

# AGENDA

## Audit and Governance Committee

Date: **Friday 17 September 2010**

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Time: **10.00 am**

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

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

For any further information please contact:

**Sally Cole, Committee Manager Executive**

Tel: 01432 260249

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

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If you would like help to understand this document, or would like it in another format or language, please call Sally Cole, Committee Manager Executive on 01432 260249 or e-mail [scole@herefordshire.gov.uk](mailto:scole@herefordshire.gov.uk) in advance of the meeting.

# **Agenda for the Meeting of the Audit and Governance Committee**

## **Membership**

<b>Chairman</b>	<b>Councillor ACR Chappell</b>
<b>Vice-Chairman</b>	<b>Councillor RH Smith</b>
	<b>Councillor MJ Fishley</b>
	<b>Councillor JHR Goodwin</b>
	<b>Councillor AW Johnson</b>
	<b>Councillor PJ McCaull</b>
	<b>Councillor AM Toon</b>

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Whether an interest is prejudicial is a matter of judgement for each Councillor. What Councillors have to do is ask themselves whether a member of the public – if he or she knew all the facts – would think that the Councillor's interest was so important that their decision would be affected by it. If a Councillor has a prejudicial interest then they must declare what that interest is. A Councillor who has declared a prejudicial interest at a meeting may nevertheless be able to address that meeting, but only in circumstances where an ordinary member of the public would be also allowed to speak. In such circumstances, the Councillor concerned will have the same opportunity to address the meeting and on the same terms. However, a Councillor exercising their ability to speak in these circumstances must leave the meeting immediately after they have spoken.

## AGENDA

	Pages
<b>1. APOLOGIES FOR ABSENCE</b> To receive apologies for absence.	
<b>2. NAMED SUBSTITUTES (IF ANY)</b> To receive any details of Members nominated to attend the meeting in place of a Member of the Committee.	
<b>3. DECLARATIONS OF INTEREST</b> To receive any declarations of interest by Members in respect of items on the Agenda.	
<b>4. MINUTES</b> To approve and sign the Minutes of the meeting held on 29 June 2010.	1 - 4
<b>5. INTERIM AUDIT SERVICES ASSURANCE REPORT 2009/10</b> To update Members on the work status and bring to their attention any key internal control issues.	5 - 20
<b>6. STATEMENT ON MAJOR PROJECTS</b> To provide a position statement on major projects being undertaken by the authority.	21 - 26
<b>7. CREDITOR PAYMENT AUTHORISATIONS</b> To report on progress in ensuring that the Council requirements for Creditor Payment Authorisations are being carried out in accordance with the Council's Constitution.	27 - 30
<b>8. REVIEW OF INTERNAL AUDIT</b> To inform the Committee of the outcome of the external review of Internal Audit.	31 - 36
<b>9. DATA QUALITY UPDATE</b> To provide the Committee with a final report against the 2009 – 2010 data quality action plan.	37 - 44
<b>10. INTERNATIONAL FINANCIAL REPORTING STANDARDS</b> To report on the progress for implementing International Financial Reporting Standards (IFRS).	45 - 56
<b>11. WORK PROGRAMME</b> To consider the current work programme of the Audit and Governance Committee.	57 - 60



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# **COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL**

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

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HEREFORDSHIRE COUNCIL

**MINUTES of the meeting of Audit and Governance Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford, HR1 1SH on Tuesday 29 June 2010 at 2.00 pm**

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

Councillors: MJ Fishley, JHR Goodwin, KS Guthrie, AW Johnson, PJ McCaull and AM Toon

**In attendance:** Councillor PJ Edwards

**1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor RH Smith.

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

Councillor KS Guthrie substituted for Councillor RH Smith.

**3. DECLARATIONS OF INTEREST**

There were no declarations of interest.

The Chairman informed the meeting that agenda item no.10 (Minute no.5 refers) regarding Risk Management Review would be brought forward and considered after agenda item no.4.

**4. MINUTES**

**RESOLVED:** That the Minutes of the meeting held on 12 March 2010 were approved as a correct record and signed by the Chairman.

**5. RISK MANAGEMENT REVIEW**

The Deputy Chief Executive presented a report which gave an update on the process the Council follows for risk management and the way the risk register is used and updated as a positive aid to management. He emphasised that risk management was central to how the Council manages on a day to day basis.

He introduced Gilbert George, Risk Consultant (interim), and informed members that the work of Gilbert George was to assess the Council's compliance with its risk management processes. He was also addressing the risk management approach of the Primary Care Trust.

The Risk Consultant informed the Committee that the main points in his report were progress, concern and the areas for improvement. The improvement areas were contained in a previous report by Internal Audit and these were set out in Appendix A to the report. He had included actions taken to date and progress to be made. In referring to the Progress Findings in the report, he drew Members' attention that some Heads of Service were not complying in relation to the day to day function of risks and Risk Registers. He emphasised

the need for officers to fully understand the need for engagement in the day to day risk function in order to achieve compliance.

The Deputy Chief Executive informed the Committee that a programme would be put in place within the next few months which would concentrate in areas where the risk management issue was not so strong.

With regard to Appendix A it was suggested that dates for completion should be included where further action is required.

**RESOLVED: That the Committee**

- (a) notes progress being made and compliance/(non) with risk management process;**
- (b) notes areas for further improvements (see Appendix A); and**
- (c) receives a report in September 2010 outlining risk areas and mitigation to include dates for completion.**

**6. AUDIT FEE LETTER 2010/11 AND AUDIT OPINION PLAN**

The Director of Resources presented a report of the work undertaken for 2010/11 financial year by the Audit Commission and the Commission's total indicative fee for 2010/11. He drew Members' attention to paragraph 2 of the report and informed the Committee that the Audit fee was for 2010/11 Audit Commission work and that the fee for the Audit Opinion Plan was for 2009/10.

Mr T Tobin, representing the Audit Commission, informed the Committee that Audit Opinion Plan looked at the opinion on the Accounts. The major areas of specific risks were set out in the table on page 21 with the Commission's response on how each risk area would be addressed.

The Chairman made reference to the planned work in relation to the Edgar Street Grid and emphasised the need for the Committee to see the completed report as early as possible.

Mr Tobin further stated that the Audit fee related to the total amount of work that the Commission would be dealing with and that the Commission had never equated the fee to a number of days for each piece of work. He added that the 6% refund of the fee was a decision that had been taken nationally.

**RESOLVED: That the Committee**

- (a) notes the content of the Annual Audit Fee Letter; and**
- (b) notes the content of the Audit Opinion Plan.**

**7. ANNUAL GOVERNANCE STATEMENT 2009/10**

The Chief Internal Auditor presented a report which requested the committee's approval of the draft Annual Governance Statement. He informed Members that the report brought together all the Council's controls into one document and demonstrated the

effectiveness of those controls. He referred to the significant governance issues shown in paragraph 5 of the Statement, Appendix 1, and emphasised that Risk Management was the key improvement area.

With reference to an issue raised, the Director of Resources informed the Committee that the formal assessment of the Council's system of internal audit had been completed and the Council had received a draft report and there was no need to have the system of Internal Audit on the Risk Register. The outcome of the review would be the subject of a report to the next meeting of the Committee.

**RESOLVED: That the Committee**

- (a) reviews the draft Annual Governance Statement 2009-10 attached as Appendix 1 to this report.**
- (b) approves the Annual Governance Statement 2009-10 for inclusion in the Statement of Accounts for 2009-10.**

**8. AUDIT PLAN 2010/11**

The Chief Internal Auditor presented the 2010/11 Audit Plan. He informed the Committee that the report detailed the work at Appendix 1 that internal audit would be carrying out in the current financial year on the systems of internal financial control. He would inform the Committee accordingly of any major changes to the work proposed.

**RESOLVED: That the 2010/11 Audit Plan be adopted.**

**9. AUDIT SERVICES ASSURANCE REPORT 2009/10**

The Chief Internal Auditor presented a report which updated Members on the status of various items of work and drew the Committee's attention to any key control issues. He emphasised that it was an end of year report and closed down three previous interim reports. He made reference to the ten key significant governance issues at Appendix 1 and the actions taken. In relation to issues raised he informed the committee that

- Item no.40 – completion would be in September 2010.
- Page 69 – Travel and Subsistence – the audit has been completed together with the follow up and a report would be presented to the next meeting.

He further informed the Committee that the overall system of internal control environment had been given a satisfactory audit opinion.

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

**10. STATEMENT OF ACCOUNTS 2009/10**

The Technical Accounting Manager presented the 2009/10 Statement of Accounts. She drew Members' attention to an amended agenda page no.120 which had been circulated to Members.

It was noted that on 23 June 2010 a workshop was held that covered in detail the Statement of Accounts. Councillor Fishley commended the approach emphasising the excellent workshop had added to overall understanding.

**RESOLVED: That the Statement of Accounts for 2009/10 be approved.**

#### **11. CREDITOR PAYMENT AUTHORISATION**

The Director of Resources presented a report on progress to ensure the Council requirements for Creditor Payment Authorisations were being carried out in accordance with the Council's Constitution. He drew Members' attention to paragraph 4 regarding the target timescales for making payments. He emphasised the need for payment time to be reduced and officers' awareness of cash flow for businesses being a factor. Members noted in regard to the Appendix to the report that

- 11 payment vouchers had been returned out of a total of 9,642 vouchers being raised in May.
- 82 payment vouchers had been returned out of a total of 32,367 for the three months.

**RESOLVED: That the information on invoices rejected be noted.**

#### **12. WORK PROGRAMME 2010/11**

The Director of Resources presented a report regarding the Committee's Work Programme for 2010/11. He informed the Committee that after 17 January 2011 there will not be a Use of Resources Inspection.

In response to an issue raised regarding a list of signed off contracts in the last six months, the Chief Internal Auditor informed Members that the follow up on the contractual issues will be completed to enable a report to be presented at the September meeting.

**RESOLVED: That with the addition of**

- (i) **Review of Internal Audit for the September meeting.**
- (ii) **Deletion of Use of Resources (Audit Commission) from the January meeting.**

**the current work programme be approved as a basis for future agenda items.**

The meeting ended at 3.28 pm

**CHAIRMAN**

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 SEPTEMBER 2010</b>
<b>TITLE OF REPORT:</b>	<b>INTERIM AUDIT SERVICES ASSURANCE REPORT 2010/11 NO.1</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

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 that the report be noted.**

### **Key Points Summary**

- Seven key issues were identified in the Council's Annual Governance Statement (Appendix 1 refers).
- Subject to Committee agreement there are currently nine Committee Resolutions that are open (Appendix 2 and 3 refers);
- One Audit review was given an unsatisfactory audit opinion.

