMENT IN HEREFORDSHIRE PCT**

| Title | Area of Responsibility | Contact Details |
|---|---|--------------------------------|
| Head of Corporate Risk | Co-ordinates all risk management activity. Responsible for Assurance Framework | 01432 363906 |
| Risk Management Support Officer | Supports directorates, responsible for risk register | 01432 344344 extn 3737 |
| Associate Director – Clinical Lead, Quality & Effectiveness | Responsible for patient risks and incident reporting | 01432 344344 extn 3759 |
| Deputy Director of Resources (Financial Governance) | Liaise with internal audit to achieve Statement of Internal Control | 01432 344344 extn 3735 |
| Health and Safety Advisor | Provides Health & Safety advice, support and training | 01432 344344 Extn 7634 |
| Fire Safety Advisor Via Works Department | Provides fire training & inspection of properties | 01432 344344 extn 3910 |
| Occupational Health | Provides occupational health services to PCT staff | 01432 355444 extn 4013/5404 |
| Infection Control Nurse | Provides infection control advice and co-ordinates audits | 01432 277117 |
| Moving and Handling Advisor | Provides advice on moving and handling issues and risk assessments. | 01432 344344 |
| Senior Nurse Child Protection | Advice & support on child protection issues | 01432 343955 |
| Information Governance Officer | ICT Risk Assessment | 01432 344344 extn 7604 |

Appendix 3

LINKS TO OTHER POLICIES AND PROCEDURES

The Risk Management and Assurance Policy is supported by a number of other policies and procedures, all of which act as risk controls. The following is a list of key documents with which staff should be familiar. They can be found on the relevant intranet site or from your manager:

- Health and Safety at Work - and associated policies
- Incident Reporting Policy and Procedure
- Complaints Procedure
- Lone Worker policy
- Moving and Handling policy
- Recruitment, selection and appointment of staff
- Violence at Work
- Whistle-blowing policy
- Standing Financial Instructions
- Standing Orders
- Scheme of Reservation and Delegation
- Child Protection policy
- Sharing information in Child Protection
- Major Incident
- Infection Control
- Medical Equipment policy
- Protection of Vulnerable Adults
- Checking of State Registration
- Fitness to Practice
- Fraud and Illegal Acts
- Computer Security Policy
- Security Policy
- Business / Service Continuity Plans
- Quality Data

**Herefordshire Public Services and Partnership
Risk Management and Assurance Guidance**

After the Review Date has expired, this document may not be up-to-date. Please contact the document owner to check the status after the Review Date shown above.

If you would like help to understand this document, or would like it in another format or language, please contact the document owner.

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1. Introduction

Risk management can be defined “as a means of reducing adverse events occurring in organisations by systematically assessing, reviewing and then seeking ways to minimise their impact or possibly prevent their occurrence.” Risk management brings huge benefit to Herefordshire Public Services (HPS) as it enables us to be positive in the decisions we make.

When we consider potential risks we must remember there is an “upside” as well as a “downside” in whatever we do and it is important not to focus only on the adverse affects but to balance it with the opportunities that may arise.

The **Audit Commission** and **Care Quality Commission** require all local government and NHS trusts to assess their risks and develop action plans to address the risk. More importantly the PCT and Council aim to manage risk to add value, i.e. it will aim to achieve the balance between under-managing risks i.e. unaware and therefore no control, which could damage the PCT’s and / or Council’s performance, and over-managing them i.e. an obsessive level of involvement in the fine details, which could become overwhelming and stifle innovation and creativity.

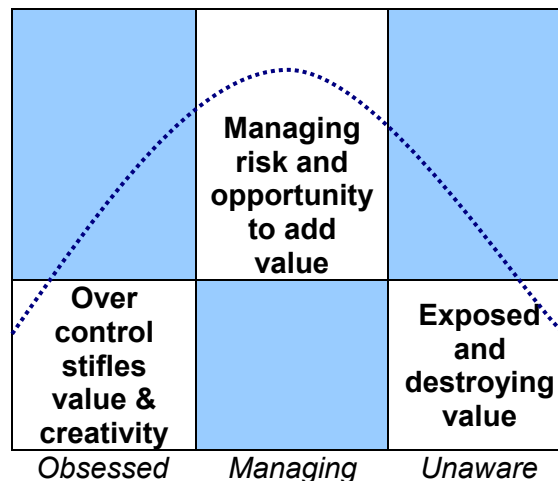


Figure 1: Managing risk and opportunity to add value

Risk management is one of the main components of Corporate and Clinical Governance; it requires us to:

- Have clear policies aimed at managing risks
- Undertake risk assessments to identify and manage risk
- Have action plans and programmes in place to reduce risk

The full benefits of risk management will only be obtained if there is a comprehensive and co-ordinated approach which is supported at every level of management throughout HPS.

This Guidance is intended to be used by all staff and departments in HPS. Independent contractors are welcome to use any part of this assessment tool in addition to those which they already use.

1.1 Drivers of Risk

Organisations all face risks from both internal and external factors. Understanding this helps to assess how much we can influence the risk.

It also helps to think of risk being driven by two basic categories, **strategic** and **operational**. At strategic level, the focus is on identifying the key risks to successful achievements of the organisation’s objectives. These are the risks (or opportunities) that are most likely to affect the performance and delivery of strategic objectives. At operational level the focus is on those risks (or opportunities) primarily concerned with delivery of services, quality of services, continuity of business and clinical governance assurance.

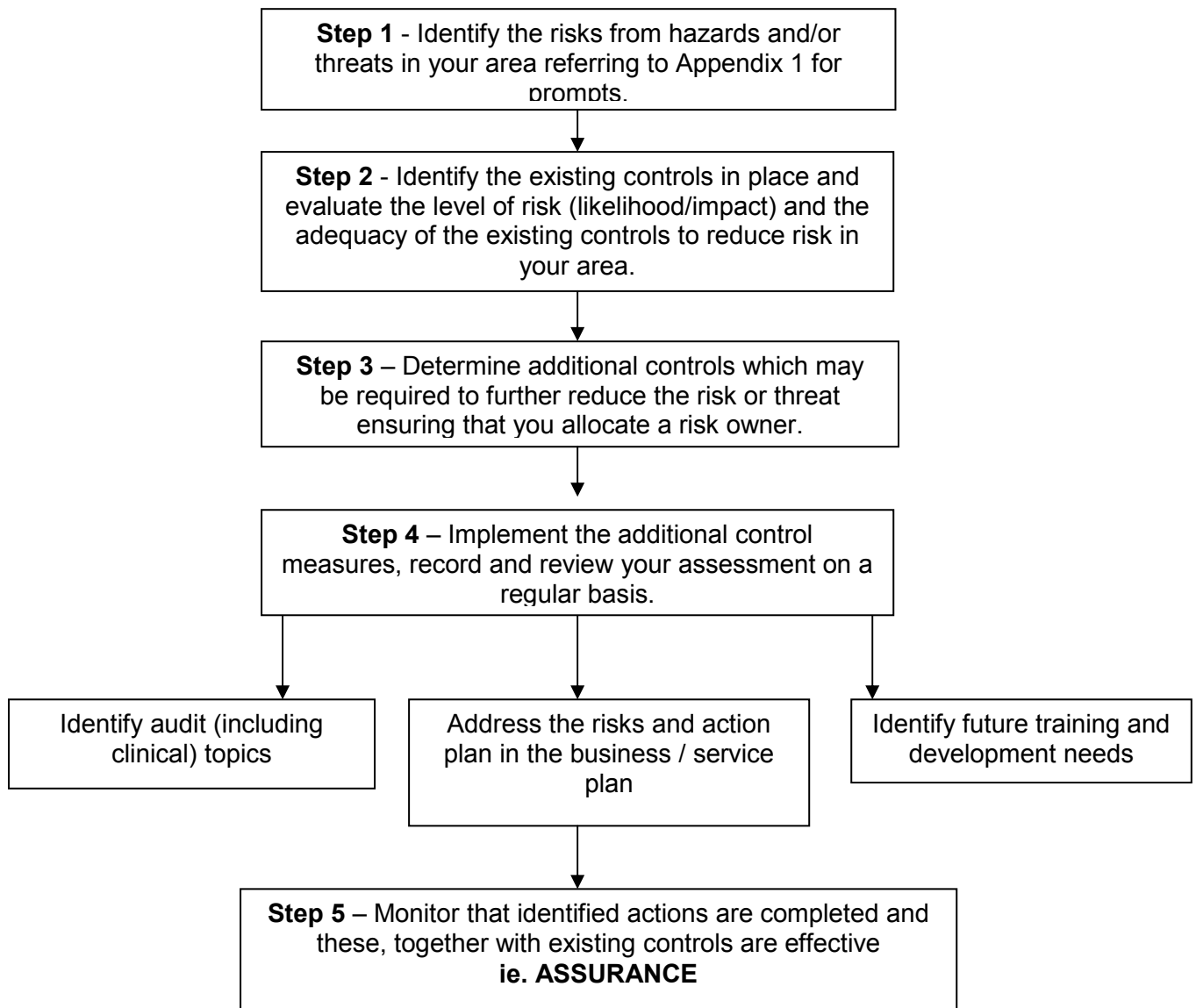
Strategic and operational risks are not mutually exclusive and a risk may escalate from an operational risk to a strategic risk (there are also project risks which, although they can again escalate up, are not specifically referred to in this handbook, identification, assessment etc of those risks follows the same process).

