

# AGENDA

## Audit and Governance Committee

Date: **Monday 17 January 2011**

---

Time: **10.00 am**

---

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

---

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

For any further information please contact:

**Sally Cole, Committee Manager Executive**

Tel: 01432 260249

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

---

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>

## **GUIDANCE ON DECLARING PERSONAL AND PREJUDICIAL INTERESTS AT MEETINGS**

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

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

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
1.	<b>APOLOGIES FOR ABSENCE</b> To receive apologies for absence.	
2.	<b>NAMED SUBSTITUTES (IF ANY)</b> To receive details any details of Members nominated to attend the meeting in place of a Member of the Committee.	
3.	<b>DECLARATIONS OF INTEREST</b> To receive any declarations of interest by Members in respect of items on the Agenda.	
4.	<b>MINUTES</b> To approve and sign the Minutes of the meeting held on 12 November 2010.	1 - 6
5.	<b>ANNUAL AUDIT LETTER</b> To note the Audit Commission's Annual Audit Letter for 2009/10 and approve the response to each of the action points raised.	7 - 34
6.	<b>INTERIM AUDIT SERVICES ASSURANCE REPORT 2010/11</b> The purpose of the Interim Assurance Report is to update members on the current status of control issues and bring to their attention any key internal control issues.	35 - 48
7.	<b>REVISED AUDIT STRATEGY AND AUDIT CHARTER 2010</b> To present the revised 2010/11 Audit Strategy and Audit Charter for consideration and approval by the Audit and Governance Committee, following receipt of comments from Joint Management Team	49 - 64
8.	<b>CREDITOR PAYMENT AUTHORISATION</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.	65 - 68
9.	<b>INTERNATIONAL FINANCIAL REPORTING STANDARDS</b> To report on the progress for implementing International Financial Reporting Standards (IFRS).	69 - 80
10.	<b>AGRESSO PROJECT UPDATE</b> To provide a briefing on the Agresso project, and the Audit implications as the system nears go-live.	81 - 90
11.	<b>RISK RECOMMENDATIONS IMPLEMENTATION - PROGRESS REPORT</b> To inform the Committee of progress on implementing risk recommendations.	91 - 108





# **Your Rights to Information and Attendance at Meetings**

## **YOU HAVE A RIGHT TO:-**

- Attend all Council, Cabinet, Committee and Sub-Committee meetings unless the business to be transacted would disclose 'confidential' or 'exempt information'.
- Inspect agenda and public reports at least three clear days before the date of the meeting.
- Inspect minutes of the Council and all Committees and Sub-Committees and written statements of decisions taken by the Cabinet or individual Cabinet Members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. A list of the background papers to a report is given at the end of each report. A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public register stating the names, addresses and wards of all Councillors with details of the membership of Cabinet and all Committees and Sub-Committees.
- Have a reasonable number of copies of agenda and reports (relating to items to be considered in public) made available to the public attending meetings of the Council, Cabinet, Committees and Sub-Committees.
- Have access to a list specifying those powers on which the Council have delegated decision making to their officers identifying the officers concerned by title.
- Copy any of the documents mentioned above to which you have a right of access, subject to a reasonable charge.
- Access to this summary of your rights as members of the public to attend meetings of the Council, Cabinet, Committees and Sub-Committees and to inspect and copy documents.

**Please Note:**

Agenda and individual reports can be made available in large print. Please contact the officer named on the front cover of this agenda **in advance** of the meeting who will be pleased to deal with your request.

The meeting venue is accessible for visitors in wheelchairs.

A public telephone is available in the reception area.

**Public Transport Links**

- Public transport access can be gained to Brockington via bus route 75.
- The service runs every half hour from the 'Hopper' bus station at the Tesco store in Bewell Street (next to the roundabout junction of Blueschool Street / Victoria Street / Edgar Street).
- The nearest bus-stop to Brockington is located in Old Eign Hill near to its junction with Hafod Road. The return journey can be made from the same bus stop.

If you have any questions about this agenda, how the Council works or would like more information or wish to exercise your rights to access the information described above, you may do so either by telephoning officer named on the front cover of this agenda or by visiting in person during office hours (8.45 a.m. - 5.00 p.m. Monday - Thursday and 8.45 a.m. - 4.45 p.m. Friday) at the Council Offices, Brockington, 35 Hafod Road, Hereford.