### **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.

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

## **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 2009/10**

- 4 The Audit and Governance Committee considered the Annual Assurance report for the year ending 31<sup>st</sup> March 2010 on 29<sup>th</sup> 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 are two open and ongoing following the last meeting held on 29<sup>th</sup> June 2010 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 are seven open and ongoing following the last meeting held on 29<sup>th</sup> June 2010. 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 has started and the Audit and Governance Committee will be kept informed of progress.

### **Non Fundamental Systems**

- 8 The report on Car Park Income has been finalised and an unsatisfactory audit opinion issued, this was due to the need for improved procedures and controls, managers have taken speedy action in relation to the recommendations made. The service Manager has confirmed that all recommendations have been implemented. A follow up audit visit will be made to ensure that actions are embedded. As required under the Audit and Governance Code a copy of the report has been sent to the Chairman of the Audit and Governance Committee.

### **Governance and Anti-fraud**

- 9 Preliminary work in relation to the National Fraud Initiative (NFI) 2010 is in progress. The Annual Governance Statement for 2009/10 was presented to the Audit and Governance Committee on 29<sup>th</sup> June and now forms part of the Council's Statement of Accounts.

### **Establishments**

- 10 Work continues to assess the financial management arrangements for schools in line with the Department for Children, Schools, and Families (DCSF) Standard, currently three schools , have met the standard however there are some 18 reviews out in draft, and two work in progress.

### **Recommendation Follow Ups**

- 11 The unannounced follow up visit in relation to the Procurement and Contract Procedures – Resources (Asset Management and Property Services) was carried out in May 2010. The outcome is set out in the table below:

<b>STATUS</b>	<b>Number</b>
No longer applicable	1
Completed	4
Partly completed	6
Not completed	5
<b>TOTAL</b>	<b>16</b>

- 12 It should be noted that at the time of the follow up visit Asset Management and Property Services, under the direction of the Head of Service was working to implement the remaining recommendations, it is pleasing to note that I have received confirmation from the Head of Service that all partly and all not completed recommendations have now been implemented. A further audit visit is planned to ensure actions are embedded.

## **Community Impact**

15. N/a

## **Financial Implications**

16. There are no financial Implications.

## **Legal Implications**

- 17 There are no Legal Implications.

## **Risk Management**

- 18 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**

- 19 Relevant officers have been requested to update action taken on key issues identified in 209/10 and past Audit and Corporate Governance Committee resolutions. Their replies have been included in the relevant appendices.

## **Appendices**

- 20 **Appendix 1- Annual Governance Statement 2009/10 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 June 2010.**

**Appendix 4 – Status Audit Plan 2010/11**

**Background Papers**

- Audit Plan 2010/11 previously approved by the Audit and Governance Committee on 29<sup>th</sup> June 2010.



**ANNUAL GOVERNANCE STATEMENT (AGS) 2009/10  
STATUS OF SIGNIFICANT GOVERNANCE ISSUES**

<b>AGS Reference</b>	<b>Significant Governance Issue</b>	<b>Current Status/Comments</b>
5.2	The review of the Code of Governance to be completed as soon as possible. ( Assistant Chief Executive – Legal and Democratic)	The new Code of Corporate Governance forms part of the preamble to the Constitution.
5.3	The need to continue to embed Risk Management. ( Deputy Chief Executive)	<p>A report will be presented to Cabinet in October 2010 advising on risk and assurance issues with recommendations for improving risk management effectiveness within the Council.</p> <p>It is also planned that Heads of Service attend Risk Management Workshops, which will cover:</p> <ul style="list-style-type: none"> <li>• Board/Cabinet Assurance framework;</li> <li>• Risk escalation flowchart;</li> <li>• PCT/Council risk procedure alignment</li> <li>• Risk Registers</li> <li>• Risk Management – way forward</li> </ul>
5.4	Review and update the Data Quality Policy. ( Deputy Chief Executive)	The Data Quality Annual report and revised policy was approved by Cabinet on 22 <sup>nd</sup> July 2010.
5.5	The formal assessment of the Councils system of internal audit.( Director of Resources)	The outcome of the review is a separate agenda item for the Audit and Governance Committee meeting of 17 <sup>th</sup> September 2010.
5.6	The Monitoring Officers Statement is completed as soon as possible. (Assistant Chief Executive – Legal and Democratic)	The Monitoring Officers Statement is a separate agenda item for the Audit and Governance Committee on 17 <sup>th</sup> September 2010.
5.7	Ensure that improvements are made to the key system given a marginal audit opinion.( Director of Resources)	Audit Services follow up action is planned, the Audit and Governance Committee will be informed of progress.
5.9	Improve Corporately in relation to the completion of the Good Environmental Management Audit Plan. (Sustainable Communities Director	A training session for new environmental auditors is being organised. The target date for completion is October 2010.



**Audit & Corporate Governance Committee  
Follow Up on Resolutions and Recommendations May 2007 – June 2008**

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. Audit visit currently in progress.	30/04/2010	Open
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 6.6.13.20 includes the following words <i>'Aggregation rules also apply to Council formal tenders, so that requirements must not be artificially split to fall below the £50,000 threshold to avoid the need to follow the correct process. Advice should be sought from Corporate Procurement if</i>	31/05/2010	Subject to Committee agreement Closed

**Audit & Corporate Governance Committee  
Follow Up on Resolutions and Recommendations May 2007 – June 2008**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
						<i>uncertain.</i>		
42	51 (ii)	30/11/07	Update of Action in the Special Report – Governance Improvement Plan.	An action plan be formulated regarding monies payable by Parish Councils when elections take place.	Charlie Adan (Alan McLaughlin)	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.	30/06/10	Open
47	56(i)	21/12/07	Update on Community Network	All Councillors be given half day awareness training on Prince 2 Project Management and also on	Dean Taylor (Annie Faulder)	Whilst arrangements were in hand for the training to take place	30/04/2010	Subject to Committee agreement

**Audit & Corporate Governance Committee  
Follow Up on Resolutions and Recommendations May 2007 – June 2008**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
			Upgrade and Critical recommendations In Use of Contractors In ICT Services.	the analysis of business cases.	(Andrew Williams)	in September, the Member Development Policy Group (of cross party members) requested that this training be postponed in order that Members' time during the Autumn was concentrated in various other priority matters e.g. transformational programme, comprehensive spending review, budget cycle etc. The need for the training has been retained on the forward programme for the Group.		Closed



Audit & Corporate Governance Committee  
Follow Up on Resolutions & Recommendations made between 3<sup>rd</sup> July 2008 and 29<sup>th</sup> June 2010

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
<b>OPEN AND ONGOING ITEMS</b>								
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 new Code of Corporate Governance forms part of the preamble to the Constitution	31/05/2010	Subject to Committee agreement - Closed
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	Dean Taylor (David Powell)	The development of comprehensive systems for the reporting and monitoring of procurement is a high priority task for the new Interim Head of Commercial Services	September 2010	Open
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 <sup>st</sup> January 2010 states that ' <i>The Committee shall receive assurance from the Chief Internal</i>	12 <sup>th</sup> March 2010	Open

Audit & Corporate Governance Committee  
Follow Up on Resolutions & Recommendations made between 3<sup>rd</sup> July 2008 and 29<sup>th</sup> June 2010

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
						<i>Auditor that officers are complying with the Council's procurement policy and processes in all respects'. 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</i>		
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.	Dean Taylor (David Powell)	The effectiveness and capacity of joint procurement is a another important issue for the new Interim Head of Commercial Services. A progress report on competence and capacity will be submitted to the committee by end of December 2010.	September 2010	Open
92	5	19/06/09	Review of Procurement	A report be submitted to the Committee on the process the Council follows for risk	Dean Taylor (Andrew	At its meeting held on 29 <sup>th</sup> June The Audit and Governance	29 <sup>th</sup> January 2010	Subject to Committee agreement - Closed



Audit & Corporate Governance Committee  
Follow Up on Resolutions & Recommendations made between 3<sup>rd</sup> July 2008 and 29<sup>th</sup> June 2010

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
				management and the way risk management is used and updated as a positive aid to management.	Rewell)	Committee received a report noting progress on compliance/non compliance with the Councils risk management process. Linked 115 below		
96	12	19/06/09	Audit Services Assurance Report	Anti - Fraud Training to be added to the Training for members schedule	Tony Ford	Training was completed on 23 <sup>rd</sup> April 2010	31/03/10	Subject to Committee agreement - Closed
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			Open
108	35	29/01/10	Annual Audit and Inspection Letter	An update report on the progress of the Audit Commission's recommendations shown on page 22 on the agenda be submitted to the next meeting of the Committee	David Powell	Letter will be circulated to committee members giving an update on the recommendations		Open
111	41	29/01/10	Risk Management	That a report be submitted to the next meeting informing the committee of evidence where the Corporate Risk Register process are not being followed, detailing the	Andrew Rewell	At its meeting held on 29 <sup>th</sup> June The Audit and Governance Committee received a report noting progress		Subject to Committee agreement – Closed Item 115

Audit & Corporate Governance Committee  
Follow Up on Resolutions & Recommendations made between 3<sup>rd</sup> July 2008 and 29<sup>th</sup> June 2010

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
				risks in all areas of the Council and how they are mitigated.		on compliance/non compliance with the Councils risk management process. Linked 115 below		
113	47	12/03/10	Audit Strategy and Audit Charter 2010	The committee approves, subject to any comments from the joint management team and to the director of resources informing members by email of those comments, the 2010/11 audit strategy and audit charter	Tony Ford	A verbal update will be made to the committee		Open
114	49	12/03/10	Interim Audit Services Assurance Report 2009/10 No.3	The chief internal auditor be invited to undertake a broad but shallow investigation into the extent to which procurement rules and procedures are being adhered to across all services but with particular attention to where procurement authority has been delegated outside the Resources Directorate	Tony Ford	Now included as an audit in the 2010/11 Audit Plan.		Subject to Committee agreement – Closed
115	5	29/06/10	Risk Management Review	The Committee receives a report in September 2010 outlining risk areas and mitigation to include dates for completion	Dean Taylor	It is planned for a report to be presented to Cabinet in October 2010, advising on risk and assurance issues	November 2010	Open