2. Risk Management – A Quick Guide

There are Five Steps of Managing Risk

1. **Identify Risks from Hazards and Threat events.**
2. **Evaluate the level of risk based on adequacy of existing controls.**
3. **Determine additional controls required.**
4. **Implement control measures and action plan.**
5. **Monitor controls, Record & Review assessment ie. Assurance.**

The five steps for the managing of risk are described in detail on pages 6 to 13, however the following flow chart provides a quick guide summary of the process.



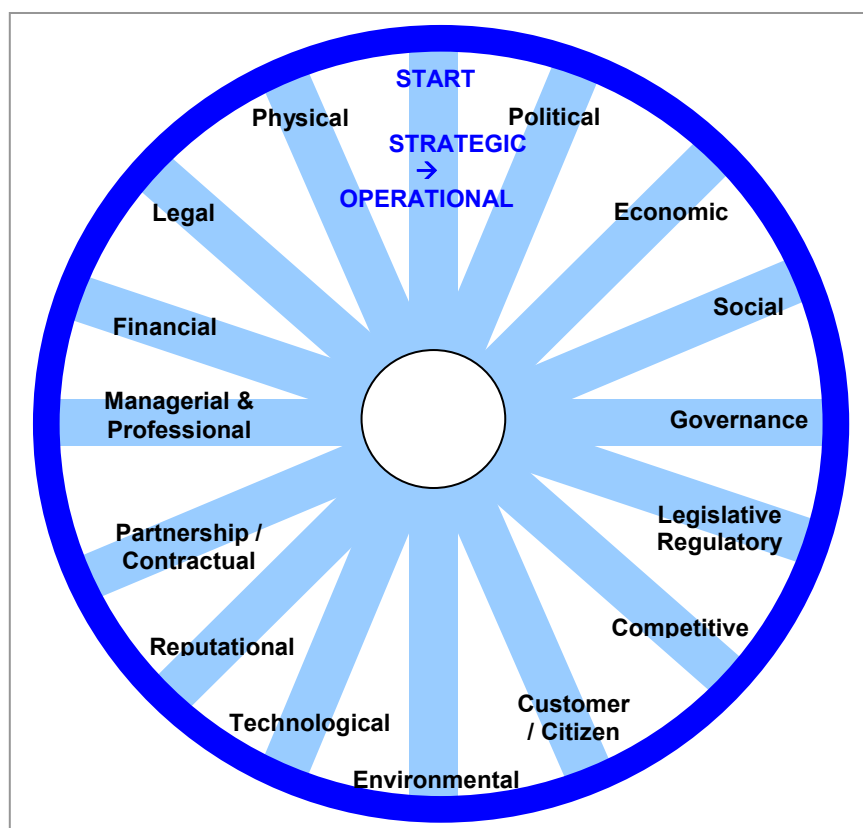
3. Step 1: Identifying Risks

Risk identification is concerned with identifying events that can impact on the business objectives and delivery of services (strategic and operational) – ‘**what could happen**’. This should be considered from both the positive and the negative effect and so ask ‘what could happen if we do’ as well as ‘what could happen if we don’t...’, this will enable confident risk taking and exploitation of opportunities.

Common areas to prompt identification of risk include:

- **Strategic:** successful achievement of the organisation’s objectives ie. doing the wrong things as an organisation; missing opportunities
- **Finance:** losing monetary resources or incurring unacceptable liabilities
- **Reputation:** the image of the PCT and or Council, loss of public confidence
- **Clinical:** the clinical delivery of health and healthcare and access to services
- **Partnerships:** the risks/opportunities exposed to as part of a partnership
- **Legal / Regulatory:** claims against the PCT/ Council, non-compliance
- **Operational:** delivery of services, quality of services, continuity of business and clinical governance assurance ie. doing the right things in the wrong way
- **Information:** loss or inaccuracy of data, systems or reported information
- **Patients /public:** understanding their needs; delivery of and access to services and care
- **Environmental:** things outside of our control; Environmental impact
- **People:** risks associated with all employees, managers, Councillors and PCT Non-Executive Directors.

Using the following ‘**Wheel of Risk**’ and the prompts in **Appendix 1** (which contains additional specific examples of service risk assessment issues) make a list of events that could impact on the success of service delivery, project outcome etc.



In order to really be able to manage risks well you need to be explicit about **how** the events you have listed could impact on what you want to achieve in order to focus the action in the right area. This is done by:

- **Identify the objective/tasks** - involved in the job or activity you are undertaking, this will help you to break the activity down into its component parts and more easily see the hazards involved. Eg. Providing services (clinical or social) to people in their own homes.
- **Identify the hazards/threats** – what could prevent this objective/task being achieved. Eg. hazards/threats from flooding may make it difficult to get to some people.
- **Identify the Consequence/Impact** – should the hazard or threat be realised what would happen e.g. People may not receive necessary clinical or social care resulting in a deterioration in their condition.

Sometimes it can help to phrase the risk or opportunity into three parts: **Event – Consequence – Impact**

Typical risk phrasing could be

loss to...
failure of.....
failure to...
lack of...
partnership with...
development of...

leads to resulting in..

Failure to visit vulnerable adults at home due to floods leads to lack of food/lack of medication/clinical treatment resulting in the need to enter a care home/hospital.

Failure to (the event) could lead to either (the consequence) resulting in (the impact)".

Identify who might be at risk

Whilst analysing the risk you also need to consider who might be harmed as the impact could be felt in a number of ways. Is an individual (employee, patient, contractor, pregnant worker) likely to be harmed, or a group of people (vulnerable adults) or would it be the organisation that is at risk?

In the example above the impact would be felt most by the vulnerable adults that did not have their needs met, but there would also be a reputational impact on the organisation which would be seen to be failing in the delivery of services.

4. Step 2: Identify Existing Controls And Assess The Risk

Once the risk or opportunity has been identified it needs to be assessed for how likely it is the event could occur and the impact it will have if it should. This assessment should take into consideration **existing controls and / or action plans and their effectiveness**.

Typical examples of existing controls will include written policies and procedures, staff training, referral or admission criteria and the physical environment. In describing the controls it is important to consider how effective they are, when they were last reviewed or tested or when staff were last trained.

The assessment should be based on the risk scoring matrix below to ensure all risks are assessed objectively. Focus should be on the descriptor not the number. Once the level of likelihood and impact have been assessed, the two scores are multiplied to give an overall objective assessment of the existing (residual) level of risk.

4.1 Risk Scoring Matrix

Description and definitions of LIKELIHOOD of RISK occurring:

| Description | Descriptor | Level |
|---|----------------|-------|
| Can't believe that this will happen or recur. | Rare | 1 |
| Do not expect it to happen or recur. | Unlikely | 2 |
| Might happen or recur occasionally. | Possible | 3 |
| Will probably happen or recur, but is not a persistent issue. | Likely | 4 |
| Will undoubtedly happen or recur, probably frequently. | Almost Certain | 5 |

Description and definitions of IMPACT/SEVERITY of RISK occurring:

| Consequence Types | 1 Insignificant | 2 Minor | 3 Moderate | 4 Major | 5 Catastrophic |
|---|--|--|--|--|---|
| People (including patients, staff, carers and visitors) | No injury | Short term harm Will resolve in a month. First aid treatment required | Semi -permanent harm. Should resolve in a year Medical treatment required | Permanent or long term harm. Jeopardise well being – abuse, neglect assault | Single or Multiple fatalities |
| Delivery of services/ Strategic | No impact on ability to operate local services | Could threaten the efficiency or effectiveness of some services, but dealt with internally | Severe disruption to a service. Non achievement of local delivery plan | Loss of a service. Loss of stars / reduction in score in national performance review | Threatens the viability of the organisation |
| Financial Loss (e.g. Asset loss, repeat treatment, litigation, fines) | Loss in the range of £0 to £5,000 | Loss in the range of £5,001 to £50,000 | Loss in the range of £50,001 to £500,000 | Loss in the range of £500,001 to £1,000,000 | Loss of more than £1,000,000 |
| Organisational Objectives | Management information does not meet business requirements | Service objectives not met or project failures in one service | Service objectives not met or project failures in multiple services | Failure to meet one key organisational objective | Failure to meet multiple key organisational objectives |
| Reputation | No impact on the reputation of the PST | Increase in patient / customer complaints or staff dissatisfaction | Negative press in local paper. Greater scrutiny by SHA, CAA or Audit Commission | Negative national press & television coverage. Intervention by SHA / Central Government | International television coverage. External investigation (CQC, HSE, police) Prosecution. Replacement of Board |
| Workforce and Morale | No impact on staff morale | Staff dissatisfaction | Increased Staff sickness & absenteeism | High rate of staff leaving | Inability to recruit or retain Industrial action |
| Legal | No breaches of law or local procedures / standards | Breaches of local procedures /standards | Breaches of regulation, national procedures / standards | Breaches of law punishable by fines | Breaches of law punishable by imprisonment |

The risk rating then equals LIKELIHOOD x IMPACT/SEVERITY.