# **COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL**

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

## **FIRE AND EMERGENCY EVACUATION PROCEDURE**

In the event of a fire or emergency the alarm bell will ring continuously.

You should vacate the building in an orderly manner through the nearest available fire exit.

You should then proceed to Assembly Point J which is located at the southern entrance to the car park. A check will be undertaken to ensure that those recorded as present have vacated the building following which further instructions will be given.

Please do not allow any items of clothing, etc. to obstruct any of the exits.

Do not delay your vacation of the building by stopping or returning to collect coats or other personal belongings.



HEREFORDSHIRE COUNCIL

**MINUTES of the meeting of Audit and Governance Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford, HR1 1SH on Friday 12 November 2010 at 2.00 pm**

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

Councillors: JHR Goodwin, AW Johnson, PJ McCaull and AM Toon

**26. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor MJ Fishley, Committee Member, and Councillor PJ Edwards, Chairman Overview and Scrutiny.

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

Councillor G Lucas substituted for Councillor MJ Fishley.

**28. DECLARATIONS OF INTEREST**

**5. CORPORATE RISK REGISTER.**

Councillor RH Smith, Personal, Item 5 Corporate Risk Register - Winter Services, personal interest, car damage.

**29. MINUTES**

**RESOLVED: That the Minutes of the meeting held on 17 September 2010 be approved as a correct record and signed by the Chairman subject to the amendment at item 17 third bullet point, amend 118 to 114.**

**30. CORPORATE RISK REGISTER**

The Risk Consultant Gilbert George presented the report and stated the following points:

- The aim was to have risk management embedded within both the Council and NHS Herefordshire.
- Procedures were in place to develop a risk register whereby each directorate had one.
- Procedures were in place for items from directorate risk registers to be escalated to the corporate risk register.
- Each directorate had a nominated lead risk officer to review directorate risks on a monthly basis.

In discussion the following points were made:

- Members were concerned at the low number of risks entered onto the register and believed there were a greater number of risks to be considered.
- The Risk Consultant stated that it had been emphasised to officers the need to identify risks and agreed that further work needed to be done to ensure all directorates were identifying issues and where necessary risks were also identified at corporate level.

- Further work is needed with lead officers to ensure practices are in place to identify any risks and to change the culture towards risk management to ensure it is at the heart of the decision making process.
- The Risk Consultant was working with the HR management team to develop training on risk management and 1-2-1 work had been completed with lead officers.
- The Committee was advised that risk management was inherent within the Amey management and a substantial risk register was maintained.
- Amey management realised the need to abide by corporate rulings on risk management and any risks identified by Amey management were owned by the relevant managers and did not solely sit with the directors.
- Members felt that lack of awareness to risk management was a risk in itself.
- Referring to the Corporate Risk Register, Appendix A to the report, Members felt the register needed to be broken down into elements rather than have issues grouped together.
- Members' believed the register to be work in progress rather than a final document and felt the document was inconsistent and not comprehensive enough.
- From register CR49 – believe this to be a corporate issue not just an issue for Children and Young People's directorate. Similarly CR54 – corporate issue rather than just Sustainable Communities directorate.
- Potential disbandment of the Partner and Communities Together (PACT) public meetings was a potential risk but Members noted this was not on the register. Similarly for the Local Development Framework and waste management.
- Members' believed that directorates were not providing enough information to ensure a comprehensive register was maintained and that risk management had not been embedded within the organisation. The Risk Consultant advised that risks had been identified but had not necessarily been allocated to the appropriate register. It was intended to have 1-2-1 meetings with directors to raise awareness.
- Members felt that in addition to officers providing the information on risks the state of Herefordshire report would also provide additional information.
- Assurance was given that winter service issues were on both the Sustainable Communities directorate and Amey management risk registers. However, as processes and procedures were in place the risk was considered low and not to be a corporate risk.
- Members raised issues regarding the format of the register and felt that clarity was needed on the initials used and further explanation on the table was required.

**RESOLVED: That the report be noted, noting also some inconsistencies in the report and that a further report be presented to the next meeting.**

### **31. RISK RECOMMENDATIONS IMPLEMENTATION - ACTION PLAN**

The Risk Consultant informed the Committee that he had been meeting with officers and separately with the Cabinet Member to assess the current position on the risk recommendations. He added that the report before Committee had been presented to the PCT Board where implementation of the recommendations had already started.