**HEREFORDSHIRE COUNCIL  
AUDIT PLAN 2010-11**

<b>AUDIT AREA</b>	<b>STATUS</b>	<b>AUDIT OPINION</b>
<b>a. FUNDAMENTALS</b>		
Creditors	Work in progress	
Education Transport	Draft with Client	
Cash and Deposit	Work in progress	
Treasury Management	Work in progress	
<b>b. NON -FUNDAMENTALS</b>		
Car park Income	Final	unsatisfactory
<b>c. GOVERNANCE AND ANTIFRAUD</b>		
Annual Governance Statement 2009/10	Final	Satisfactory
National Fraud Initiative	Work in progress	
<b>d. OTHER KEY SYSTEMS</b>		
Members Allowances and Expenses (December 2009 to March 2010)	Draft with Client	
CRB - Procedures	Final Draft with Client	
<b>e. ICT.PROTOCOLS AND CONTROLS(COUNCIL –WIDE)</b>		
Thorn ISO 27001 Physical Security (Joint)		
HomePoint Security	Final	Satisfactory
<b>f. ESTABLISHMENTS</b>		
Minster College		
<b>Schools Establishment Audits (DCSF Standard)</b>		
Aylestone High School	Draft with Client	
Ashfield Park Primary School	Draft with Client	
Bosbury C.E. Primary School	Draft with Client	
Bridstow C. E. Primary School	Draft with Client	
Burghill Primary School	Draft with Client	
Colwall C.E. Primary School	Draft with Client	
Brosbury C. E. Primary School	Draft with Client	
Lea C.E. Primary School	Draft with Client	
Llangrove C. E. Primary School	Draft with Client	
Longtown Primary School	Draft with Client	
Lord Scudamore Primary School	Draft with Client	
Michaelchurch Escley Primary School	Draft with Client	
Much Marcle R. C. Primary School	Draft with Client	
Our lady's R. C. Primary School	Draft with Client	
Peterchurch Primary School	Draft with Client	
Ross-on-Wye St. Joseph's Primary	Draft with Client	
Shobdon Primary School	Draft with Client	
St. Peters Primary School, Bromyard	Draft with Client	
St. Weonards Primary School	Work In Progress	
Stoke Prior (Leominster) Primary School	Final	FMSIS-Met
Sutton Primary School	Final	FMSIS-Met
Whitchurch C. E. Primary School	Final	FMSIS-Met
John Masefield High School	Work In Progress	
<b>h. RECOMMENDATION FOLLOW UP</b>		

**HEREFORDSHIRE COUNCIL  
AUDIT PLAN 2010-11**

<b>AUDIT AREA</b>	<b>STATUS</b>	<b>AUDIT OPINION</b>
Trade and Domestic Waste	Work In Progress	
Travel and Subsistence	Draft with Client	
Procurement and Contract Procedures -Resources	Final	N/a
ISIS Payments	Work In Progress	
ISO 27001 Quarter 1	Final	N/a
ISO 27001 Quarter 2	Work In Progress	
ISO 14001 (GEM) Quarter 1	Final	N/a
ISO 14001 (GEM) Quarter 2	Work In Progress	

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 SEPTEMBER 2010</b>
<b>TITLE OF REPORT:</b>	<b>MAJOR PROJECTS STATEMENT</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open.

### **Wards Affected**

None

### **Purpose**

To provide a position statement on major projects being undertaken by the authority.

### **Key Decision**

This is not a Key Decision.

### **Recommendation(s)**

**THAT the contents of the report be noted.**

### **Key Points Summary**

- The overall capital programme for 2010/2011 totals £77.7m.
- Funding for major projects includes a significant level of capital grants from central government.

### **Alternative Options**

- 1 This is an information report and therefore no alternative options are outlined.

### **Reasons for Recommendations**

- 2 The recommendation is proposed so that the committee acknowledges the supplied information.

### **Introduction and Background**

- 3 Audit and Governance Committee has requested a regular position statement on major projects. The background to the request is that the committee has commented

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Further information on the subject of this report is available from  
Malcolm MacAskil, Head of Asset Management & Property Services on (01432) 260227

on major projects at previous meetings.

## **Key Considerations**

- 4 The report provides information on major projects being delivered by the council. In line with previous issues raised at committee the report has taken as a definition all projects with a forecast expenditure in excess of £500k and included in the capital programme. This is a definition consistent with that used to help provide capital programme budget monitoring information.
- 5 The committee will be aware that the council has faced a reduction in capital resources and will continue to see a further reduction in the foreseeable future. This will inevitably affect our ability to bring forward new capital projects. As a result the Council will need to give serious consideration to more innovative methods of funding future capital projects.
- 6 The current 2010/11 programme forecast is £77.7m. This is a net decrease of £0.2m over the original capital programme. The principal reasons for the decrease represent funding cuts by central government counteracted by the allocation of new funds and slippage from the previous year's programme. Slippage occurs for a variety of reasons including revised timing of programme delivery that may result from policy review. In some cases slippage results from factors outside of the control of the council.
- 7 The original forecast can also increase as a result of the allocation of new funds. The council in common with other authorities will bid for funding from central government for specific schemes. If successful the notification can fall outside of the timescale of capital programme setting and the additional funding is then added to the overall programme total.
- 8 The major projects all have links to corporate themes. In addition the detailed capital programmes are reported to relevant scrutiny committees.
- 9 The funding picture for capital projects has been affected by central government's approach to borrowing. Until April 2004 funding arrangements were based on credit approvals that were used to authorise expenditure financed by borrowing. Revenue support was generally provided by government for such borrowing.
- 10 The legislative framework for local authority borrowing changed on 1<sup>st</sup> April 2004. The key feature of the new system is that local authorities are free to raise finance for capital expenditure without government approval. The key test is whether they can afford to service the debt without government support. The new system places a duty on local authorities to determine and keep under review the amount they can afford to borrow.
- 11 The other significant source of funding is capital grants and contributions. In Herefordshire £40.5m of the £77.7m forecast programme is grant funded. The majority of the grant funding is for projects in the Children's and Young People's Directorate (£30m).

## **Community Impact**

- 13 The delivery of major projects has a significant impact on communities.

## **Financial Implications**

- 14 The attached appendix represents a fully funded capital programme. Risks are where schemes overspend. The Capital Strategy Working Group, chaired by the Head of Financial Services, monitors this risk.

## **Legal Implications**

- 15 This report has no legal implications.

## **Risk Management**

- 16 The delivery of major projects requires risk management given the various possible type of risk such as financial and reputational. Appropriate project management is a major risk mitigation measure.

## **Consultees**

- 17 None.

## **Appendices**

- 18 List of schemes with a forecast spend exceeding £500k in 2010/11

**Schemes with a forecast spend exceeding £500k in 2010-2011**

<b>Scheme</b>	<b>2010/11 Forecast £'000</b>	<b>Spend to end period 4 £'000</b>	<b>Comments</b>
<b>Children's Services</b>			
Hereford Academy	13,256	3,250	Work in progress scheme on schedule both time and budget
Minster Replacement School	4,171	1,902	Work in progress scheme on schedule both time and budget
Co-location	3,328	246	A number of schemes are progressing, the largest based in Bromyard
Devolved Capital Programme	2,050	1,163	Devolved allocation of capital funding to schools
Intervention Centres	1,673	208	14 schemes at high schools are progressing
Primary Grant	1,500	82	This will fund the amalgamation of Leominster's junior and infants school
Childcare / QuAc	1,038	383	Various schemes to complete in 2010/11, waiting for full funding confirmation
TCF Standards and Diversity	675	76	Rural funding towards plant and equipment costs
Wave 2 Playbuilder	607	11	Funding recently unringfenced, waiting for go ahead
Condition property works	600	105	Annual programme of works at various sites committed on a highest need first basis, budget under pressure
<b>Resources</b>			
Corporate accommodation	3,000	63	Programme manager recently appointed
Smallholdings	723	61	Regulatory works at various sites
Hereford Leisure Pool	600	-	Refurbishment works recently approved
<b>Deputy Chief Executive</b>			
Herefordshire Connects	2,780	649	Anticipated HR and finance system to go live April 2011

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



<b>Sustainable Communities</b>			
Road, Bridge & Footway Maintenance	11,769	2,793	Annual programme of Amey works
Livestock Market	5,800	7	Access and preliminary works underway
Ledbury library	2,339	7	Scheme under review
Rural Enterprise Grant	1,667	484	Various grant funded schemes
Grange Court	1,500	20	Refurbishment works prior to lease
Credenhill flood alleviation scheme	1,500	149	Grant funded alleviation works in association with Hereford Futures
Affordable Housing Grants	1,338	216	Annual allocation of grants to various schemes
Mandatory Disabled Facilities Grant	1,230	308	Various schemes are referred and committed before expenditure is recorded
Extreme winter highway damage	1,017	-	Large amount of works expected to be completed in August
Ross library	1,000	25	Scheme under review
Hereford City Centre Enhancements	891	343	Improvement works to complete in November
Rotherwas Futures Estate Development Work	718	(395)	The negative spend to date represents an opening creditor for infrastructure costs
Private Sector Housing	697	43	Schemes will be reduced to be replaced by available Kickstart loans
Sustrans Connect 2	558	14	Permission required for identified scheme outstanding
<b>Sub Total</b>	<b>68,025</b>	<b>12,160</b>	
<b>Schemes with a budget &lt;£500k in 2010/11</b>	<b>9,704</b>	<b>1,113</b>	This includes the Riverside capital scheme which is being temporarily funded from the primary grant funding allocation
<b>Total</b>	<b>77,729</b>	<b>13,273</b>	





<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 SEPTEMBER 2010</b>
<b>TITLE OF REPORT:</b>	<b>CREDITOR PAYMENT AUTHORISATION</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open.

### **Wards Affected**

None

### **Purpose**

To report on progress in ensuring that the Council requirements for Creditor Payment Authorisations are being carried out in accordance with the Council's Constitution.

### **Recommendation**

**THAT the information on invoices rejected be noted.**

### **Introduction and Background**

2. This Committee receives a quarterly report detailing the requirements of the Financial Procedure Rules for Officers responsible for authorising creditor payments and showing the number of payment requests returned for each directorate because they were not properly authorised. Members are reminded that:
  - a) The list of authorised signatories with their individual financial limits is agreed and maintained by Financial Services on behalf of the Director of Resources. The authorisations are reviewed and updated regularly.
  - b) Directors are required to ensure that the list of signatories within their service areas is reviewed at intervals and any changes to the list are reported promptly.
  - c) The Benefit & Exchequer Service has responsibility for processing payment requests, which includes ensuring that payment vouchers are correctly completed and properly authorised.
  - d) A number of communications have been sent to Officers shown on the authorised signatories list reminding them of the need to ensure that all payment requests are correctly authorised.

## **Key Considerations**

3. The main reasons identified for vouchers being returned are:
  - a) They have not been fully completed, for example cost codes are incorrect or missing.
  - b) The latest version of the payment voucher has not been used.
  - c) The person signing them does not have the necessary level of authorisation.
4. The Council has a target for making payments and this is 15 days from the date the invoice is received. Current financial year performance up to the end of August is an average payment time of 13.45 days with 85.39% of invoices paid within 20 days of receipt and with 53.95% of these paid within 10 days.
5. A table showing the number of invoices rejected for the three month period June to August is attached as an appendix to this report.