| Likelihood | Consequence | | | | |
|---------------|--------------------|------------|---------------|------------|-------------------|
| | 1 Insignificant | 2 Minor | 3 Moderate | 4 Major | 5 Catastrophic |
| 5 Certain | 5 | 10 | 15 | 20 | 25 |
| 4 Likely | 4 | 8 | 12 | 16 | 20 |
| 3 Possible | 3 | 6 | 9 | 12 | 15 |
| 2 Unlikely | 2 | 4 | 6 | 8 | 10 |
| 1 Rare | 1 | 2 | 3 | 4 | 5 |

Risk Rating:

Low Risk 1 to 3
Moderate Risk 4 to 6
High Risk 8 to 12
Extreme Risk 15 to 25

4.2 Management Response to Risk Rating

The score of a particular risk will determine at what level decisions on acceptability of the risk should be made and where it should be reported to within the HPS. The Board and Cabinet have defined as “Significant” any risk that has the potential to damage the organisation’s objectives

General guidelines are:

| Level of risk | How the risk should be managed | Who to make aware |
|-------------------------------|--|--|
| Extreme (15-25) | Requires active management High impact / High likelihood: risk requires active management to manage down when possible and maintain exposure at an acceptable level | Report to a Director for more detailed analysis of the risk, to be included on the Assurance Framework and reported to the Board and Cabinet with proposed treatment/action plans |
| High Risk (8-12) | Contingency plans A robust contingency plan may suffice together with early warning mechanisms to detect any deviation from profile | Report to a Senior Manager/Director and then to an appropriate Risk Committee with proposed treatment/action plans |
| Moderate Risk (4-6) | Good housekeeping May require some risk mitigation to reduce likelihood if this can be done cost effectively, but good housekeeping to ensure the impact remains low should be adequate. Reassess frequently to ensure conditions remain same. | Report to Senior Manager with proposed treatment/action plans, for particular monitoring. |
| Low Risk (1-3) | Review periodically Risks are unlikely to require mitigating actions but status should be reviewed frequently to ensure conditions have not changed | Report to local manager for local action to reduce risk |

This information should be recorded on the Risk Assessment Form found at Appendix 2

5. Step 3: Determine Additional Controls Required

Once risks and opportunities have been identified and assessed for likelihood and impact, this will provide you with a **Current/Residual** risk rating. The rating will identify those risks where further resources may need to be allocated to reduce the risk. This will be included on the risk assessment form as the **Action Plan**.

An Action Plan should be completed for all for all residual risks rated **extreme**, **high** or **moderate** and should include the following information:

- a) **Risk Owner** - Each risk will be assigned a risk owner **who** will own and determine **how** the risk/opportunity will be managed, controlled or exploited.
- b) **Action Description**- A detailed description of the action required to manage or **treat** the risk. Should the risk be avoided, eliminated, reduced, transferred or accepted? A useful framework for considering these questions is the “4 T’s”

5.1 The 4T’s of Risk Control

| | NOTES |
|---|---|
| <p>Terminate Stop the activity altogether</p> | <ul style="list-style-type: none"> • Rarely an option in public sector activity though this may be possible for some non-core activities. |
| <p>Tolerate Accept the risk and live with it</p> | <ul style="list-style-type: none"> • Applies to risks within the tolerance threshold or those where the costs of treatment far outweigh the benefits. • Should be backed up by appropriate contingency plans, business continuity plans and recovery plans. |
| <p>Transfer To a third party or through insurance</p> | <ul style="list-style-type: none"> • Can transfer all or part of the risk. • Beware – although responsibility can be transferred, accountability rarely can, so it requires close monitoring. |
| <p>Treat Take action to control the likelihood and/or impact</p> | <ul style="list-style-type: none"> • This is where the bulk of the risk management action falls. • The purpose of treating a risk is to continue with the activity which gives rise to the risk but to bring the risk to an acceptable level by taking action to control it in some way through either <ul style="list-style-type: none"> ○ containment actions (lessen the likelihood or consequences and apply before the risk materialises) or ○ contingent actions (put into action after the risk has happened, i.e. reducing the impact. Must be pre-planned) • |

These are not mutually exclusive categories – it is quite normal to use a combination of two or more.

Consider what additional controls can be introduced to either remove the risk or reduce it. Through these controls can the likelihood of occurrence be reduced? Can the impact be reduced? Can consequences of the risk be changed?

Typical examples of controls include the introduction of new policies with associated training for staff, reviewing skill mix, undertaking audits to identify problem areas.

When completing an Action Plan it is important to ensure that:

- The action is proportionate to the risk.
- Whether new risks are caused by the action.
- Controls are SMART – Specific, Measurable, Achievable, Realistic and Time-bound.

- c) **Resources Required** – Are resources required to implement the actions and if so what type i.e. personnel or financial and how can they be secured. The cost of management and control of the risk should be proportionate to the risk that is being addressed
- d) **Target/ Review Date** – enter target date for completion of action(s) or when the actions will be reviewed. As a guide it is suggested that the following timescales be used:

| | |
|------------------------------------|---------------------------|
| Extreme Risk Score 15 to 25 | – Within 3 months |
| High Risk Score 8 to 12 | - Within 6 months |
| Moderate Risk Score 4 to 6 | - Within 12 months |

- e) **Target Risk Rating** – unless a risk is terminated it is impossible to remove it completely and so the risk owner needs to identify what is acceptable as a target.

6. Step 4: Implement Additional Control Measures

It is important to ensure that any new controls are implemented and that the assessment is regularly reviewed. Controls may need to be included in service or business plans or identified as part of future training & development needs.

All completed risk assessments are recorded on a Risk Register – these are in place for departments, services, directorates, HC & NHS (Corporate Risk Register). An example Risk Register is included at **Appendix 3**. Currently HC and NHS have separate databases for storing this information but it is presented in the same format.

An essential element of the risk management process is that risks / opportunities can be cascaded up or down according to the levels of risk and available resource – see **Step 2, Management Response to Risk Rating**. For example a risk identified at service level may be managed or contained adequately until perhaps a sudden change in either the internal or external environment means the service does not have capacity, authority or resources to manage or contain the risk. It could be that the sudden change has created multiple impacts that together are very high or are out of the range of control of the head of service. The risk is then cascaded up to the next level (e.g. Directorate or Board). The risk is then assessed at that level and management determined.

This clear process enables assurance to the highest level that risks (and opportunities) are being managed at their appropriate level.

7. Step 5: Monitor Completion & Effectiveness of Controls - Assurance

Circumstances and business priorities can, and do, change, and therefore risks, opportunities and their circumstances need to be regularly reviewed. Some risks will move down the priority rating, some may leave, and others will be identified.

The risk management process requires that risk owners review their risks and report **at least quarterly**.

That review should incorporate the following questions:

- Is the risk / opportunity still relevant (what changes have occurred in the internal / external environment)?
- How do I know the controls have been effective – have there been any internal or external reports to provide assurance?
- What progress has been made in managing the risk/ opportunity?
- Given the progress (or not), does the risk score need revising?
- Are any further controls required, if so what should these be?

Risk management should be included as an item of the agenda of all department management team/board meetings.

A list of potential sources of Assurance is included on page 15

8. Assurance Framework

The Assurance Framework is basically an extension of the risk register which allows for further analysis of any **Extreme Risks** (rated 15-25) which could impact on the HPS achieving their strategic or principal objectives.

It provides a framework for reporting key information to the Board and Cabinet and an example is in **Appendix 4**. It provides assurance about where risks are being managed effectively and objectives are delivered and will also identify which of the HPS objectives are at risk because of gaps in controls or assurance about them. There is a minimal content for an Assurance Framework and whilst this has been set by the Department of Health it will be applied across the whole of HPS.

Key Controls - Organisations should ensure that they have **key controls** in place which are designed to manage their principal risks.

Controls should be documented and their design subject to scrutiny by independent reviewers, eg. internal and external auditors. The key controls should be mapped to the principal risks. When assessments are made about controls, consideration must be given not only to the design but also the likelihood of them being effective in light of the governance and risk management framework within which they will operate - even the best controls can fail if staff are not adequately trained.

Assurances on Controls - Where can the organization gain evidence that the controls are effective? The most objective assurances are derived from independent sources and these are supplemented from non independent sources such as clinical audit, internal management representations, performance management and self assessment reports. Page 15 contains a list of possible sources of assurance.

Where the assurer's report is confirmed as relevant, the organisation must endeavour to confirm that sufficient work has been undertaken in the review to be able to place reliance on the conclusions drawn. The organisation will need to assess whether a review provides:

Positive Assurances

There are sufficient, relevant, positive assurances to confirm the effectiveness of key controls and **the objectives are met**. This should be reported to the Cabinet and Board and recorded as a positive assurance.

Gaps in Control

These should be recorded when there is a clear conclusion, based on sufficient and relevant work, that one or more of the key controls on which the organisation is relying are not effective.

Gaps in Assurance

There is a lack of assurance, either positive or negative, about the effectiveness of one or more of the key controls. This may be as a result of lack of relevant reviews, or concerns about the scope or depth of reviews that have taken place.