The following points were made:

- Agenda page 25 item 18, Cabinet assurance framework – look to extend the risk register with controls and assurance on controls, work was still needed on the development of the framework.

- Agenda page 25 item 19, Council risk registers – Committee noted that a review was undertaken but the September deadline for compliance had not been met. Second review undertaken found the majority of registers complied. A further review is scheduled for January 2011.
- The Committee felt there was little point in setting targets which were then not met. Some assurance needed as to why targets were not met and target dates were not reset for convenience.
- Although policies and procedures were in place there was concern that risk management was far from being embedded in directorates.
- Concerned that programmes of work were not at the heart of the authority to ensure the work required to reach a target date was achieved.
- The Committee was assured that officers were now taking risk management seriously and seen as a higher priority, especially with the coming changes proposed for the Council.
- Members requested that when target dates were changed due to slippage, that the change of date was tracked.
- A joint meeting of the PCT Audit and Assurance Committee and the Council's Audit and Governance Committee was requested to discuss risk management.
- Members were not satisfied with the programme and requested that items 1, 4, 14, 19 and 21 needed to come before the Committee at the next meeting.
- The Committee thanked the Risk Consultant Gilbert George for the work he had carried out.

## **RESOLVED**

### **THAT:**

- a) the report be noted;**
- b) a further report be made to the next meeting providing assurance that dynamic risk management is embedded through out the Council; and**
- c) a joint meeting be set up of the Council's Audit and Governance Committee and the PCT Board's Audit and Assurance Committee.**

## **32. INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Technical Accounting Manager presented the report on International Financial Reporting Standards (IFRS). The issues discussed were:

- The Agresso system was being implemented as an integrated back office system.
- Work was being carried out with the property services team for automatic uplifts of information to Resources.
- The Committee was advised that assets with big components that might depreciate differently to the main asset should be separated out, but would only be done if it would make a significant difference to depreciation of the accounts. This was not a real cost for the Council. The Council's draft policy has been passed to the external auditors .
- The Committee discussed embedded leases and the significance of this under the new financial reporting standards, with particular reference to the Waste collection and the Amey contracts. Tests had been done on the Amey contract and the initial review showed it did not contain a lease.

- The Audit Commission has been consulted on the programme and it is hoped to restate balance sheets by the end of December.
- Currently on target for IFRS. Officers still meet with the Hereford and Worcester support group to share good practice.
- The only issue of concern was embedded leases.
- The Committee requested that the director provide a brief report on the Agresso system and its progress to the next meeting of the Committee.
- The director reassured Members that the Audit Commission was confident in the way everything was progressing

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

### **33. INTERIM ASSURANCE REPORT**

The Chief Auditor presented the report and drew Members' attention to the following points:

- Appendix 1 page 49 – Subject to the Committees approval items: 5.2, 5.4, 5.5 and 5.6 had been closed down and risk management would remain open until targets had been reached.
- Appendix 2 page 51 item 40 – work on this had not been carried out as the Chief Internal Auditor had had to work on the tender documents.
- Similarly item 42 elections – Chief Auditor not yet been able to meet with the Interim Assistant Chief Executive. The director assured the Committee that he would speak with the Assistant Chief Executive and that information would be available for the next meeting. Members noted this was an issue of concern for the town and parish councils and the Chairman requested a report for the next meeting as HALC – Herefordshire Association of Local Councils, had been asking questions on the issue. The director advised he would write to the parishes shortly and elections would be added to the risk register.
- Item 89, still to be sorted.
- Item 90, completed by Resources and follow up carried out.
- Item 91, not due until January 2011.
- Item 105, to remain open subject to committee approval and until backlog resolved.
- Item 115, will not be closed down until the Committee. is happy with progress
- Appendix 3 Education Transport. given a marginal audit opinion as there was a need to improve risk, income process and receipt of application form procedures. Recommendations have been made and will be followed up. Car Park income was reported on at last meeting. The service manager has confirmed that all recommendations have been actioned; however this has not been tested by Audit.
- Earl Mortimer school is listed as unsatisfactory, however this is not a fundamental or key system.
- Members' claims, satisfactory.
- Page 52 – the Committees work plan to reflect changes to the work plan in time for next audit.
- Pages 53/54 the Committee requested that items 105 and 108 be closed.

The Committee expressed their thanks to the Chief Internal Auditor.