This table shows that following a reduction in the number of items returned in June and July there was an increase in August. A reminder of the need to comply with the authorisation requirements has been sent to Heads of Service in those areas where numbers have increased.

## **Community Impact**

None

## **Financial Implications**

None

## **Legal Implications**

None

## **Risk Management**

6. Failure to complete payment vouchers correctly can affect the speed with which payment is made and will have an impact upon the creditor and our performance, as well as the level of resources needed for the payment process.

In addition to the regular monitoring, as a fundamental system Creditors is subject to an annual audit which provides an independent check on risk compliance.

## **Appendices**

7. Breakdown of Returned Payment Vouchers by Directorate

## **Background Papers**

8. Financial Procedure Rules

## **APPENDIX**

### **BREAKDOWN OF RETURNED PAYMENT VOUCHERS BY DIRECTORATE**

<b><u>Directorate</u></b>	June 10	July10	August 10
Clinical Leadership & Quality	0	0	0
CYPD	3	4	5
Deputy C.E.	4	1	1
Integrated Commissioning	0	0	0
Provider Services	0	1	9
Resources	0	0	2
Sustainable Communities	4	2	4
Chief Executive	0	0	0
<b>Total</b>	<b>11</b>	<b>8</b>	<b>21</b>



<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 SEPTEMBER 2010</b>
<b>TITLE OF REPORT:</b>	<b>REVIEW OF INTERNAL AUDIT</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To inform the Committee of the outcome of the external review of Internal Audit.

### **Key Decision**

This is not a Key Decision.

### **Recommendation(s)**

**THAT the attached improvement plan be approved.**

### **Key Points Summary**

- The Council Audit function is mostly compliant but there are some minor issues to ensure full compliance.
- There are some improvement issues in terms of planning, resource control and balancing priorities in the Audit Plan.
- A mixed economy approach to the provision of future joint audit appears to be the best option.

### **Alternative Options**

1 None.

### **Reasons for Recommendations**

2 To agree improvement measures.

### **Introduction and Background**

3 The Council's Internal Audit function was last subject to external review in 2007. The review process provides assurance that the audit function is assessed as being fit for purpose. The

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Further information on the subject of this report is available from  
David Powell, Director of Resources on (01432) 393518)

review was carried out by AKA Limited.

## **Key Considerations**

### **Scope of the Review**

4. The scope of the review was focussed primarily upon the Council's Internal Audit function but also considered work undertaken jointly with National Health Service Herefordshire (NHS).
5. The review assessed Internal Audit against the CIPFA Code of Practice for Internal Audit in Local Government. Where joint working was undertaken it also considered the Internal Audit standards for NHS.
6. The review was also asked to assess the scope for extending the joint audit approach with NHS.

### **Main Findings**

7. The review found that Internal Audit was largely compliant with the CIPFA Code of Practice on Internal Audit. Minor improvement issues to ensure full compliance with the CIPFA code form the basis of the attached action plan.
8. The profile of Internal Audit amongst officers and members was felt to be good. External audit have been able to place reliance on the work of Internal Audit.
9. The relationship between the chief internal auditor and the Audit and Governance Committee was described as "good" and it supported the Council's governance arrangements.
10. Internal Audit generally performs well and the audit plan is largely completed each year. It was noted that almost all recommendations made by Audit are accepted and most are implemented within agreed timescales. One area of improvement was noted around decreasing the proportion of audit assignments that exceed their budgeted days.
11. The review found that Internal Audit provides honest, reliable, robust advice and assurance. Whilst audit "does what it should do"; a more strategic focus around the partnership agenda should be achieved.

### **Good Practice**

12. The review concluded that the audit manual provides clear guidance to audit staff. In particular the points of good practice are:
  - a. Flow charting of individual audit processes from managing the audit plan to delivering audit assignments;
  - b. Recording of matters to be considered in planning future audits and identifying future audit work;
  - c. Analytical review;
  - d. Pre and post audit checklists;
  - e. Grading of follow up work according to audit opinion and type of system audited;
  - f. Quality review documents and procedures; and



g. A graded approach to audit opinion work.

13. The Chief Internal Auditor's interim and end of year report to the Audit and Governance Committee clearly summarises audit opinions and provides the committee with sound reliable evidence to enable it to discharge its responsibilities.

#### **Compliance with CIPFA Code of Practice**

14. The Internal Audit section largely complies with the Code of Practice for Internal Audit.
15. Overall the checklist for the CIPFA Code of Practice includes 107 specific standards and the Internal Audit service fully met 100 with 7 being partially met. The areas having partial compliance have been grouped as follows:
- a. Chief Internal Auditor should have opportunity to meet privately with the Chair of the Audit and Governance Committee. Currently the Chief Internal Auditor attends all Chair and Vice Chair briefing meetings with the Director of Resources.
  - b. At least some of the informal internal and external audit meetings should be replaced by regular, structured meetings. This would encourage a structured approach to sharing audit programmes.
  - c. The evidence examined by the review demonstrated a high standard of professionalism within the audit section but the proportion of professionally qualified staff in internal audit is low compared to other unitaries.
  - d. A higher level of stakeholder consultation before finalisation of the audit plan is required so that views and information from services can inform weightings and priorities for audit work
  - e. When the 2009/10 plan was compared with other unitary authorities it had a higher than average resource allocation for some audits.

#### **Balance of Audit Coverage**

16. The review challenges the Council to consider altering the balance of audit coverage. Any such change would enable more time for "adding value" or providing assurance on strategic issues. The use of benchmarking information suggests that for 2009/10 the number of days for fundamental systems review work was above the unitary average. In addition the level of audit provided to schools was three times higher than the unitary average and the review commented this may reflect a culture of dependency in schools.
17. Contract audit was an area that the review felt should have a higher allocation of days. This view was proposed given the move to commissioning services that the council is undertaking.

#### **Options for Joint Working**

18. The review was also asked to look at areas for further joint audit working with NHS Herefordshire. It noted that there is now an opportunity for the Council and NHSH to extend the scope for joint working.
19. The circumstances making such an approach more likely to be successful have been improved with the move to a common accounting system and greater integrated working. The approach that could be adopted is best described as a mixed economy approach. Such an approach would allow for the difference in scale of audit requirements with NHSH having a lower audit day requirement than the Council.

20. Since the review has been received outline agreement has been reached for the Council to provide approximately 50 audit days to NHSH. Specialist value for money type of work will be jointly market tested by both organisations.

### **Community Impact**

- 20 None.

### **Financial Implications**

- 21 None.

### **Legal Implications**

- 22 None.

### **Risk Management**

- 23 Changes in the level of audit provision may result in increased level of risk. However, these would need to be mitigated before any significant change is introduced.

### **Consultees**

- 24 None.

### **Appendices**

Appendix - Improvement Plan

### **Background Papers**

None identified.

**APPENDIX**

	<b>Improvement Area</b>	<b>Action</b>	<b>By When</b>	<b>Owner</b>
1	Opportunity for Chief Internal Auditor to meet with Audit & Governance Committee	Chief Internal Auditor to meet with Chair of Committee twice a year	First meeting October 2010 and regularly thereafter	Chief Internal Auditor
2	Regular meetings between Chief Internal Audit and External Audit Manager	Quarterly meetings between Chief Internal Auditor, Director of Resources and External Audit Manager	First meeting October 2010 and quarterly thereafter	Director of Resources
3	Appropriate staffing to meet objectives	Continue to pursue rolling programme for staff to acquire Institute of Internal Audit qualifications	Ongoing as part of service plan	Chief Internal Auditor
4	Fully consult stakeholders on audit plan	Wider consultation with management team and JMT to include individual meetings and sign off by JMT	January 2011	Chief Internal Auditor
5	Ensure plan demonstrates a clear understanding of the organisation's function	i) Audit Plan format and content to be revised in line with CIPFA bench marking club good practice;  ii) Wider engagement with management teams and JMT.	December 2010  December 2010	Chief Internal Auditor
6	Establish appropriate escalation procedures for Internal Audit recommendations not implemented by the agreed date	Protocol now in place  Use functionality of new software to track report recommendation	Achieved  April 2011	Chief Internal Auditor  Chief Internal Auditor

Further information on the subject of this report is available from  
David Powell, Director of Resources on (01432) 393518)



<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 SEPTEMBER 2010</b>
<b>TITLE OF REPORT:</b>	<b>DATA QUALITY – FINAL REPORT</b>
<b>DEPUTY CHIEF EXECUTIVE</b>	<b>DEAN TAYLOR</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To provide the Committee with a final report against the 2009 – 2010 data quality action plan.

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT: the final position against the data quality action plan be noted.**

### **Key Points Summary**

- The essential elements of the 2009/10 data quality action plan have now been completed. The Cabinet 'signed off' the plan on 22 July 2010 accepting that 7 tasks remain amber rated. As this committee has previously noted, the original timetable for completing some tasks had not been met.
- Data quality was part of the Use of Resources assessment for both the Council and NHS Herefordshire under the comprehensive area assessment. This national auditing and reporting requirement is being replaced at least for the Council so there will be no more audits or external expectations for an action plan.
- However the need to maintain and improve data quality remains. The immediate actions deemed necessary have been identified, These will continue to be monitored but through the integrated corporate performance report to Cabinet & the Overview and Scrutiny Committee rather than by separate reports.

### **Alternative Options**

- 1 Rather than continue to take action it would be possible to cease work on maintaining and

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Further information on the subject of this report is available from  
Dr Tony Geeson, Head of Policy and Performance on (01432) 261855

improving data quality. This would call into question the quality of decisions that are being made and the Council's basic accountability. This option is not recommended

- 2 Rather than continue as planned, it would be possible to lower the level of activity. This would be potentially damaging to the Council's status with its remaining regulators such as CQC and OFSTED and, crucially, the public of Herefordshire. For this reason alone, this option is not recommended either.

## **Reasons for Recommendations**

- 3 All the essential elements of the 2009 – 2010 data quality action plan have been completed.

## **Introduction and Background**

4. The data quality action plan included actions from the period May 2008 to April 2010. There are now, no external audit expectations for a separate data quality action plan. However the corporate performance improvement arrangements will continue to include the actions deemed necessary locally.