Principal risks cannot be considered in isolation, they will be derived from the prioritisation of risks fed up through the whole organisation and in this way the Risk Register contributes to the Assurance Framework. Therefore, whilst the Assurance Framework is managed by the Corporate Risk department ownership of the risks and responsibility for providing information on assurance continues to lie with Directors.

8.1 Sources of Assurance

| | |
|-------------------------------|-------------------------------|
| Internal sources of assurance | External sources of assurance |
|-------------------------------|-------------------------------|

- Internal audit
- Key Performance Indicators
- Performance reports
- Sub-committee reports
- Compliance audit reports
- Local counter fraud work
- Clinical audit
- Staff satisfaction surveys
- Staff appraisals
- Training records
- Training evaluation reports
- Results of internal investigations
- Serious Untoward Incident reports
- Complaints records
- Infection control reports
- Standards for Better Health self-assessment
- Information governance toolkit self-assessment
- Patient advice and liaison services reports
- Human resource reports
- Internal benchmarking

- External audit
- Audit Commission
- NHS Litigation Authority
- Clinical Negligence Scheme for Trusts
- Strategic health authority reports/reviews
- Monitor
- Care Quality Commission hygiene code reports
- Care Quality Commission reviews
- Care Quality inspections of Standards for Better Health declarations
- Royal College visits
- Deanery visits
- External benchmarking
- Patient environment action team reports
- Accreditation schemes
- National and regional audits
- Peer reviews
- Feedback from service users
- Feedback from commissioners
- External advisors
- Local networks (for example, cancer networks)
- Investors in People
- Department for Children, Schools and Families
- Central Government Departments
- External Insurers and Brokers
- Lexcel

9. Applying the Process to Opportunity Management

Good risk management will also help us to explore and take up opportunities as they are identified. The approach is the same as for risk assessment – we need to ask:

- Is there an opportunity we could take to help us achieve our objectives?
- What is the likelihood of it happening?
- What would be the impact if it did?
- What needs to be done – how can we develop this, what actions are needed to ensure it happens?

Description and definitions of LIKELIHOOD of the OPPORTUNITY occurring

| Description | Descriptor | Level |
|---|----------------|-------|
| No evidence or experience of this happening in the organisation. No identified benefits | Rare | 1 |
| Opportunity for which the likelihood is low based on resources currently being available. Possibility of some benefits if a risk was carefully managed. | Unlikely | 2 |
| Possible opportunity identified but which has yet to be fully investigated. Benefits that can be attributed to the careful management or toleration of an identified risk. | Possible | 3 |
| An opportunity that has been explored and may be achievable but which will require careful management. Opportunities clearly identified or deliverable benefits achieved from managing / tolerating an identified risk | Likely | 4 |
| A clear opportunity already identified which can be relied upon, with reasonable certainty, to be achieved in the short term and which will deliver clear benefits. | Almost Certain | 5 |

Description of IMPACT (i.e. benefits) of the OPPORTUNITY

| Consequence Types | 1 Insignificant | 2 Minor | 3 Moderate | 4 Major | 5 Significant |
|-----------------------------|--|---|--|---|---|
| Delivery of services | No change to delivery of patient / customer care or access | Some slight improvement on internal business only – but have no effect on patient / customer care or access to services (no change in delivery) | Noticeable improvement to NHS Herefordshire – would have a slight improvement on patient / customer care or access to services | Noticeable an improvement in services, patient / customer care and / or access (delivery, quality, level, cost etc) | Patient / customers would see a significant and noticeable improvement in services, patient / customer care and / or access to services (delivery, quality, level, speed, cost) |
| Financial Gain | Income generation and / or savings of less than £5,000 | Income generation and / or savings (>£5,001 - < £50,000) | High income generation and / or savings (<£50,001 - <£100,000) | Major income generation and / or savings (>£100,001 - >£250,000) | Income generation and / or savings >£250,001 |
| Reputation | Would not have an impact on HPS reputation | Positive local media coverage | Positive media coverage in national tabloid press /municipal journals and/or significant local media coverage Positive recognition by external body (Audit Commission, CQC, DH etc) | Recognition from professional community / external body Coverage in national (broadsheet) press and/or low national TV reporting | Recognition as leader in field from professional community / external body Extensive positive coverage in national press and broadsheet editorial and/or national TV item |
| Partnership | No additional partnership initiatives identified | Local level partnership initiatives identified | County wide level partnership initiatives / arrangements | Regional partnership initiatives / arrangements | National or international partnership initiatives / arrangements |
| Environmental | No or insignificant environmental or economic improvement | Minor improvement to local environmental / economy | Moderate improvement to local environmental / economy | Major improvement to local environment / economy | Significant improvement to national and/or international environmental |

The opportunity rating then equals likelihood x CONSEQUENCE/IMPACT

| Likelihood | Consequence | | | | |
|---------------|--------------------|------------|---------------|------------|------------------|
| | 1 Insignificant | 2 Minor | 3 Moderate | 4 Major | 5 Significant |
| 5 Certain | 5 | 10 | 15 | 20 | 25 |
| 4 Likely | 4 | 8 | 12 | 16 | 20 |
| 3 Possible | 3 | 6 | 9 | 12 | 15 |
| 2 Unlikely | 2 | 4 | 6 | 8 | 10 |
| 1 Rare | 1 | 2 | 3 | 4 | 5 |

Opportunity Rating:

Low Opportunity 1 to 3
Moderate Opportunity 4 to 6
High Opportunity 8 to 12
Significant Opportunity 15 to 25

Management response to OPPORTUNITY RATING

| Level of Opportunity | How the opportunity should be managed |
|-----------------------------|--|
| Significant 15-25 | Active engagement to continue - requires periodic review to ensure conditions remain unchanged |
| High 8-12 | Active engagement to continue – may require further engagement to increase benefits and/ or good housekeeping & some mitigation to ensure level of likelihood & impact maintained. |
| Moderate 4-6 | Level of engagement to be reviewed - robust contingency plans & early warning mechanisms in place to ensure opportunity does not become any lower or a threat. |
| Low 1-3 | Requires active management to ensure remains an opportunity and not become a threat. Or review viability and consider whether this initiative should be terminated. |

As risk management becomes embedded and managers become confident risk takers then in addition to the 4 T's of Risk Control (page 11) there is a fifth option open:

Taking the opportunity - This is an option to be considered whenever tolerating, treating, or transferring a risk. There are two aspects to this:

1. The first is whether or not at the same time as mitigating threats, an opportunity arises to exploit positive impact. For example, is a large sum of capital funding is to be put at risk in a major project, are the relevant controls judged to be good enough to justify increasing the sum of money at stake to gain even greater advantages?
2. The second is whether or not circumstances arise which, whilst not generating threats, offer positive opportunities. For example, a drop in the cost of goods or services frees up resources that can be re-deployed.

10. Appendix 1

Examples of Service Risk Assessment Issues

- Policies and Procedures
 - Clinical
 - General
 - Departmental
- High risk areas
 - Surgery
 - Minor Injury Unit
 - Anaesthesia
 - Acute Psychiatry
 - Pharmacy
 - Prescribing
 - Infection control
 - Medicines management
 - Blood Transfusion
 - Resuscitation
- Staffing
 - Numbers
 - Grades
 - Competence
 - Access and availability of training
 - Induction
 - Supervision
 - Volunteers
- Contracts for core services
- Information for clients
- Consent issues
 - Policy
 - Process
 - Underage
 - Staff training
- Counselling
- Lone Working
- Records
 - Clinical records
 - Data Protection
 - Storage and retrieval
 - Confidentiality
- Prescribing and administration of drugs
- Maintaining standards in out of hours services
- Criteria for access to and refusal of service
- After care / discharge
- Incident Reporting
- Complaints
- Clinical Audit
- Adverse events
- Research and development
- Organisational arrangements
 - Communication
 - Access to support and advice
 - Geographical issues
- Maintenance & Use of equipment
- Dealing with emergencies
- Health and Safety
 - Manual Handling
 - COSHH
 - Violence and aggression
 - Policy
 - Risk assessment
 - Training
 - Access to support / back up

11. Appendix 2

| RISK MANAGEMENT ASSESSMENT (to be completed by assessor) | | | | | | | | | | | | | | |
|--|---|--|-----------------------|-----------------------|---|-----------------|----------|-----------------|--|-----------------------------------|--------------------------------|------------|----------------|--|
| Title (Activity/ Job/ Premises) | | Reference No: | | | Likelihood | | | | Impact/Severity | | | | | |
| Location/Dept | | Assessor Name(s) | | | 5 Almost Certain | | | | 1 Insignificant | 2 Minor | 3 Moderate | 4 Major | 5 Catastrophic | |
| Authorising Manager | | Authorising Mgr Signature | | | 4 Likely | | | | 5 MODERATE | 10 HIGH | 15 EXTREME | 20 EXTREME | 25 EXTREME 2 | |
| Overall Rating | | Review Date | | | 3 Possible | | | | 4 MODERATE | 8 HIGH | 12 HIGH | 16 EXTREME | 20 EXTREME | |
| 2 | | | | | Unlikely | | | | 3 LOW | 6 MODERATE | 9 HIGH | 12 HIGH | 15 EXTREME | |
| 1 Rare | | | | | Likelihood | | | | 2 | 4 MODERATE | 6 MODERATE | 8 HIGH | 10 HIGH | |
| 1 | | | | | Risk evaluation | | | | 1 LOW | 2 LOW | 3 LOW | 4 MODERATE | 5 MODERATE | |
| No | Objective/ Task / Equipment/ Materials/ Activity, etc | Hazard Organisational/ Personal threat | Risks Impact/Severity | Who might be affected | Existing controls currently used (What are we doing now?) | Risk evaluation | | | Action Plan Additional control/precautionary measures required | By Whom & By When initials & date | Risk Rating after Action taken | | | |
| | | | | | | Likeli- hood | Severity | Rating | | | Likeli- hood | Severity | Rating | |
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| Senior Manager signature | | | | | Senior Mgr Signature: | | | Date: | | | | | | |
| *** Only required where high risk or large finance requirement *** | | | | | | | | | | | | | | |
| Progress – Qtr 1 | | | | | | | | | | Signed & Dated | | | | |
| Progress – Qtr 2 | | | | | | | | | | Signed & Dated | | | | |
| Progress – Qtr 3 | | | | | | | | | | Signed & Dated | | | | |
| Progress – Qtr 4 | | | | | | | | | | Signed & Dated | | | | |