**RESOLVED**

**THAT:**

- a) **the report be noted; and**



- b) that a report be made to the next meeting regarding the cost of elections to town and parish councils.

#### 34. RE-PROVISION OF INTERNAL AUDIT SERVICES

The Director of Resources presented the report and advised that changes were taking place both at a national and local government level. The points raised were:

- Shared Services has been agreed by Herefordshire Council, the PCT Board and Herefordshire Hospital Trust.
- Changes to take place in internal audit service and discussions taking place with partner organisations. The last report on a formal review stated audit services were mostly compliant but the number of audit days would be reduced.
- The Council has been well served by the internal audit team but now looking to downsize the services provided. The service had previously adjusted to be more risk based, now needs to move further forward and to review the skills base of the current team.
- Chief Internal Auditor to lead on tendering document for all three organisations. Framework has already been identified and is to be tested.
- The Audit team has been briefed on proposals and some staff will move over to the new service under TUPE regulations under shared services.
- Members questioned why market testing had not been carried out against internal audit provision rather than just against the outside market.
- The director advised that he would re-examine bench marking comparators but had spoken with other authorities that had similar audit functions to Herefordshire. He added that any decision to out source audit services was not taken lightly, but there was an issue around the current number of audit days undertaken, the cost and the value for money provided.
- Members were assured that as part of the tendering process the terms of reference of the Committee would be included.

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

The meeting ended at 3.50 pm

**CHAIRMAN**



<b>Meeting:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>Date:</b>	<b>17 JANUARY 2011</b>
<b>TITLE OF REPORT:</b>	<b>ANNUAL AUDIT LETTER 2009/10</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To note the Audit Commission's Annual Audit Letter for 2009/10 and approve the response to each of the action points raised.

### **Recommendation(s)**

**THAT:**

- (a) **the Annual Audit Letter be noted; and**
- (b) **the Action Plan be subject to comment.**

### **Key Points Summary**

- An unqualified opinion on the Council's financial statements.
- An unqualified value for money conclusion stating that the Council had satisfactory arrangements.

### **Considerations**

1. The audit comprises two elements; the audit of financial statements and the auditor's assessment of arrangements to achieve value for money in the use of resources. In both cases the Council received an unqualified opinion.
2. The audit letter notes the major changes made to the way the Council and NHS Herefordshire operate. The significant work to plan better ways of delivering health and social care is outlined.
3. The letter states that better and more efficient decision making is evident around planning issues as a result of the changes to the committee structure.
4. The Council has generally good financial management arrangements. A well established medium term financial planning and budget process supports the delivery

---

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

of corporate and community plans. The letter indicates that a combination of the economic downturn and the comprehensive spending review mean that strong financial management and resilience will be more important than ever. The level of reserves and balances is adequate but increasing pressure may test their level of sufficiency.

5. As part of the work of the auditor an assessment of budget process is included it concludes the 2009/10 budget was soundly based on reasonable assumptions and savings targets. The pressure for Adult Social Care Services is covered in the letter that indicates the financial challenge presented by this area needs to be addressed.
6. Good budget monitoring and internal financial reporting arrangements could be further improved by moving to monthly reporting to cabinet rather than including financial reporting as part of an overall quarterly performance report. This will need consideration for 2011/12.
7. The Council's governance arrangements are viewed as effective and continue to be strengthened. Improvements are noted in risk management, decision making and scrutiny. Good proactive fraud work, particularly in the benefits service, has identified savings.
8. The management of physical assets is improving and is supported by a comprehensive set of plans to make the best use of these assets.
9. The letter also covers the review of waste disposal arrangements, support of older people, the transformation programme and regeneration. The previous year's review of planning services was also followed up as part of the overall audit programme.
10. Waste Disposal was reviewed and the risks around the current proposal's planning application are noted in the letter. The many variables associated with the project mean that it is difficult to have a clear view about value for money and cost. However the letter indicates it will only be at the time of granting planning consent that clarity will be available. The strengthening project management is indicated in the letter.
11. Support for Older People faces increasing demand for resources and the Audit Commission was subject to a follow up review in August 2010. The original review was concluded in late 2008 when some concerns were noted. The follow up review confirms an improved position with work carried out to address the previous shortcomings and that appropriate arrangements are now in place.
12. The Audit Commission's review of progress within the Shared Services programme is included in the letter. The letter confirms the project is a key part of the Council's plan to transform the way its services are delivered. The main recommendations from the auditor were to learn the lessons from the previous transformation programme. The key points were well underway to address these before the review was concluded.
13. The regeneration audit covered the Edgar Street Grid (ESG) project and the work focussed on managing finances, governing the business and managing resources. The ESG (now Hereford Futures) Board was viewed as being properly constituted and the governance arrangements were noted as being satisfactory. Further work needs to be done around benchmarking.