## **Key Considerations**

5. The detailed plan is attached at Appendix1. When reported to Cabinet in July this showed seven 'amber' tasks of which two still depend on responses from data sharing partners for completion. This has been an issue for the last 18 months and, although there have been repeated requests, a small minority of partners have not yet responded and show no signs of doing so. Two more tasks required the approval of a revised data quality policy before they could be completed. This approval has now been given. The remaining three tasks are ongoing, repeatable processes that can never be considered truly completed.
6. Now that CAA is to be replaced there is no external expectation of a data quality action plan. However, the fundamental imperatives to maintain, and where necessary, improve data quality remain. These imperatives are accountability and as the basis of sound decision making. As such, future actions to improve data quality are being incorporated into the corporate performance improvement arrangements locally rather than produce separate reports every three months. These future reports to the Cabinet and Overview & Scrutiny Committee are based on the joint corporate plan and will be reported through P+. The Annual Audit plan will continue to include work relevant to data quality and any issues identified will be reported to this Committee.
7. The Committee will note that one of the final tasks (no. 59) in the action plan was to revise the Council's data quality policy. The opportunity was taken to make this a joint policy across Herefordshire Public Services. An assessment of the risks to the success of the joint policy indicated that there are three areas that require particular attention over the next period. They are; communications - including raising awareness of the new data quality policy, availability of support - including training and finally local management action - continuing to develop of local policies & procedures, complete data quality audits etc. Future action will focus on these areas.

## **Community Impact**

8. The communities of Herefordshire have a legitimate expectation that the data used and created by the Council and its partners are of the necessary quality. It is important that there are systems to demonstrate that the potential for error is low and the risk is reducing. The necessary actions are largely internal without a direct impact on the community but the

Council's reputation would suffer if it did not continue to improve the standards to which it and its partners work.

## **Financial Implications**

- 9 There are no financial implications. However, data quality is a key requirement underpinning grant claims and other financial returns to central government.

## **Legal Implications**

- 10 There are no legal implications arising directly from this report.

## **Risk Management**

- 11 The risks are reputational and the inefficient use of resources at a time of significant constraint. Insufficient attention to data quality is currently corporate risk CR55.

## **Consultees**

- 12 Relevant staff in all directorates and partner organisations have been consulted.

## **Appendices**

- 13 Appendix 1 Data quality action plan

## **Background Papers**

None identified.

**APPENDIX 1 DATA QUALITY ACTION PLAN – JULY 2010 (ANNUAL REPORT)**

REFERENCES IN [BRACKETS] RELATE TO AUDIT COMMISSION RECOMMENDATIONS IN THEIR DATA QUALITY AUDIT REPORT FEBRUARY 2008

KLOE Ref	Action	Detailed tasks (Those responsible)	Original Date (revised)	Year end position	Reasons
2.1	<b>2.1.3 Communicate policy to all external data sharing partners and partnerships and get them to sign up to the policy or provide higher standards</b>  <b>[R7 Formal protocols with Council Partners need to be developed to ensure accuracy of data]</b>	<b>12 Replies returned by</b> (Head of Policy and Performance)	<b>June 2008</b> (Nov 09)	Underway (Amber) completion depends on others	3 of 25 replies are still awaited despite a number of reminders
		<b>13 Identify and meet with partners who are unable to sign up etc.</b> (Relevant managers and improvement managers)	<b>June 2008</b> (June 09)	Will remain Amber until all the responses are received completion depends on others	Ultimately depends on the results of task 12 above. There has been no adverse reaction from 22 responses to date
2.1	<b>2.1.8 Include DQ requirements in all contracts, service level agreements and similar documents where this is relevant and not currently explicit set</b>	<b>21 Contact all high risk organisations &amp; those renewing during the Financial Year</b> (relevant managers)	<b>May 2008</b> (July 09)	Green / completed	All directorate contract monitoring officers have risk assessed their contracts

Further information on the subject of this report is available from  
 Dr Tony Geeson, Head of Policy and Performance on (01432) 261855



KLOE Ref	Action	Detailed tasks (Those responsible)	Original Date (revised)	Year end position	Reasons
	<p><b>up monitoring systems starting with the highest risks</b></p> <p><b>[R7 Formal protocols with Council partners need to be developed to ensure accuracy of data]</b></p>	<p><b>23 Insert appropriate DQ text where it is currently not explicit in new and renewing contracts</b> (DCX legal and democratic services &amp; relevant managers)</p>	<p><b>From March 2008 (March 2009)</b></p>	<p>Green / completed</p>	<p>Text agreed with legal services.</p>
		<p><b>24 Consider appropriate monitoring systems</b> (relevant managers and improvement managers)</p>	<p><b>May 2008 (July 2009)</b></p>	<p>Green / completed</p>	<p>Directorate contract monitoring officers confirmed these were complete in February. Assurance will be sought every six months and through the statement of internal control</p>
		<p><b>25 Consult and advise all contractors</b> (as task 24)</p>	<p><b>May 2008 (August 2009)</b></p>	<p>Green / completed</p>	
		<p><b>26 Implement monitoring systems</b> (as task 24)</p>	<p><b>From June 2008 (August 09)</b></p>	<p>Green / completed</p>	
<p><b>2.2</b></p>	<p><b>2.2.1 Existing corporate and directorate policies, procedures and guidelines [and amendments in future] to be promulgated in a variety of ways such as 121's, Staff Review &amp; Development sessions (SRD's), service planning,</b></p>	<p><b>27 Notify all e-mail users, cascade via key managers</b> (Head of Policy and Performance)</p>	<p><b>June 2008 (July 2009)</b></p>	<p>Amber / underway</p>	<p>Now Cabinet have considered the policy this will be completed once the Board of NHS Herefordshire approve the revised policy.</p>

KLOE Ref	Action	Detailed tasks (Those responsible)	Original Date (revised)	Year end position	Reasons
	<p>emails, news and views, notice boards, performance clinics, team meetings, computer based training (CBT), leaflets and wider training etc [R9 Guidance for staff should be readily accessible for all involved in the compilation process and R10 Roles and responsibilities of all staff included within the DQ process need to be clearly defined]</p>	<p><b>28 Devise and include appropriate requirements in SRDs for employees for whom data quality has been identified as a key element of their job and get signatures for receipt of documentation</b> (Head of Policy and Performance, relevant managers, DCX - HR)</p>	<p><b>April 2008 (September 2009)</b></p>	<p>Amber / underway</p>	<p>Training course material will be circulated with policy (task 27 above) to relevant employees and used as required in future appraisals</p>
<p><b>29 Set up CBT links / tests for all documents sent to staff covered by task 28</b> (Head of Policy and Performance)</p>		<p><b>June 2008 (October 2009)</b></p>	<p>Green / completed</p>	<p>The material has been created and will be made available to staff</p>	
<p><b>30 Poster campaign and N&amp;V cascade</b> (as task 29)</p>		<p><b>June 2008 (July 2009)</b></p>	<p>Green / Ongoing</p>	<p>Will be repeated periodically</p>	
<p><b>31 Include in performance clinics, team meetings and training – the improvement managers to identify and log opportunities</b> (relevant managers and improvement managers)</p>		<p><b>Ongoing</b></p>	<p>Amber / Ongoing</p>	<p>A continuing process</p>	
<p><b>2.2</b></p>	<p><b>2.2.3 Improvement managers to log examples of actions that improved DQ as they occur centrally and publicise these locally through N&amp;V.</b></p> <p><b>Authority wide publicity periodically</b></p>	<p><b>34 Set up central log and monitor at each Improvement Network meeting</b> (Head of Policy and Performance)</p>	<p><b>Ongoing from April 2008 onwards</b></p>	<p>Amber / Ongoing</p>	<p>A continuing process</p>

KLOE Ref	Action	Detailed tasks (Those responsible)	Original Date (revised)	Year end position	Reasons
4.2	4.2.4 Ultimately identify impacts of all residual systems on DQ staff skills and capacity and ensure training is provided where needed	36 Identify residual systems – Use the Hereford Connects audit as a starting place supplemented by paper systems which are out of the Connects scope (Hereford Connects Project manager & Improvement managers)	From April 2008 (July 2009)	Green	List identified
4.2	4.2.7 Ensure DQ weaknesses identified by external or internal reviews are addressed by training or appropriate de-briefing sessions	Task 52 (relevant managers, improvement managers and internal audit)	Ongoing	Amber / Ongoing	A continuing process

**NEW TASKS FOR 2009/10 IN ADDITION TO COMPLETING THOSE ABOVE**

KLOE Ref	Action	Detailed task (those responsible)	Original date	Year end position	Reasons
	53	Training programme for at least 150 key staff (Head of Policy and Performance / Information management group)	March 2010	Green	Over 200 staff have now been trained
	54	Data quality assessments of at least 24 performance indicators on a risk basis (Improvement managers / internal audit)	December 2009	Green	Number confirmed
	55	Consider a common format for directorate and service data quality procedures (Improvement managers)	October 2009	Green	The variety of these means that it is not possible to implement a common format in one step

<b>KLOE Ref</b>	<b>Action</b>	<b>Detailed task (those responsible)</b>	<b>Original date</b>	<b>Year end position</b>	<b>Reasons</b>
	56	Consider a rolling programme of systems audits potentially involving the mapping of data flows and controls (Internal audit)	December 2009	Green	Confirmed by Chief Internal Auditor
	57	Implement PMR application as part of the Connects programme according to corporate priorities with appropriate data quality processes (Head of Policy and Performance)	March 2010	Green	All PMR Board requirements completed. The implementation is an ongoing process
	58	Review of information sharing protocols (Records manager)	January 2010	Green	Review completed - agreement of all parties is now required
	59	Revise data quality policy (Head of Policy and Performance)	April 2010	Green	Scope extended to joint (HPS) policy which was considered by the Cabinet on 22 July and is in the process of being recommended to the Board of NHS Herefordshire.

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 SEPTEMBER 2010</b>
<b>TITLE OF REPORT:</b>	<b>INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open.

### **Wards Affected**

None affected.

### **Purpose**

To report on the progress for implementing International Financial Reporting Standards (IFRS).

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT the report be noted.**

### **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 have been accounted for under IFRS a year early, from 2009/10.
- A detailed project plan has been prepared and is attached as Appendix A.

### **Alternative Options**

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

### **Reasons for Recommendations**

2. Not applicable.

### **Introduction and Background**

3. It was agreed at the Audit and Corporate Governance Committee meeting on the 23 January

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

2009 that a progress report and action be presented at future meetings.