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What is the likelihood for re-occurrence of this event? Use the table below to assign this incident a category code.

| Level | Descriptor | Description |
|-------|----------------|---|
| 5 | Almost Certain | It has already happened and is a persistent issue. |
| 4 | Likely | It has already happened, but is not a persistent issue. |
| 3 | Possible | It could occur, but it has not yet. |
| 2 | Unlikely | Do not expect it to happen. |
| 1 | Rare | Can't believe that it will happen. |

What is the likely impact or severity if it does happen again?

Use the table below. The highest level ticked determines the overall Consequence Category rating. If in doubt, grade up not down

| Consequence Types | 1 Insignificant | 2 Minor | 3 Moderate | 4 Major | 5 Catastrophic |
|--|--|--|--|---|---|
| People (including patients, staff, carers and visitors) | No injury | Short term harm. Will resolve in a month. first aid treatment required | Semi -permanent harm. Should resolve in a year. Medical treatment required | Permanent or long term harm. Jeopardise well being – abuse, neglect assault | Single or Multiple fatalities |
| Delivery of services/ Strategic | No impact on ability to operate local services | Could threaten the efficiency or effectiveness of some services, but dealt with internally | Severe disruption to a service. Non achievement of local delivery plan | Loss of a service. Loss of stars in national performance review | Threatens the viability of the organisation |
| Financial Loss (eg. Asset loss, repeat treatment, litigation, fines) | Loss in the range of £0 to £5,000 | Loss in the range of £5,001 to £50,000 | Loss in the range of £50,001 to £500,000 | Loss in the range of £500,001 to £1,000,000 | Loss of more than £1,000,000 |
| Organisational Objectives | Management information does not meet business requirements | Service objectives not met or project failures in one service | Service objectives not met or project failures in multiple services | Failure to meet one key organisational objective | Failure to meet multiple key organisational objectives |
| Reputation | No impact on the reputation of the PCT | Increase in patient complaints or staff dissatisfaction | Negative press in local paper. Greater scrutiny by SHA | Negative national press & television coverage. Intervention by SHA | International television coverage. External investigation (CHI, HSE Prosecution. Replacement of Board |
| Workforce and Morale | No impact on staff morale | Staff dissatisfaction | Staff sickness & Absenteeism | High rate of staff leaving | Inability to recruit or retain. Industrial action |

12. Appendix 3 - Example Risk Register

Risk Register

| Dept. | ID | Opened | Title | Description | Controls in place | Impact (initial) | Likelihood (initial) | Rating (initial) | Risk level (initial) | Action summary | Impact (current) | Likelihood (current) | Rating (current) | Risk level (current) | Review date |
|-------|----|--------|-------|-------------|-------------------|------------------|----------------------|------------------|----------------------|----------------|------------------|----------------------|------------------|----------------------|-------------|
| | | | | | | | | | Red | | | | | Orange | |
| | | | | | | | | | Red | | | | | Red | |
| | | | | | | | | | Red | | | | | Yellow | |
| | | | | | | | | | Orange | | | | | Orange | |
| | | | | | | | | | Orange | | | | | | |

13. Appendix 4 - Example Assurance Framework

SAMPLE ASSURANCE FRAMEWORK – JUNE 2009

| | |
|--------------------------------|---|
| Corporate Objective | Improving Health & addressing Inequalities - continually identifying & refining needs |
| Risk Register Reference | 537 |

| Principle/Directorate Objective | | | Positive Assurances to Board - What | Gaps in Controls | Gaps in Assurance | Risk Rating | Standards for Better Health | Who might be affected | Directorate |
|--|--|-----------------------------|---|--|-------------------|---------------------------------|--|-----------------------|---------------|
| What could prevent this objective being achieved – hazard/threat | Existing controls currently used (What are we doing now?) | Assurance on Controls - Who | | | | | | | |
| Inadequate preparation in the event of Pandemic Influenza | DH UK contingency plan. Herefordshire Influenza Pandemic Planning Committee. Existing major incident plans and emergency planning command & control structures. Mass prophylaxis plan. Emergency Planning Lead Pandemic Influenza Plan | DH/SHA Audit | Self assessment of Pandemic flu planning (SHA tool) PCT score for 2008-09 is 77%. Contingency Plan received March 09 Verbal update May 09 | Lack of Business Continuity Plans from some providers. | | 20 | Domain 7: Public Health Core Standard C24: Healthcare organisations protect the public by having a planned, prepared and, where possible, practised response to incidents and emergency situations which could affect the provision of normal services | Public | Public Health |
| Additional control/precautionary measures required | | | | By When | By Whom | Risk Rating after Action | Progress | | |
| <ul style="list-style-type: none"> Implement actions/strategy agreed at HIPPC within PCT Training programme Anti-viral strategy Review business continuity planning arrangements in PCT and Primary Care Recruit joint Emergency Planning Lead with Council | | | | 01/04/09 01/01/07 01/04/07 01/10/09 31/10/08 | | | Update awaited Completed Completed Project manager in place to assist work with PCT provider. Completed | | |

14. Appendix 5 - Risk Management Glossary

| | |
|---|---|
| Assessing risks | The approach and process used to prioritise and determine the likelihood of risks occurring and their potential impact on the achievement of our objectives. |
| Assurance Framework | A tool that sets out the risks for each strategic objective, along with the controls in place and assurances available on their operation. Reported to Board and Cabinet. |
| Consequence | The outcome of an event so the reason for managing the risk. |
| Contingency | An action or arrangement that can be put into place to minimise the impact of a risk if it should occur. |
| Control (control measures) | Any action, procedure or operation undertaken to either contain a risk to an acceptable level, or to reduce the likelihood . |
| Corporate Governance Identifying risks | The method by which functions are regulated and controlled The process by which events which could affect the achievement of the organisations objectives , are drawn out and described and listed. |
| Impact | The effect that a risk would have if it happens |
| Likelihood | The probability that an identified risk event will occur |
| Managing & controlling risks | Developing and putting in place actions and control measures to treat or manage the risk |
| Mitigation (Plan) | A strategy that decreases risk by lowering the likelihood of a risk event occurring or reducing the impact of the risk should it occur. |
| Objective | Something worked toward or striven for, a goal. |
| Operational risk | Risks associated with the day-to-day issues that an organisation might face as it delivers its services. |
| Project risks | Risks associated with a specific activity, which has defined goals, objectives, requirements, a life cycle, a beginning and an end. |
| Periodic review | A review that occurs at specified regular time intervals. |
| Residual risk | The level of risk remaining after managing it through treatment and/or control measures |
| Risk | The chance of something happening that will have an effect on our objectives . This could be an opportunity as well as a threat. |
| Risk appetite | The level of residual risk that the PCT is prepared to accept, tolerate or be exposed to at any point in time |

| | |
|---|--|
| Risk owner | The person who has overall responsibility for ensuring that the strategy for addressing the risk is appropriate and who has the authority to ensure that the right actions are being taken |
| Risk management/ Risk management process | The corporate and systematic process that efficiently identifies, assesses, manages and communicates the impact of risks in a cost-effective way and having staff with the appropriate skills to identify and assess the potential for potential threats and opportunities to arise. |
| Risk prioritisation matrix | The number of levels of likelihood and impact chosen against which to measure the risk and identify methods of management of the risk. |
| Risk register | A framework for capturing information about each risk , e.g. brief description, its likelihood , its impact , how we are controlling it and who is managing that risk. |
| Risk profile | The summary of identified risks and assessment of their seriousness. |
| Risk strategy | The overall organisational approach to risk management. |
| Strategic risks | Risks concerned with where the organisation wants to go, how it plans to get there and how it can ensure survival. |
| Target Risk | The level of risk that the organisation is aiming to achieve after the action plan is implemented. |

DRAFT

15. Appendix 6 - Document Classification

Author Name and Role
Date Created
Date Issued
Description
File Name
Format
FOI/EIR Disclosure
Geographic Coverage
Group Access
Language
Master Location
Publisher
Rights Copyright
Security Classification
Status
Subject
Title
Type

Consultation Log

*Date sent for
consultation*
Consultees

Approval Log

*Impact on health and
wellbeing assessed by*
To be agreed by
To be approved by
Finally to be ratified by
To be reviewed by:

Date

Version Log

| <i>Version</i> | <i>Status</i> | <i>Date</i> | <i>Description of Change</i> | <i>Reason For Change</i> | <i>Pages affected</i> |
|----------------|---------------|-------------|----------------------------------|------------------------------|---------------------------|
|----------------|---------------|-------------|----------------------------------|------------------------------|---------------------------|

(Place at the end of the policy / procedure / protocol once approved)

Risk Management

Management of the Council's risks in line with the Statement of Internal Control (SIC) is becoming imbedded in our processes, procedures and management competencies.