14. The follow up Planning Services audit found significant improvement under the new approach to planning decision making. A significant comment was that the Council worked quickly responding to the first review and that the revised roles of Members and officers brings greater clarity to the process. In addition debate at committee is enhanced and there is more transparency in decision making.
15. The inspection regime for local government has changed significantly over recent months. The audit letter confirms that the Audit Commission aims to introduce a new, more targeted and better value approach to local value for money audit work. The 2010/11 work will concentrate on financial resilience and prioritising resources within reduced resources.
16. The Audit Commission is no longer required to provide an annual scored judgement relating to local value for money work. The outcome of the 2010/11 work will be reported in the Annual Audit letter.

## **Risk Management**

17. The attached action plan template will need to be populated to mitigate risks identified in the relevant audits.

## **Legal Implications**

18. The Annual Audit letter is required to be agreed by the Council.

## **Communication**

The contents of the letter will be the subject of a briefing to the Chair and Vice Chair of the Audit and Governance Committee.

## **Appendices**

Action plan template

ANNUAL AUDIT LETTER RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	IMPROVEMENT ACTIONS	STATUS INCLUDING COMPLETION DATE
Address the issue of overspending in Adult Social Care.	Jana Burton	<ul style="list-style-type: none"> <li>• Action plan in place and being monitored.</li> <li>• Funding has been reviewed as part of the budget process</li> <li>• Passporting of additions in local government settlement</li> </ul>	<ul style="list-style-type: none"> <li>• Areas such as telecare being reviewed.</li> <li>• Current review of existing contractors.</li> <li>• Pattern of care provision being changed.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> <li>• Meetings being held with Director of Resources</li> <li>• Update to JMT</li> </ul>
Continue to implement the agreed action plan from our work on the transformation programme.	Dean Taylor	<ul style="list-style-type: none"> <li>• The Action Plan produced following the Audit Commission review was last updated in December 2010</li> <li>• A Transformation Programme Manager was appointed in November 2010 to oversee the Rising to the Challenge (RTTC) Programme</li> <li>• The RTTC Board is meeting bi-monthly; workstream Boards are in place</li> <li>• Business Cases and Benefits Plans are in place or are being developed</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to implement and review the Action Plan</li> <li>• Implement Agresso (phase 1)</li> <li>• Implement Scanning for Planning</li> <li>• Implement Frameworki Commitment Accounting</li> <li>• Review Shared Services Benefits</li> <li>• Establish the Corporate Programme Office</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> <li>• 1 April 2011</li> <li>• In progress - May 2011</li> <li>• In progress - April 2011 (through Agresso)</li> <li>• February 2011</li> <li>• March 2011</li> </ul>

		<ul style="list-style-type: none"> <li>• The IT Investment Programme (Connects) reviewed and is on track</li> <li>• The Shared Services Business case has been reviewed and the approach approved by Cabinet/PCT Board/HHT Board in October 2010</li> </ul>		
Continue to actively pursue a satisfactory and prompt solution to waste management. Ensure that when the key decisions are made on whether the preferred solution delivers value for money, these are fully evidenced.	Geoff Hughes	The project to deliver a Contract Variation to the current Integrated Waste Management PFI to ensure that waste is diverted from landfill through an EfW at Hartlebury is progressing in accordance with the Project Plan. Planning consent is being sought by the contractor (Mercia Waste Management). MWM have started a tendering process for an EfW plan to be built at Hartlebury.	Both HC and WCC have, within the Project Plan, allowed for a detailed and timely analysis of the proposed solution and its capacity to deliver VFM. This includes the use of advisors to support this process.	Project Plan is monitored by Waste Advisory Steering Group and is progressing in accordance with that plan.