## **Key Considerations**

### **Work plan**

4. Since the report to the Audit and Corporate Governance Committee on 29 January 2010, the detailed project plan has been updated and is attached as Appendix A.
5. The deadlines have been moved from the original timetable, partly due to unrealistic targets proposed by CIPFA, but also due to staff having to concentrate on the 2009/10 accounts. This is not considered critical to the overall achievement of the IFRS implementation. In the 2010/11 budget £40,000 has been set aside for the implementation of IFRS if additional resources are required.
6. Following the completion of the 2009/10 accounts regular meetings of the Herefordshire and Worcestershire Financial Managers group and the council's implementation team have resumed. The key areas of work identified to be completed over the autumn are leases and assets.
7. The Audit Commission is kept informed of progress.

### **PFI and similar contracts**

8. Accounting for PFI and similar contracts under IFRS was brought in a year early, from 2009/10, so work on this was made a priority.
9. The council has 2 formal PFIs, Whitecross School and Waste disposal (in partnership with Worcestershire County Council) and one other contract identified as falling under IFRIC 12, the Shaw Healthcare Contract. The calculations for accounting under IFRS are extremely technical and time-consuming and this was the biggest challenge for the 2009/10 accounts.

### **Leases**

10. A considerable amount of work has been undertaken on reviewing the council's leases. The majority of leases have been assessed as operating leases leaving a few potential finance leases requiring further analysis.
11. Major contracts have to be reviewed to determine whether they include 'embedded finance leases' i.e. where the council effectively purchases an asset as part of a wider contract. Two major contracts have been identified so far for detailed review, the Amey contract and the Fosca waste collection contract.

### **Assets**

12. A significant area of work over the next few months is around the treatment of fixed assets, as shown in the project plan at Appendix A.
13. The council's fixed asset register is currently a stand alone spreadsheet-based system, which will not effectively cope with the requirements of IFRS on an on-going basis. A property management system called K2 is being used by Property Services and it had been hoped to integrate this with the fixed asset register used for the accounts. However, on further investigation the system did not provide the range of functionality required and it has been decided to use the Agresso fixed asset module. This will link directly with the Agresso integrated back-up system to be implemented from 1 April 2011.

## **Community Impact**

14. 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. 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**

24. None.





**Herefordshire Council IFRS Implementation – Detailed Action Plan**

**Finance project team** – Heather Foster, Josie Smith, Julia Hathaway, Sarah Curtis, Martin Savage

**Property Lead** – Alison Hext **Legal lead** – Linden Dunham

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<b>General</b>	<b>Action Required</b>	<b>By</b>	<b>Progress to date</b>	<b>Lead role</b>
			•	
Transition Balance Sheet / accounts	<ul style="list-style-type: none"> <li>• Obtain information required to restate 1 April 2009 balance sheet</li> <li>• Need to prepare transition balance sheet by restating opening 1.4.09 balances for IFRS.</li> </ul>	Nov 10             Dec 10	<ul style="list-style-type: none"> <li>• Equipment leases have been reviewed. Land leases are being reviewed. Contracts being reviewed to identify embedded leases. Holiday and flexi calculation completed Meetings held with external audit to discuss approach</li> <li>• Key areas identified and being progressed</li> </ul>	Finance project team             Heather Foster/Julia Hathaway
IFRS Statement of Accounts	<ul style="list-style-type: none"> <li>• Complete comparative shadow accounts and notes for 2009/10 under IFRS</li> <li>• Full statement of accounts required 30<sup>th</sup> June 2011 (for year ended 2010/11)</li> </ul>	Dec 2010             June 2011	<ul style="list-style-type: none"> <li>• Work progressing on key areas</li> </ul>	Finance project team
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	<ul style="list-style-type: none"> <li>• 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).</li> <li>• 3<sup>rd</sup> column on balance sheet to be added for prior year adjustments</li> <li>• Need to produce a reconciliation between UK GAAP and IFRS</li> </ul>	Dec 2010		Heather Foster

Key Areas in detail	Action Required	By	Progress to date	Lead role
<b>Leases (IAS 17)</b>				
<p>Leases need to be split between the land and building elements and re-assessed as operational or finance.</p>	<ul style="list-style-type: none"> <li>• Obtain list of all leases (land and buildings, equipment etc), incl. schools</li> <li>• List all properties and lease end dates / annual lease payments</li> <li>• Identify those leases where buildings lease is equal 25 years or more and review leases against IAS 17 criteria</li> <li>• For leased buildings under 25 years, identify significant leases and review against IAS 17 criteria</li> <li>• Review all equipment leases where lease payment significant or lease term is majority of asset life</li> <li>• Review leases held by schools</li> <li>• Split assets of leased properties between value of land and value of buildings</li> <li>• Determine whether leases are operational or finance</li> <li>• List and Review all contracts for embedded leases under IFRIC4 and 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)</li> <li>• Produce schedule / WP on classifications</li> <li>• Produce schedule / WP of accounting adjustments required for transition balance sheet</li> </ul>	<p>Mar 10</p> <p>June 10</p> <p>June 10</p> <p>June 10</p> <p>Aug 2010</p> <p>Sept 10</p> <p>Sept 10</p> <p>Dec 10</p> <p>Dec 10</p> <p>Dec 10</p>	<ul style="list-style-type: none"> <li>•Property list collated and reviewed. Most are operational, a few potential finance leases</li> <li>•Non-property and car leases reviewed. Small number of non-material finance leases identified</li> <li>•Large number of property leases below £10k deminimus</li> <li>•Major contracts list and periodic payments being reviewed.</li> <li>•Schools have sent details of lease agreements, which are being reviewed.</li> <li>•Legal have provided potential list of embedded leases.</li> <li>•Amey contract and Waste collection contracts identified for IFRIC 4 review.</li> </ul>	<p>Josie Smith/Lindsey Galbraith Alison Hext</p>

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"> <li>• Draw up schedule of PFI schemes</li> </ul>	Nov 09	<ul style="list-style-type: none"> <li>• Completed</li> </ul>	Heather Foster
	<ul style="list-style-type: none"> <li>• Review PFI agreements under IFRIC 12 to determine if on or off balance sheet</li> </ul>			
	<ul style="list-style-type: none"> <li>• Obtain details for each scheme for the project agreement, variations, financial model etc</li> </ul>			
	<ul style="list-style-type: none"> <li>• Determine fair value of assets at inception date</li> </ul>			
	<ul style="list-style-type: none"> <li>• Calculate interest rate implicit in contract</li> </ul>			
	<ul style="list-style-type: none"> <li>• Split unitary charge between principal, interest / finance charge and service cost</li> </ul>	Jan 10		
	<ul style="list-style-type: none"> <li>• Remove all unitary charge costs from accounts</li> </ul>			
	<ul style="list-style-type: none"> <li>• Recognise assets and liabilities on balance sheet, account for service costs and MRP</li> </ul>			
<ul style="list-style-type: none"> <li>• Restate balance sheet as at 1.4.08 and 08/09 comparative figures.</li> </ul>				
<ul style="list-style-type: none"> <li>• Audit commission review of PFI treatment</li> </ul>				
<ul style="list-style-type: none"> <li>• Value assets as at 1 April 08 and 1 April 09</li> </ul>		Feb 10	<ul style="list-style-type: none"> <li>• Audit by technical team completed. Final accounts audit virtually complete.</li> </ul>	Audit Commission
<ul style="list-style-type: none"> <li>• Action accounting entries for revaluation</li> </ul>		Feb 10	<ul style="list-style-type: none"> <li>• Valuations completed</li> </ul>	Alison Hext
<ul style="list-style-type: none"> <li>• Calculate revised CFR and adjust Prudential indicators</li> </ul>		Feb 10	<ul style="list-style-type: none"> <li>• Completed</li> </ul>	Heather Foster
<ul style="list-style-type: none"> <li>• Produce 2009/10 accounts on PFI IFRS basis</li> </ul>		Feb 10	<ul style="list-style-type: none"> <li>• Completed</li> </ul>	Heather Foster
		June 10	<ul style="list-style-type: none"> <li>• 2009/10 accounts completed including restated 2008/09 figures</li> </ul>	Heather Foster

<b>Service Concessions –IFRIC 12</b>				
‘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"> <li>Identify potential contracts through contracts register</li> <li>Obtain legal advice on potential contracts</li> </ul>	Mar 10	<ul style="list-style-type: none"> <li>Shaw Homes identified as falling under IFRIC 12 and restated accounts completed</li> <li>Final accounts audit being undertaken by the Audit Commission</li> </ul>	Heather Foster/ JuliaHathaway/ Martin Savage /Linden Dunham

<b>Financial Instruments: (IAS 23 &amp; 39)</b>				
(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"> <li>Update IFRS financial statements templates for any new notes / disclosure requirements</li> <li>Produce 2010/11 Financial instrument accounts and notes</li> </ul>	Nov-09  June 2011	Template completed	Heather Foster  Sarah Curtis

<b>Employee Benefits: (IAS 19)</b>				
This IFRS specifically requires Authorities to accrue for untaken holiday entitlement and flexi-leave at year end.	<ul style="list-style-type: none"> <li>Design form for collecting holiday and flexi information – non-schools</li> <li>Agree approach with external audit</li> <li>Collect data for 31/3/09 from sample of staff to restate the balance sheet 1/4/09</li> <li>Calculate 2008/09 closing accrual for non-schools staff</li> <li>Estimate 2008/09 accruals for school based staff using CIPFA methodology</li> <li>Collect data for 31/3/10 from sample of staff.</li> <li>Calculate and post 2009/10 closing accrual for</li> </ul>	July-09  Aug-09  Oct 09  Oct 09  Apr 10  Dec 10	Completed  Completed  Completed  Completed  Completed	Julia Hathaway/Linda Bradford

	<ul style="list-style-type: none"> <li>non-schools staff</li> <li>Estimate and post 2009/10 accruals for school based staff using CIPFA methodology</li> </ul>	Dec 10		
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<b>Property, Plant &amp; Equipment</b>				
<p>This may result in a difference in the valuation basis used for Fixed Assets. Under IFRS “fair value” is usually determined from market based evidence so where a market exists for assets that have previously been valued at existing use value, differences are likely to be encountered.</p> <p>Fixed assets are classified differently under IFRS.</p> <p>Component parts of assets have to be valued and depreciated separately.</p>	<ul style="list-style-type: none"> <li>Property – Review the basis of valuation for Fair Value. Revalue any asset where the basis of valuation changes under IFRS.</li> <li>Review all residual values at 31/3/2010. This applies to 09/10 accounts and not the transition balance sheet.</li> <li>Determine the criteria for identifying component parts to PPE</li> <li>Identify components of 2010 capital programme</li> <li>Review DRC calculations – (needs to be ‘modern equivalent’)</li> <li>Review assets held as investment properties and reclassify if they don’t meet the IFRS criteria</li> <li>Investment properties reclassified as PPE will need to be valued under fair value – market value</li> <li>Assets held for sale must be classified as such and measured at lower of carrying amount and fair value, must be presented separately on balance sheet                             <ul style="list-style-type: none"> <li>- 2009/10 restated</li> <li>- 2010/11</li> </ul> </li> <li>Determine revaluation policy</li> </ul>	Nov 10	<p>Draft criteria under review</p> <p>Elements of spend is being recorded</p> <p>Modern equivalent to be incorporated into annual 20% valuations</p> <p>5 year rolling programme to continue</p>	Alison Hext
		Nov 10		Alison Hext
		Aug 10		Sarah curtis/ Alison Hext
		Oct 10		Lindsey Galbraith
		Sept 10		Alison Hext
		Dec 10		Sarah Curtis/ Alison Hext
		Dec 10		Alison Hext
		Aug 10 Mar 11		Alison Hext
		Aug 2010		Alison Hext