Directorate management teams, in line with the SIC, are tasked with reviewing their directorate risk registers on a monthly basis in order that these can be continually monitored for changes and to ensure that appropriate action has been taken.

To assist management teams in this process the following questions, as an aid de memoir have been compiled for use at each meeting, the outcomes of which should be minuted.

- Have all current risks been reviewed and any additional action identified including the identification of an accountable officer and target date?
- Do any risks need to be removed, due to time limitation i.e. end of a specific project?
- Have any new directorate risks been identified that need to be added? (for example any risks identified on Committee reports that are viewed as strategic to the directorate).
- Has the risk register been completed for new and existing risks, including detailed analysis of the proposed control measures, identification of an accountable officer and target date?
- Have any operational risks been identified by heads of service/key managers that could, if not managed become a strategic risk for the directorate?
- Are updated risk registers being entered onto the Risk Register Cluster file at least every two months in line with the Integrated Performance Report timetable?

| | |
|-----------------------------------|---|
| MEETING: | AUDIT AND GOVERNANCE COMMITTEE |
| DATE: | 29 JANUARY 2010 |
| TITLE OF REPORT: | INTERIM AUDIT SERVICES ASSURANCE REPORT 2009/10 NO.2 |
| CHIEF INTERNAL AUDITOR | TONY FORD |

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

The purpose of the Interim Assurance Report is to update members on the work status and bring to their attention any key internal control issues.

Key Decision

This is not a Key Decision.

Recommendation

THAT subject to any comments the Committee wish to make the report be noted report

Key Points Summary

- Ten key issues were identified in the Council's 2009 Annual Governance Statement (Appendix 1 refers).
- There are currently 17 Committee Resolutions that are open (Appendix 2 and 3 refers);
- Three audit reviews were given a marginal audit opinion, one an unsatisfactory audit opinion and one an unsound audit opinion;
- National Fraud Initiative (NFI) working is in progress and proving to be very time consuming; and
- There are improvements in the progress made by schools in relation to the Financial Management Standard.
- Progress on GEM audits will be kept under review.

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

- The overall rating of internal audit from the CIPFA Audit Customer Satisfaction Survey was good.

Alternative Options

- 1 This report is for information therefore alternative options are not applicable.

Reasons for Recommendations

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

Introduction and Background

- 3 To ensure that the Committee is informed of progress on the Audit Plan and any key internal control issues identified.

Key Considerations

Key Issues Identified in 2008/09

- 4 The Audit and Corporate Governance Committee considered the Annual Assurance report for the year ending 31st March 2009 on 19th June 2009 in addition the Committee reviewed and adopted the Annual Governance Statement. The key issues identified for improvement are set out in Appendix 1 along with the comments of the lead officer regarding the current position.

Audit and Corporate Governance Committee Resolutions

- 5 Regarding resolutions made by the Committee from May 2007 to June 2008 (Appendix 2 refers) there were five open and ongoing following the last meeting held on 20th November 2009. Replies received from relevant officers have been included in the updated version of the appendix.
- 6 With reference to resolutions made by the Committee from July 2008 to date (Appendix 3 refers) there were 12 open and ongoing following the last meeting held on 20th November 2009. Replies received from relevant officers have been included in the updated version of the appendix.

Fundamental Systems

- 7 The Council's target is that all fundamental systems achieve at least a satisfactory audit opinion. Work in this area is in progress and the Audit and Corporate Governance Committee will be kept informed of progress.

Non Fundamental Systems

- 8 There are seven reviews at various stages of progress, with three being finalised. Of the three finalised the report on Trade and Domestic Waste was given a Marginal Audit opinion. Although the current Waste Operations Officer has started and continues to improve procedures there was the need for improvements regarding stock control, monitoring of charges and income control. In line with the Council's Financial Procedure Rules the Leader, Chair of the Audit and Corporate Governance Committee and Cabinet Member – Environment and Strategic Housing have been sent a copy of the report.

Governance and Anti-fraud

- 9 Work is progressing on the National Fraud Initiative (NFI); however the Audit Commission requirements and the increase in the number of service areas matched/reports it is proving to be very time consuming.
- 10 Following the completion of the travel and subsistence report, a marginal opinion was given due to data quality, and the need to complete the form correctly, and for authorising officers ensuring that forms are correct and complete.
- 11 A review of procurement and contract procedures has been completed in Property Services and a marginal opinion given; this was due to the need for procedures within the service area to be updated to ensure compliance with the Council's Standing Orders. The newly appointed Contracts and Commissioning Officer is carrying out a review of the practices and procedures. In line with the Council's Financial Procedure Rules the Leader, Chair of the Audit and Corporate Governance Committee and Cabinet Member – Resources have been sent a copy of the report.

Other Key Systems

- 12 As part of the work on the Council's Annual Governance Statement key officer Statements of Assurance for the period to June 2009 and September 2009 and December 2009 have been requested. The Committee will be updated at the next meeting on the level of returns received for the quarters ending September 2009.
- 13 Both reports relating to members expenses were given a satisfactory audit opinion.
- 14 The revised Antifraud and Corruption Policy is in draft and out for consultation in line with Council policy, it is intended that it will be presented to the next Audit and Governance Committee meeting.
- 15 Under a separate agenda item the Chief Internal Auditor has presented a report highlighting the committees new terms of reference as set out in the Audit and Corporate Governance Code.

ICT Protocols and Controls (Council-Wide)

- 16 Work on reviewing the Council's ISO27001 arrangements is ongoing; of the three areas completed there was one review with two minor non compliances.

Establishments

- 17 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. Currently 16 have met the standard, three have a conditional pass and two have not met the standard.

Verification and Probity

- 18 Good Environmental Management (GEM) audits are in progress, with a minor non conformance being issued for the completed system audit.
- 19 The GEM audit plan is supported by trained auditors across the Council, information requested from the GEM team shows that there are 58 audits due for completion, however only thirteen have been completed, four postponed or cancelled, with 41 still to be completed by the end of March 2010.

- 20 Although most auditors on the programme have indicated that they will be able to complete their allocated audits by the March 2010 deadline it likely that only 52 audits (90%) will be completed. Due to the possible impact on the Council's Annual Governance Statement the committee will be kept informed of progress.

Recommendation Follow up

- 21 The Waste Management Contract follow up report is with the client; in addition all fundamental systems reviewed will have previous recommendation followed up. The out come will be report as part of future assurance reports.

Performance Management

- 22 At the request of the Audit Commission two indicators relating to 2008/09 are being reviewed one has been given a satisfactory audit opinion, With the Carers Receiving Needs Assessments indicator being given an unsatisfactory opinion. The risk assessment for 2009/10 has been completed and indicators identified will form part of future audit work.

Critical Recommendations

- 23 Three Critical recommendations were made in relation to the Llangrove Primary School Report, theses recommendations form part of the action plan signed of by the Head-teacher.
- 24 Two Critical recommendations were made in relation to the performance indicator report NI 135.
- 25 Follow up work is due and members will be informed on progress.

Joint Working

- 26 The IT Audit has been completed and The Good Environmental Management PCT Gap Analysis is in progress.

CIPFA Customer Survey

- 27 The CIPFA Customer Survey has been received and the overall rating is good, the survey covered 35 headings, which can be summarised as follows:

| | Excellent | Good | Adequate | Less than Adequate | Total |
|--------------------|------------------|-------------|-----------------|---------------------------|--------------|
| Number of headings | 1 | 26 | 7 | 1 | 35 |

- 28 The less than adequate issue relates to the lack of value for money review, which will be addressed in the Audit Plan for 2010/11.

Community Impact

23. N/a

Financial Implications

24. There are no financial Implications.

Legal Implications

25. There are no Legal Implications.

Risk Management

26. 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.

Consultees

27. Relevant officers have been requested to up date action taken on key issues identified in 2008/09 and past Audit and Corporate Governance Committee resolutions. Their replies have been included in the relevant appendices.

Appendices

Appendix 1 - Annual Governance Statement 2008/09 Key Issues Identified.

Appendix 2 – Audit and Corporate Governance Committee Resolutions May 2007 to June 2008.

Appendix 3 - Audit and Corporate Governance Committee Resolutions July 2008 to November 2009.

Appendix 4 – Status Audit Plan 2009/10

Background Papers

- None identified.