<p>Ensure that the recommendations from the detailed value for money conclusion report are implemented.</p>	<p>David Powell</p>	<p>Draft action plan to go to Resources leadership Team and Benefits Board.</p>	<ul style="list-style-type: none"> <li>• Continue to develop VfM benchmark group participation</li> <li>• Build on work carried out by change champions</li> </ul>	<p>Ongoing with monitoring of action plan by Benefits Board.</p>
<p>Develop arrangements to gauge whether the Council's contribution to the Hereford Futures JVC is securing value for money.</p>	<p>Geoff Hughes</p>	<p>Hereford Futures is a Joint Venture Company which has recently been established to deliver regeneration schemes on behalf of Herefordshire Council in Hereford and its immediate environs. The company is currently jointly funded by the Council and AWM. From the 1<sup>st</sup> April, 2011 it will become 100% Council funded.</p>	<p>The Councils Management Accounts Manager will undertake a benchmarking exercise with other regeneration schemes to establish VFM in respect of key criteria like cost per job created, land released for development, new employment/retail space created, homes built etc.</p>	<p>The benchmarking exercise will be commenced in January and completed by March 2011.</p>



# Annual Audit Letter

---

---

Herefordshire Council

Audit 2009/10

**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.**

# Contents

<b>Key messages</b> .....	<b>2</b>
Audit opinion and financial statements .....	2
Value for money.....	3
Current and future challenges .....	3
<b>Financial statements and annual governance statement</b> .....	<b>5</b>
Overall conclusion from the audit .....	5
<b>Value for money</b> .....	<b>6</b>
2009/10 use of resources assessments .....	6
VFM conclusion .....	6
Risk-based performance reviews .....	9
Approach to local value for money work from 2010/11 .....	15
<b>Closing remarks</b> .....	<b>16</b>
<b>Appendix 1 Glossary</b> .....	<b>17</b>
<b>Appendix 2 Action plan</b> .....	<b>18</b>

# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## Overall message

**1** Major changes have been made, and are continuing to be made, to the way the Council and NHS Herefordshire operate. Significant work has taken place to plan better ways of delivering health and social care across the County and to jointly procure support services. It is, though, too early to see the results from these changes. The Council has made significant changes to its planning services and these have resulted in better and more efficient decision making.

**2** The Council generally manages its finances well but is well aware that current and future cost pressures such as an ageing local population and reductions in central government funding, will mean that the short and medium term financial position will be very difficult. There are continuing spending pressures in the integrated commissioning directorate which will need to be urgently addressed. This all means that ways of reducing expenditure will need to be robustly pursued and the implementation closely monitored by Members.

## Audit opinion and financial statements

**3** I gave an unqualified opinion on the Council's financial statements in September 2010. The audit of your financial statements went well. Good quality statement of accounts and supporting papers were produced and Officers gave priority to ensuring the audit went smoothly.

## Value for money

4 I issued an unqualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources.

## Current and future challenges

### Waste disposal

5 There has been much work with partners to secure a waste disposal solution which will reduce the amount of waste going to landfill but this remains a high risk project and it will continue to be so for some time. Not all of the costs of the project are known making it difficult to assess its value for money. In particular, the end of contract costs and other risks associated with timescales and potential legal challenges are not known. The proposed waste plant is currently the subject of a planning application and there is no certainty that permission will be granted or, if it is, when. Future costs and timescales depend on this to a large extent.

6 The key decisions relating to value for money cannot be made until after planning permission and it is important that these decisions are fully documented at that time. Failure to secure waste disposal by some means other than land fill is likely to result in increased costs due to the escalating government financial penalties. Given the potentially long process to provide the new facility and the financial implications of delay, the Council needs to do everything it can to find a solution. In this letter I provide a full summary of conclusions from my work in response to the level of public interest in future waste disposal arrangements.

### Support for Older People

7 Demand for the services that support older people in Herefordshire is increasing. The Council predicts a 55 per cent increase in the number of older people needing help with essential activities by the year 2020. The service continues to overspend annually. The Council and PCT recognise that to meet the potential demand for their services is going to be a real challenge requiring the best use of resources. Work has been going on for some time to address this and I concluded that there are now appropriate arrangements in place but these will take some time to make a difference.

### Transforming services

8 Herefordshire Council is aiming to transform the way services are delivered to radically reduce costs and make them more accessible and responsive to customers. This transformation programme includes sharing services with NHS partners. I found that the transformation programme was being redefined to ensure it will be delivered and the Council was working on delivering an action plan to improve the programme. The Council is rightly continuing to invest in modernising IT and processes to enable service improvements and efficiencies.