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	<ul style="list-style-type: none"> <li>Review asset lives (50 year rule does not apply under IFRS)</li> <li>2009/10 to be reviewed for possible restatement</li> </ul>	Dec 10		Alison Hext
		Nov 10		Sarah Curtis

<b>Investment Property</b>				
IFRS alters the accounting arrangements for changes in valuation of Investment Properties and requires annual valuations	<ul style="list-style-type: none"> <li>Opening balance sheet to be restated for balances held on the Revaluation Reserve for Investment Properties. The adjustment is Cr Reserve Dr Capital Adjustment Account (CAA)</li> </ul>	Oct 2010		Alison Hext/Sarah Curtis
	<ul style="list-style-type: none"> <li>Properties transferred in the year to be re-valued on Transfer (existing use value) and restated under IFRS balance sheet.</li> </ul>	Nov 2010		Alison Hext
	<ul style="list-style-type: none"> <li>Restate 2009/10 transactions for revaluations, depreciation and acquisitions</li> </ul>	Dec 2010		Sarah Curtis

<b>Non Current Assets Held for Sale</b>				
IFRS definition is much tighter than the SORP definition for Surplus Properties.	<ul style="list-style-type: none"> <li>Review all Surplus assets for compliance with the IFRS definitions of Held for Sale and transfer any out which do not meet this definition.</li> </ul>	Nov 10		Alison Hext/Sarah Curtis
	<ul style="list-style-type: none"> <li>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.</li> </ul>	Nov 10		
	<ul style="list-style-type: none"> <li>Restate the opening balance sheet for these changes</li> <li>Write back any depreciation charged on assets held for sale in transition balance sheet.</li> </ul>	Dec 10		Sarah Curtis

<b>Impairment of Assets:</b>				
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. There is a clear distinction between Impairment and Revaluation.	<ul style="list-style-type: none"> <li>Determine whether any changes required for 1/4/09 balance sheet.</li> <li>Review 2009/10 impairments accounting for possible restatement.</li> </ul>	Nov 2010		Sarah Curtis
<b>Infrastructure Assets</b>				
Valuation of infrastructure assets to move to current valuation after 2010/11	<ul style="list-style-type: none"> <li>There are no transition changes to Infrastructure Assets as the basis of valuation is unaltered in 2010/11</li> <li>WGA return for 2009/10 will require gross replacement cost to be identified</li> </ul>	TBC  July 2010	Completed – only carriageways required.	Julia Hathaway
<b>Cashflow statement</b>				
New format - Simplified headings .Cashflow reconciles cash and cash equivalents rather than liquid resources.	<ul style="list-style-type: none"> <li>Restate 2009/10 cash flow for IFRS format</li> </ul>	Dec-10		Heather Foster/Julia Hathaway
<b>Group Accounts</b>				
Accounting for subsidiaries not significantly different to UK GAAP. Definition of associates changed under IAS 28	<ul style="list-style-type: none"> <li>Review group account arrangements under IFRS 3, IAS 28 and IAS 31</li> <li>Review joint arrangements as to whether they constitute a joint venture</li> </ul>	Dec-10		Julia Hathaway/Legal Services

<b>Capital Grants</b>				
	<ul style="list-style-type: none"> <li>• Review disclosure notes for grants and income against revised income recognition guidance</li> <li>• Government grants to be recognised in I&amp;E account as received under IFRS</li> <li>• Government Grants Deferred Account to be written off to CAA on transition</li> <li>• Review treatment of Unapplied and unspent capital grants.</li> </ul>	Dec-10		Josie Smith



<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 SEPTEMBER 2010</b>
<b>TITLE OF REPORT:</b>	<b>WORK PROGRAMME</b>
<b>OFFICER:</b>	<b>DEMOCRATIC SERVICES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To consider the work programme of the Audit and Governance Committee.

### **Recommendation(s)**

**THAT the current work programme be approved as a basis for future agenda items.**

### **Introduction and Background**

- 1 The Council appoints the 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.
- 2 A report on the work programme of the Committee will be made to this Committee at each scheduled meeting. A copy of the current work programme is attached at Appendix 1.
- 3 The work programme may be modified by the Chairman following consultation with the Vice-Chairman and the Director of Resources in response to changing circumstances.
- 4 Should any urgent, prominent or high profile issues arise, the Chairman may consider that issue.
- 5 Should Members become aware of any issues they consider may be added to the work programme they should contact the Chairman or Democratic Services to log the issue so that it can be taken into consideration when planning future agendas or when revising the work programme.
- 6 The Audit and Governance Committee has received reports on the Use of Resources assessment and this is included in the work programme. However, recent indications are that it will be abolished as part of the new Government's review and rationalisation of inspections.

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Further information on the subject of this report is available from  
Sally Cole, Committee Manager Executive on (01432) 383408

## **Appendices**

7 Current Work Programme.

## **Background Papers**

- None.

Audit and Governance Committee – Work Programme 2010/11

17 September 2010 10.00am Brockington	
	<ul style="list-style-type: none"> <li>• <b>Interim Audit Services Assurance Report 2009/10 (Standard Item)</b></li> <li>• <b>Annual Governance Framework Review and Update</b></li> <li>• <b>Statement on Major Projects (Standard Item)</b></li> <li>• <b>Creditor Payment Authorisations (Three monthly report)</b></li> <li>• <b>Annual Governance Report (AC)</b></li> <li>• <b>Risk Management</b> (outlining risk areas and mitigation to include dates for completion)</li> <li>• <b>Review Of Internal Audit</b></li> <li>• <b>Data Quality Update (Six monthly report)</b></li> <li>• <b>IFRS</b></li> <li>• <b>Work Programme</b></li> </ul>
12 November 2010 2.00pm Brockington	
	<ul style="list-style-type: none"> <li>• <b>Interim Audit Services Assurance Report 2009/10 (Standard Item)</b></li> <li>• <b>Statement on Major Projects (Standard Item)</b></li> <li>• <b>Data Quality Update (Six monthly report)</b></li> </ul>

	<ul style="list-style-type: none"> <li>• IFRS</li> <li>• Work Programme</li> </ul>
17 January 2011 10.00am Brockington	
	<ul style="list-style-type: none"> <li>• Interim Audit Services Assurance Report 2009/10 (Standard Item)</li> <li>• Annual Governance Statement 2010/11 Update</li> <li>• Statement on Major Projects (Standard Item)</li> <li>• Creditor Payment Authorisations (Three monthly report)</li> <li>• Work Programme</li> </ul>
18 March 2011 2.00pm Brockington	
<b>Officer Reports</b>	<ul style="list-style-type: none"> <li>• Interim Audit Services Assurance Report 2009/10 (Standard Item)</li> <li>• Internal Audit Annual Plan 2011/12</li> <li>• Internal Audit Strategy 2011/12</li> <li>• Statement on Major Projects (Standard Item)</li> <li>• Data Quality Update (Six monthly report)</li> <li>• Annual Audit Letter (AC)</li> <li>• IFRS</li> <li>• Work Programme</li> </ul>



<b>MEETING:</b>	<b>AUDIT AND CORPORATE GOVERNANCE</b>
<b>DATE:</b>	<b>17 SEPTEMBER 2010</b>
<b>TITLE OF REPORT:</b>	<b>ANNUAL GOVERNANCE REPORT 2009/10</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open.

### **Wards Affected**

None

### **Purpose**

To introduce the external auditor's Annual Governance Report for 2009 which sets out:

- a. Their opinion on the financial statements for 2009/10 approved by the Committee on 29 June 2010.
- b. Their opinion on the council's arrangements for securing value for money.
- c. Their recommendations for further improvements in the council's governance arrangements arising from their audit work.

### **Key Decision**

This is not a Key Decision.

### **Recommendation(s)**

**THAT:**

- (a) the content of the Annual Governance Report (AGR) for 2009/10 attached to this report is discussed with the external auditor.
- (b) the action plan in the Annual Governance Report in response to the recommendations contained in the Report for 2009/10 be agreed.
- (c) the Draft Letter of Representation (Appendix 3 of the AGR 2009 attached to this report refers) be approved for signature by the Chair of the Committee and the Director of Resources.

### **Alternative Options**

- 1 This is an information report and therefore no alternative options are outlined.

## **Reasons for Recommendations**

- 2 The statutory Code of Audit Practice in Local Government Bodies requires the external auditor to make a report to those charged with governance that summarises the conclusions they have drawn from their audit work and their opinion on the financial statements and value for money. The Council's Constitution sets out the Audit & Governance Committee's responsibilities for matters of governance.

## **Key Considerations**

- 3 The external auditor will present the Annual Governance Letter for 2009/10.
4. The Audit Commission anticipates issuing an unqualified opinion on both the statement of accounts for 2009/10 and the council's arrangements for securing value for money by the statutory deadline of 30 September 2010.
5. The Audit Commission has not identified any material or significant issues to bring to the Committee's attention this year.

## **Financial Implications**

6. None arising directly from this report.

## **Legal Implications**

- 7 This report has no legal implications.

## **Risk Management**

- 8 The Audit & Governance Committee is charged with responsibility for corporate governance and will monitor progress made by management in addressing the issues identified in the external auditor's Annual Governance Letter for 2009/10. The Chief Internal Auditor will report progress in the internal audit assurance report he presents at each of the Committee's meetings.

## **Consultees**

- 9 None.

## **Appendices**

- 10 Annual Governance Report 2009/10 (attached as an appendix to this report).

# Annual Governance Report

Herefordshire Council

Audit 2009/10

September 2010

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Ladies and Gentlemen

### **2009/10 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Director of Resources and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements set out in this report;
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan.

Yours faithfully

Elizabeth Cave  
District Auditor

September 2010

# Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my 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.