**ANNUAL GOVERNANCE STATEMENT (AGS) 2008/9
STATUS OF SIGNIFICANT GOVERNANCE ISSUES**

| AGS-Reference | Significant Governance Issue | Current Action/Comments |
|----------------------|---|--|
| 5.2 | Review the Code of Governance in line with the approved governance framework. (Assistant Chief Executive – Legal and Democratic) | It is proposed that the Code of Corporate Governance be reviewed as part of the next Phase of work on the Council's Constitution |
| 5.3 | Complete actions on the areas for improvement identified by the Audit Commission in their Use of Resources Report. (Director of Resources). | Programme completed and informing preparation for action plan to be based on impending use of resources assessment. |
| 5.4 | Urgent corrective action is taken by Directors to ensure that there is an improvement in performance in relation to performance indicator outturn. (Deputy Chief Executive). | Performance is considered (and challenged) at least monthly at Directorate Management Teams, and areas of under performance and remedial action are considered. With regards to data quality there is the policy and action plan that are being followed, and any issues identified will be also considered by relevant management teams. Change Champions are also contributing to performance and data quality. |
| 5.5 | Improve the embedding of risk management across the Council (Assistant Chief Executive- Legal and Democratic) | The revised Risk Management Policy and Guidance document is to be presented to Cabinet on 26 th November 2009. Relevant officers will be given training on the new requirements. |
| 5.6 | Urgent action is taken to ensure that the outstanding data quality actions are completed by the revised dates and that Cabinet receive monthly updates on progress. (Assistant Chief Executive – HR and OD) | The Audit and Corporate Governance Committee received a Data Quality Update report at its meeting on 28 th September 2009. Efforts continue to complete all the outstanding action actions in the Data Quality Action Plan and the six month progress report to Cabinet, forms part of this Committees Agenda. |
| 5.7 | Action is taken on the recommendations made by Audit Services regarding the Creditors and Payment to independent systems providers (Director of Resources). | There are approved action plans, which have been monitored by the Head of Revenues and Benefits. The current years annual audits are in progress, once completed the Committee will be informed of the outcome. |
| 5.8 | Ensure that the areas identified as areas for | All of the recommendations in the Audit Commission's Report have |

**ANNUAL GOVERNANCE STATEMENT (AGS) 2008/9
STATUS OF SIGNIFICANT GOVERNANCE ISSUES**

| AGS-Reference | Significant Governance Issue | Current Action/Comments |
|----------------------|--|---|
| | improvement in the Audit Commission's report on Planning Services are actioned. (Director of Regeneration). | been accepted and an action plan has been developed which has been approved by Cabinet in order to address all of the issues raised. In particular detailed work has been undertaken in respect of the proposed new Committee Structure in accordance with the Audit Commissions findings. An initial report has been considered at Full Council and the new structures will be dealt with as part of the Council's new Constitution which will be considered at the meeting of Council in November. Progress of the implementation of the Action Plan will be monitored by the Environment Scrutiny Committee. |
| 5.9 | Ensure that the areas identified for improvement in the Audit Commissions report 'Review of Procurement' are actioned. (Deputy Chief Executive, Director of Resources, Director of Environment and Culture | This is underway and the Audit Commission under took a follow up audit. This is being reviewed but noted progress. |
| 5.10 | The Herefordshire Children's Safeguarding Board continue to monitor the agreed action plan. (Director of Children Services) | There is a new independent Chair of the Board. The Action Plan is monitored by the Board and progress is being made. |
| 5.11 | Continue to promote the Council's antifraud and whistle-blowing policies, keeping them under review. (Assistant Chief Executive - Legal and Democratic, Director of Resources | Poster 'Employees Role in Maintaining High Standards of Conduct' on notice boards at Council Offices. Level 2 Financial Training includes an introduction to the antifraud policy and the whistle-blowing policy. Employees Role in maintaining High Standards of Conduct highlighted on payslips. |

**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 | PLANNED COMPLETION DATE | STATUS |
|------|-----------|--------------|---|--|---------------------------|---|-------------------------|--------|
| 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) | Following Consultation with the Chairman and Deputy Chairman the review will form part of the Inventory Audit planned by Audit Service | 30/04/2010 | |
| 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) | The Contract Procedure Rules at paragraphs 6.2.3 to 6.2.8 contain provisions that provide for the calculation of financial limits for contracts (in the context of the EU procurement regulations). The non aggregation principle reflected in those provisions is a fundamental principle of EU procurement law and the Council must follow the EU | 31/05/2010 | |

**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 | PLANNED COMPLETION DATE | STATUS |
|------|-----------|--------------|---------|---------------------------|---------------------|--|-------------------------|--------|
| | | | | | | <p>principles in all its contracting activities. Therefore, the provisions of paragraph 6.2.4 apply and are applied to the limits in paragraph 5.1.7 of the Contract Procedure Rules to prevent the splitting of contracts into smaller low value ones in order to avoid the application of that principle. It is accepted that it would be clearer if the principle was also reflected and a similar provision to that in paragraph 6.2.4 included in paragraph 5.1. However, it is not essential.</p> <p>By way of reassurance, the Legal team provide advice on</p> | | |

**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 | PLANNED COMPLETION DATE | STATUS |
|------|-----------|--------------|-------------------------|---|---------------------|---|-------------------------|--------|
| | | | | | | <p>contracting and apply this principle when giving such advice.</p> <p>The Contract and Financial Procedure Rules in the new Constitution (to take effect on 1 January 2010) have not been reviewed as part of the recent constitutional review. Council agreed on 13 November 2009 that these rules should be reviewed as part of the next phase of work on the Council's constitution. That review is currently being planned and the Audit and Governance Committee will be involved in that work</p> | | |
| 42 | 51 (ii) | 30/11/07 | Update of Action in the | An action plan be formulated regarding monies payable by Parish | Charlie Adan | There is a review of elections services | 30/06/10 | |

**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 | PLANNED COMPLETION DATE | STATUS |
|------|-----------|--------------|---|---|---------------------------------|---|-------------------------|--------|
| | | | Special Report – Governance Improvement Plan. | Councils when elections take place. | (Alan McLaughlin) | underway that is intended to identify and remedy some recent problems in that service area. These are matters for the Returning and Registration officer but I can confirm that the arrangements for parish elections e.g. local count arrangements, the charges levied for parish elections and the arrangements for recovery of election costs from parishes and elsewhere are all being reviewed and will be updated as necessary. | | |
| 47 | 56(i) | 21/12/07 | Update on Community Network Upgrade and Critical recommendations In Use | 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 members Services to schedule Prince 2 training for members | 30/04/2010 | |

**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 | PLANNED COMPLETION DATE | STATUS |
|------|-----------|--------------|---------------------------------|---|---------------------------------|--|-------------------------|--------|
| | | | of Contractors In ICT Services. | | | (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 members Services to schedule Prince 2 training for members | 30/04/2010 | |

Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 20th November 2009

| Item | Minute No | Meeting Date | SUBJECT | RESOLUTION/RECOMMENDATION | RESPONSIBLE OFFICER | CURRENT POSITION | PLANNED COMPLETION DATE | 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. | Charlie Adan (Alan McLaughlin) | The Code of Corporate Governance was considered and used as a guiding document in the recent constitutional review process and it was raised as a matter for further review by the Chair of the Standards Committee in his comments to Council on 13 November 2009. It is proposed that the Code of Corporate Governance be reviewed as part of the next Phase of work on the Council's Constitution | 31/05/2010 | |
| 78 | 115 (f) | 25/09/08 | First Interim Assurance Report | A report be submitted to the next meeting regarding the current position with regard to the handover of assets to Wyebridge | Tony Ford | The report has been completed and a satisfactory Audit Opinion given and | 20 th November 2009 | |

Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 20th November 2009

| Item | Minute No | Meeting Date | SUBJECT | RESOLUTION/RECOMMENDATION | RESPONSIBLE OFFICER | CURRENT POSITION | PLANNED COMPLETION DATE | STATUS |
|------|-----------|--------------|-----------------------|--|---------------------|--|-----------------------------|--------|
| | | | | Academy. | | forms part of the Interim Assurance Report. Copies of the report were given to all members of the Audit and Corporate Governance Committee on 20 th November 2009. | | |
| 89 | 5 | 19/06/09 | Review of Procurement | The introduction of procurement and contract performance reporting systems , recommendation R2 paragraph 14 of the Audit Commission's report | David Powell | The development of comprehensive systems for the reporting and monitoring of procurement will be a high priority task of the new joint Head of Procurement expected to be in post this Spring. | September 2010 | |
| 90 | 5 | 19/06/09 | Review of Procurement | The Audit and Corporate Governance Committee work plan be amended to make specific provision for procurement investigation and reports. | David Powell | The Committees revised terms of reference which came in to effect on 1 st January 2010 states that ' <i>The Committee shall receive assurance from the Chief Internal Auditor that officers are</i> | 12 th March 2010 | |

Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 20th November 2009

| Item | Minute No | Meeting Date | SUBJECT | RESOLUTION/RECOMMENDATION | RESPONSIBLE OFFICER | CURRENT POSITION | PLANNED COMPLETION DATE | STATUS |
|------|-----------|--------------|-----------------------|--|---------------------|--|-------------------------|--------|
| | | | | | | <p><i>complying with the Council's procurement policy and processes in all respects</i>'. The Director of Resources and Chief Internal Auditor will consult with the Chairman and Deputy Chairman of the Audit and Governance Committee to agree the Committees requirement and include the agreed programme in the 2010-11 Audit Plan, which will be submitted to the Audit and Governance Committee for approval on 12th March 2010</p> | | |
| 91 | 5 | 19/06/09 | Review of Procurement | The Audit and Corporate Governance Committee work plan to include the oversight and completion of training needs and analysis of in-house procurement expertise throughout the Council Directorates. | David Powell | The effectiveness and capacity of joint procurement will be another important issue for the new joint Head of procurement. A progress report on competence and capacity will be | September 2010 | |

Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 20th November 2009

| Item | Minute No | Meeting Date | SUBJECT | RESOLUTION/RECOMMENDATION | RESPONSIBLE OFFICER | CURRENT POSITION | PLANNED COMPLETION DATE | STATUS |
|------|-----------|--------------|---------------------------------|--|---------------------|---|-------------------------------|--------|
| | | | | | | submitted to the committee by end of September 2010. | | |
| 92 | 5 | 19/06/09 | Review of Procurement | A report be submitted to the Committee on the process the Council follows for risk management and the way risk management is used and updated as a positive aid to management. | Andrew Rewell | The revised Risk Management Policy and Guidance document was presented to Cabinet on 26 th November 2009. The required report will then be submitted to the Committee at its January meeting. | 29 th January 2010 | |
| 95 | 7 | 19/06/09 | Data Quality – Annual report | The extent that Directorates local procedures on data quality have been produced. | Tony Geeson | Addressed in the report to the Committee on 28 th September 2009 | 28/09/09 | |
| 96 | 12 | 19/06/09 | Audit Services Assurance Report | Anti - Fraud Training to be added to the Training for members schedule | Tony Ford | Agreed programme received from PriceWaterhouseCoopers . Chief Internal Auditor liaising with Member Services on the date. It is intended that The Non-Executive Directors and Directors from the PCT receive an invite. | 31/03/10 | |
| 104 | 28 | 20/11/09 | Interim Audit Services | Start and completion dates be stated against all items in | Tony Ford | Completion dates now entered for all | 29/01/2010 | |

Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 20th November 2009

| Item | Minute No | Meeting Date | SUBJECT | RESOLUTION/RECOMMENDATION | RESPONSIBLE OFFICER | CURRENT POSITION | PLANNED COMPLETION DATE | STATUS |
|------|-----------|--------------|---|---|---|---|-------------------------|--------|
| | | | Assurance Report 2009/10 No. 1 | Appendices 2 and 3 of the report submitted to future meetings. | | resolutions so that members can monitor progress. | | |
| 105 | 28 | 20/11/09 | Interim Audit Services Assurance Report 2009/10 No. 1 | The Committee requires all action on the remaining 13 items in Appendices 2 and 3 to the report to be completed to the Committee's satisfaction by the time of the next meeting or the respective Directors and executives attend the meeting in person to explain why each issue remains open and when it will be completed. | Members of the Audit and Governance Committee | Linked to 104 above, Action on this resolution is subject to the Committee review of the action taken by officers | 29/01/2010 | |
| 106 | 28 | 20/11/09 | Interim Audit Services Assurance Report 2009/10 No. 1 | A report be submitted to the next meeting detailing the review of the procedures and procurement within Property Services. | David Powell | The required report is a separate agenda item on the Committee Agenda. | 29/01/2010 | |
| 107 | 28 | 20/11/09 | Interim Audit Services Assurance Report 2009/10 No. 1 | A report be submitted to the next meeting detailing the tendering for the cattle market contract. | David Powell | The required report is a separate agenda item on the Committee Agenda. | 29/01/2010 | |

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2009-10**

| AUDIT AREA | Status | Audit Opinion |
|--|--------------------|----------------------|
| a. FUNDAMENTALS | | |
| Bank Reconciliation | Draft with Client | |
| Creditors | Draft with Manager | |
| Payroll (Corporate and Education) | Work In Progress | |
| Debtors | Work In Progress | |
| Creditors | Work In Progress | |
| Council Tax and NDR | Work In Progress | |
| Supporting People | Work In Progress | |
| Education LMS and Finance | Work In Progress | |
| b. NON-FUNDAMENTALS | | |
| | | |
| Deputy Chief Executive | | |
| Out of Hours Payments - Corporate | Final Draft | |
| Resources Directorate | | |
| Industrial Estate Income | Work in Progress | |
| Children Services Directorate | | |
| The Hereford Academy - Transfer of Assets | Final | Satisfactory |
| Pupil Numbers | Work in Progress | |
| Environment and Culture Directorate | | |
| Waste Contract Management-PFI | Final | Satisfactory |
| Trade and Domestic Waste | Final | Marginal |
| Integrated Commissioning Directorate | | |
| Integrated Commissioning Budgetary Control/Monitoring | Draft with Manager | |
| Regeneration Directorate | | |
| Homeless Persons Loans | Work in Progress | |
| c. GOVERNANCE AND ANTI-FRAUD | | |
| Travel and Subsistence | Final | Marginal |
| National Fraud Initiative Creditor Matches | Work in progress | |
| National Fraud Initiative – Payroll/V.A.T/Other | Work in progress | |
| Annual Governance Statement | On going | |
| Procurement and Contract Procedures – Resources | Final | Marginal |
| Staff Loans | Draft with Manager | |
| Staff Register of Gifts | Draft with Manager | |
| Amey/Property Services Review | Draft with Client | |
| Community Network Procurement | Draft with Client | |
| Anti-fraud Policy | Work in Progress | |
| d. OTHER KEY SYSTEMS | | |
| Section 75 Agreements | Draft with Client | |
| Audit & Corporate Governance Committee | Ongoing | |
| Member Allowances/Register of Interests and Gifts(2008/09) | Final | Satisfactory |
| Members Expenses (April to July 2009) | Final | Satisfactory |
| ISIS Payments | Draft with Client | |
| CRB Checks | Work in progress | |
| e. ICT PROTOCOLS AND CONTROLS (COUNCIL-WIDE) | | |
| ISO 27001 Technical Compliance | Work in progress | |
| ISO 27001 Physical Security | Final | Full - Compliance |
| ISO 27001 3 rd Party Management | Final | Full - Compliance |

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2009-10**

| AUDIT AREA | Status | Audit Opinion |
|---|--------------------|----------------------|
| ISO 27001 Business Continuity | Final | Minor Non Compliance |
| Frameworkki System | Work in progress | |
| f. ESTABLISHMENT VISITS | | |
| Llangrove Primary School | Final | Unsound |
| Schools Establishment Audits (DCSF Standard) | | |
| Weobley Primary School | Final | FMSiS Not Met |
| Pembridge C.E Primary School | Final | FMSiS Conditional |
| Wigmore High/Primary School | Final | FMSiS Met |
| Lady Hawkins High School DCSF Toolkit | Final | FMSiS Met |
| Leominster Junior School | Final | FMSiS Met |
| Bodenham St. Michaels C.E Primary School | Draft with client | |
| Burley gate C.E. Primary School | Final | FMSiS Met |
| Eardisley C.E. Primary School | Final | FMSiS Met |
| Goodrich C.E. Primary School | Final | FMSiS Met |
| St. James' C.E Primary School | Final | FMSiS Not Met |
| Wellington Primary School | Final | FMSiS Met |
| Canon Pyon C.E. Primary School | Draft with client | |
| Kimbolton St. James Primary School | Final | FMSiS Met |
| Ewyas Harold Primary School | Final | FMSiS Met |
| Garway Primary School | Final | FMSiS Met |
| Brookfield Special School | Final | FMSiS Conditional |
| Kingsland C.E Primary School | Final | FMSiS Conditional |
| Kingstone & Thruxton Primary School | Draft with Manager | |
| Luston Primary School | Draft with client | FMSiS Conditional |
| Gorsley Goffs Endowed Primary School | Final | FMSiS Met |
| St. Martin's Primary School | Draft with Manager | |
| Leintwardine Endowed Primary School | Final | FMSiS Met |
| Ashperton Primary School | Final | FMSiS Met |
| Marden Primary School | Final | FMSiS Met |
| Orieton Primary School | Final | FMSiS Conditional |
| Riverside Primary School | Final | FMSiS Met |
| Eastnor Parochial Primary School | Draft with Manager | |
| Leominster Ivington C.E. Primary | Draft with client | |
| Kimbolton St. James C.E. Primary | Final | FMSiS Met |
| Kington Primary | Draft with client | FMSiS Conditional |
| g. VERIFICATION AND PROBITY | | |
| Good Environmental Management(GEM) | Final | Minor Non Compliance |
| Corporate Impacts - Procurements | Draft with client | |
| Good Environment Management PCT Gap Analysis | Work In progress | |
| h. RECOMMENDATION FOLLOW UP | | |
| Waste Management Contract | Draft with client | |
| i. PERFORMANCE MANAGEMENT | | |
| National Indicator 181 Housing Benefit/Council Tax Right Time Indicator | Final | Satisfactory |

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2009-10**

| AUDIT AREA | Status | Audit Opinion |
|---|---------------|----------------------|
| National Indicator 135 Carers Receiving Needs Assessments | Final | Unsatisfactory |
| LPSA Target no.5 | Final Draft | |

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.

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

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2009-10**

| 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.