## Regeneration

9 My review of the Council's management arrangements for the development of the Edgar Street Grid (ESG) confirmed that they are sound overall. There has been a change of focus from the regeneration of the ESG site to the wider regeneration of Hereford, now known as Hereford Futures.

### Recommendations

- R1** Address the issue of overspending in Adult Social Care.
- R2** Continue to implement the agreed action plan from our work on the transformation programme.
- R3** Continue to actively pursue a satisfactory and prompt solution to waste management. Ensure that when the key decisions are made on whether the preferred solution delivers value for money, these are fully evidenced.
- R4** Develop arrangements to gauge whether the Council's contribution to the Hereford Futures JVC is securing value for money.

# Financial statements and annual governance statement

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

**I gave an unqualified opinion on the Council's 2009/10 financial statements in September 2010.**

## Overall conclusion from the audit

**10** The audit of your financial statements was completed efficiently with the help of good working papers and officers being responsive to requests for additional information. I reported my findings from this audit to the Audit and Governance Committee in September 2010 and gave an unqualified opinion on these accounts in the same month. 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 recommendation in my Annual Governance Report was that the balance sheet in 2010/11 should include three non material household waste sites which were excluded in 2009/10.

**11** The Council did well to comply with the complex requirements of the CIPFA's Statement of Recommended Practice 2009 which substantially changed the way of accounting for privately financed (PFI) and similar contracts and collection fund balances in 2009/10.

**12** Officers are making good progress in preparing for 2010/11 which will be the first year of financial statements prepared under International Financial Reporting Standards (IFRS). This progress will need to be sustained to produce skeleton financial statements with restated 2009-10 balances by the end of December 2010. The Audit & Governance Committee receives regular reports on progress.

**13** I did not identify any significant weaknesses in your internal control arrangements. The main recommendation in my interim review related to my testing of the physical existence of plant and equipment on the Council's asset register. This identified minor errors of both inclusion and omission in the register and the Council responded positively by carrying out a review of this area before closing down the accounts.

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## **2009/10 use of resources assessments**

**14** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the Government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**15** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have, therefore, used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

## **VFM conclusion**

**16** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**17** This is a summary of my findings overleaf.



Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Strategic asset management	Yes
Workforce	Yes

**18** I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. I also issued a value for money conclusion report to Officers with recommendations where improvements were possible.

### **Managing Finances including financial standing**

**19** The Council has generally good financial management arrangements. It has well established medium term financial planning and budgeting processes to support the delivery of corporate and community plans. The economic downturn and the Government's spending review mean that strong financial management and resilience will be more important than ever. The Council has adequate reserves and balances, but these are likely to come under increasing pressure and may not be sufficient to cover major over spending, should that occur.

**20** The Council set a comprehensive and balanced budget for 2009/10 which resulted from the Medium Term Financial Strategy (MTFS). The budget was soundly based on reasonable assumptions and savings targets. The 2009/10 outturn expenditure of directorates was £2.595m (1.7 per cent) above budget but the impact on the General Fund balance was neutralised by under budget spending on treasury management and pay awards and the use of contingency reserves established for this purpose. The main pressure point was again in the area of demand led adult social care services. Spending in 2010/11 is again over budget with the main pressure points being in Adult Social Care.

**21** The MTFS reflects the financial consequences of the economic downturn and funding cuts. The strategy aims to mitigate the impact of income reductions on front line services by savings from the shared services strategy and surplus asset disposals. Key assumptions on savings from these and other efficiency projects will need to continue to be founded on robust information. The detailed results of the Government's spending review to be announced in December 2010 are likely to significantly increase pressure on service budgets.

**22** To strengthen its position in this area, the Council needs to demonstrate improvements and positive outcomes in the following areas:

- address over-spending or under-budgeting in adult social care;
- allow for all of the costs associated with shared services and transformation projects in the MTFS;
- ensure that other planned savings included in the MTFS are realistic and achievable; and
- maintain adequate contingency reserves and balances.

**23** The Council has good budget monitoring and internal financial reporting arrangements. However, the increasing pressure on finances will increase the risk that budgets are not delivered. Historically financial monitoring to Cabinet has been part of the overall quarterly performance management arrangements, However the Council could be better placed to manage this risk if financial reporting to Cabinet was to follow the best practice in other organisations which present up to date information every month.