Financial statements	Results
Unqualified audit opinion	Yes
Financial statements free from material error	Yes
Adequate internal control environment	Yes
Value for money	Results
Adequate arrangements to secure value for money	Yes

## Audit opinion

- 1 Subject to receiving a satisfactory letter of assurance from the Director of Resources, I plan to issue an unqualified opinion on the financial statements in my audit report.

## Financial statements

- 2 I am very grateful for the excellent co-operation and good working papers I received from your staff which have allowed me to fundamentally complete the audit. During the audit, management agreed to make a number of adjustments to the statement of accounts mainly to improve the detailed notes to the accounts.

## Value for money

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

## Independence

- 3 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

---

**4** I ask the Audit and Corporate Governance Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements which are set out in this report;
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan.

---

# Financial statements

**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

---

## Opinion on the financial statements

- 5** Before I give my opinion on the financial statements, there are a few actions which must be completed. Firstly I must consider any formal questions or objections from members of the public during the accounts inspection period. Secondly I will need to obtain from the Director of Resources a signed letter of representation from the Council relating to areas where I am reliant on management opinion for the accounting treatment for certain items in the accounts. Subject to these items, I expect to issue an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

---

## Errors in the financial statements

- 6** I am very grateful for the excellent co-operation and good working papers I received from your staff which allowed me to fundamentally complete the audit earlier than in previous years. This is a good achievement in view of the challenge of implementing complex changes to the way PFI and similar schemes need to be accounted for. During the audit, management agreed to make a number of adjustments to the statement of accounts, mainly to improve the notes to the accounts. The main issue was the inclusion of charges of £9.8 million due to the reduction in value (impairment) of PFI assets charges in the re-stated 2008/09 expenditure rather than as an adjustment to the 2008/09 opening balance. Officers have agreed to correct the accounts accordingly.
- 7** I have identified a number of errors that are not material in aggregate but which individually are above the trivial threshold. Officers do not propose to make amendments, so for information, they are reported as unadjusted mis-statements in Appendix 2.

## Financial statements

- 8 The effect on the revenue account of making the non-trivial adjustments we have identified would be to reduce expenditure at the net cost of services line by £901,000. The Audit Commission audit approach also requires that any error found in our samples should be extrapolated across the whole population of items being audited. Two very minor errors were identified in a test of a sample of post year end transactions and impairments. If the error rate was replicated across the whole population the potential value of the errors would reduce expenditure on the net cost of services line by a further £30,000. However substantial additional work would be required to establish the accuracy of this figure. As this is not material we have not carried out further testing to clarify the true extent of the error.

### Recommendation

- R1** Consider adjusting the remaining errors in the financial statements I have identified (Appendix 2), which management has declined to amend or set out the reasons for not amending the errors.

## Letter of representation

- 9 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

## Key areas of judgement and audit risk

- 10 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

**Table 1** Key areas of judgement and audit risk

Issue or risk	Finding
The 2009 Statement of Recommended Practice (SoRP) changed the basis of accounting for PFI and similar schemes requiring the re-statement of opening balances and 2008/09 comparative information.	I reviewed the Council's approach and re-stated balances. The pre-statement audit work identified the need for the Council to account for the Shaw Homes contract under IFRIC 12 as well. This review concluded that these restated balances were not materially misstated.
The 2009 SoRP changed the basis of accounting for collection fund transactions and balances requiring the re-statement of opening balances and 2008/09 comparative information.	I reviewed the proposed accounting treatment and re-statements prior to the preparation of the 2009/10 financial statements. The balances were re-stated correctly in accordance with SoRP guidance.

Issue or risk	Finding
As in 2008/09, we are not able to rely on a controls based approach to the audit of the creditor payments (CEDAR) and payments to independent care homes (ISIS).	I placed reliance on Internal Audit substantive tests that addressed the risks of mis-statement identified. Controls in the creditor system improved from October 2009 following the Committee's response to last year's governance report.
My early substantive testing of the physical existence of plant and equipment on the Council's asset register identified errors of both inclusion and omission in the register and the Council agreed to promptly review it before closing down the accounts.	The Council acted in response to the issues I raised at our pre-statement visit and undertook further work to confirm the existence of significant plant and equipment assets recorded on the asset register. The outcome was that £298,000 of IT and vehicle assets were written off. I substantively tested the existence of the revised asset register in relation to plant and equipment and found the revised balance to be materially correct.

### Accounting practice and financial reporting

- 11** I consider the non-numeric content of your financial reporting. There is only one issue I want to raise with you.
- 12** The accounting requirements for the Private Finance Initiative (PFI) and similar contracts are no longer based on the UK accounting standard FRS 5 but on International Financial Reporting Standards (IFRS), specifically IFRIC 12: Service Concessions. The impact of this change is that the assets and associated liabilities of the two PFI contracts (Whitecross School and Waste) and one similar to a PFI (Shaw Homes) are now accounted for on-balance sheet. The change has been implemented retrospectively and therefore the accounts contain a number of prior period adjustments. In reviewing the accounting entries for the joint waste PFI produced by Worcestershire County Council, I noted a number of errors which management agreed to amend before the information was supplied to Herefordshire Council for inclusion in its accounts. I have also noted one non-trivial error in relation to the Council's Waste PFI which has not been amended for.
- 13** The Waste PFI is a contract with Mercia Waste for the disposal of waste, management of a recycling centre and management of a number of household waste sites. The Council has correctly identified the assets and the associated liability for the purpose of retrospective accounting entries, however four household waste sites were not valued in year by Worcestershire County Council and have been effectively impaired to zero value. Based on information provided in the operator's asset register the sites are not likely to have a value to the Council of more than £563,000 and are therefore not material. I recommend that these are valued and included in the 2010/11 Balance Sheet. I understand the Council is including a note in its accounts to explain this.

## Financial statements

### Recommendation

**R2** Obtain a valuation from Worcestershire County Council for the remaining household waste sites and include in the 2010/11 balance sheet.

---

# Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

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## Value for money conclusion

- 14 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4.
- 15 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.



# Glossary

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## Annual governance statement

**16** A statement of internal control prepared by an audited body and published with the financial statements.

---

## Audit closure certificate

**17** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

---

## Audit opinion

**18** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
  - whether they have been prepared properly, following the relevant accounting rules.
- 

## Qualified

**19** The auditor has some reservations or concerns.

---

## Unqualified

**20** The auditor does not have any reservations.

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## Value for money conclusion

**21** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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# Appendix 1 – Independent auditor’s report to Members of Herefordshire Council

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## Opinion on the accounting statements

I have audited the accounting statements and related notes of Herefordshire Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the [Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Herefordshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

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## Respective responsibilities of the Director of Resources and auditor

The Director of Resources’ responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

## Appendix 1 – Independent auditor’s report to Members of Herefordshire Council

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

---

### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

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### Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

### Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Authority’s responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### Auditor’s responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009 and the supporting guidance, I am satisfied that, in all significant respects, Herefordshire Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

#### Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Elizabeth Cave  
Officer of the Audit Commission

Audit Commission  
The Business Centre  
Blackpole Road  
Worcester  
WR3 8SQ  
September 2010

# Appendix 2 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

**Table 2**

Description of error	Accounts affected	Value of error
Teachers unfunded benefits relating to previous periods charged to 2009/10 I and E.	Expenditure on children's services in I and E account and Statement of Movement on General Fund Balance note 10.3 employee contributions.	£115,000
Retentions on capital schemes not accrued in 2009/10 capital expenditure.	Fixed Assets (Land and Buildings) and Capital Creditors in Balance Sheet.	£649,000
External audit fees reported on a cash rather than accruals basis.	I and E-Corporate and Democratic core and Creditors in Balance Sheet.	£58,000
Highways staff capitalised salaries written off rather than being debited to fixed assets.	I and E-highways and Transport Services expenditure was overstated but reversed out through Statement of Movement on General Fund Balance. Fixed Assets (Infrastructure) was understated and Capital Adjustment Account (revenue charged to capital under statute) overstated.	£869,000

## Appendix 2 – Unadjusted misstatements in the accounts

Description of error	Accounts affected	Value of error
Extrapolated Cut-off error.	Debtors and I and E -gross income.	£2,000 actual but this could be £248,000 reduction in expenditure if extrapolated to the entire population.(see comment in paragraph 8 re extrapolation).
Error in Lady Hawkins School impairment book entry	I and E (Children's Services), Fixed Assets, Capital Adjustment Account-impairment charges, and Statement of Movement on General Fund Balances.	£26,500 but extrapolated to the entire population this could be £243,000 increase in expenditure (see comment in paragraph 8 re extrapolation).

# Appendix 3 – Draft letter of representation

Elizabeth Cave  
Audit Commission  
Blackpoll Business Centre  
Blackpoll Road  
Worcester  
WR3 8SQ

Dear Liz

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## Herefordshire Council - Audit for the year 2009/10 ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors, officers of Herefordshire Council, the following representations given to you in connection with your audit of the Council's financial statements for the year 2009/10 ended 31 March 2010.

### Compliance with the Statutory Authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which gives a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

### Uncorrected Misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council.

### Supporting Records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

### Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- Irregularities involving management or employees who have significant roles in the system of internal account control;
- Irregularities involving other employees that could have a material effect on the financial statements; or
- Communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, Regulations, Contractual Arrangements and Codes of Practice

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

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with the requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### Compensating Arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.



## Appendix 3 – Draft letter of representation

### Contingent Liabilities

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

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

### Related Party Transactions

I confirm the completeness of the information disclosed regarding the identification or related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

### Post Balance Sheet Events

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

The Council has no plans or intentions that may materially alter the carrying value of classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Herefordshire Council

I confirm that this letter has been discussed and agreed by the Council on (date)

Signed

Name

Position

Date

# Appendix 4 – Value for money criteria

<b>KLOE</b>	<b>Met</b>
<b>Managing finances</b>	
Planning for financial health	<b>Yes</b>
Understanding costs and achieving efficiencies	<b>Yes</b>
Financial reporting	<b>Yes</b>
<b>Governing the business</b>	
Commissioning and procurement	<b>Yes</b>
Use of information	<b>Yes</b>
Good governance	<b>Yes</b>
Risk management and internal control	<b>Yes</b>
<b>Managing resources</b>	
Strategic Asset Management	<b>Yes</b>
Workforce	<b>Yes</b>

## Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<b>Annual Governance Report 2009/10 - Recommendations</b>					
7	R1 Consider adjusting the remaining errors in the financial statements I have identified (Appendix 2), which management has declined to amend or set out the reasons for not amending the errors.	2	Audit and Governance Committee	Yes	None	17 September 2010
9	R2 Obtain a valuation for the remaining household waste sites and include in the 2010/11 balance sheet.	2	Director Of Resources	Yes	None	31 March 2011

---

# 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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## Copies of this report

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

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

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