**24** Information on costs and efficiencies is increasingly being used to inform decision making and some management cost savings have been achieved. Some gaps remain in the information on costs that are provided to decision makers.

## **Governing the business**

**25** The Council's governance arrangements are effective and continue to be strengthened.

**26** The quality of local needs information underpinning the Council's decisions on commissioning and procurement is improving, but the quality of cost information supporting large scale commissioning and improvement exercises is still inconsistent.

**27** The Council continues to deliver a programme of improvements to its arrangements for data quality. Some key systems are not yet delivering the expected improvements and there are still gaps in the data available for managing and making decisions on key services.

**28** The Council is continuing to make improvements to its decision making and scrutiny processes. The Standards and Audit and Governance Committees are playing high profile and effective roles.

**29** The Council has made progress in strengthening its risk management framework and in embedding risk management at directorate and business process levels.

**30** The Council carries out some good proactive fraud work particularly in benefits and has been successful in subsequent prosecution and recovery. The Council has identified savings of over £380,000 following up the Audit Commission's National Fraud Initiative's data matching exercise. The Audit Commission has recently published a report 'Protecting the Public Purse: Fighting Fraud against Local Councils and Local Taxpayers'. In this report the Commission describes what has happened in the field of fraud detection and prevention since 2009 and set out the findings from its recent fraud survey. The report identifies more fraud risks and urges local councils and related bodies to focus on them. The report also describes the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. An updated checklist gives Herefordshire Council another opportunity to consider how effective it is at responding to the risk of fraud.

### **Managing resources**

**31** The Council is making progress in managing its physical assets. It is developing a comprehensive set of plans to make the best use of its and its partners' assets. As these plans are necessarily long term they have not as yet resulted in significantly improved outcomes for the public.

**32** The Council is still developing its arrangements for managing its workforce and managing organisational change to meet priorities. It is working closely with the PCT to prepare and deliver plans for the Herefordshire Public Services future organisation and it is committed to involving staff in managing change and supporting them through it. Some gaps in information on current workforce remain and adherence to HR practices is not yet consistent across the organisation.

### **Risk-based performance reviews**

**33** To support my review of the value for money conclusion criteria I undertook reviews of waste disposal arrangements, support for older people, the transformation programme and following a number of public comments, regeneration. I also followed up my review of planning services carried out last year.

### **Waste disposal**

**34** The Worcestershire and Herefordshire Waste Private Finance initiative (PFI) contract with Mercia Waste Management Ltd was set up in December 1998 with the intention to develop a waste disposal facility that would come on stream early in the contract. It was predominantly based around a waste to energy facility for which planning permission was subsequently not obtained. Since planning permission was refused in April 2001, alternative technologies and ways forward have been explored. The Councils are now 12 years into the contract, and while there are proposals currently in development, the contract has not yet moved on.

**35** So far my predecessors and I have maintained a watching brief over the waste contract PFI and have reported on this in previous audit letters. However, because of the delays referred to above and in response to the level of risk involved, I have reviewed the current situation as part of my audit programme. There is a high level of public interest in future waste disposal arrangements and I have received a number of enquiries from members of the public. I provide below a full summary of my conclusions from the work in response to this level of interest.

**36** The Council is seeking with its partner Worcestershire Council to vary its privately funded contract for waste management which will allow both parties to meet newer national targets for recycling and reduce the amount of waste which ends up in landfill sites. Whilst the Councils have been involved in lengthy discussions with partners to try and reach a solution which will reduce the amount of waste going to landfill, my overall conclusion is that the work to secure a solution remains high risk and will continue to do so for some time. This is because planning permission is awaited and tenders need to be obtained. Therefore there remain a number of unknowns relating to the costs of the project, the end of contract costs, and other risks associated with timescales and potential legal challenges. Future government policy on landfill penalties (LATs) and the future funding of privately financed schemes (PFI) will also have an impact. The proposed waste plant is currently the subject of a planning application and there is no certainty that permission will be granted or, if it is, when.

**37** Failure to secure waste disposal by some means other than land fill is likely to result in increased costs and put pressure on the Council's medium financial strategies. Also until the discussions with the contractor are finally concluded, there remains a risk that the contract could terminate. Contract termination could have a significant impact on the finances of both Councils.

**38** The Councils do not yet have a clear view about whether the project will deliver value for money or what the actual costs will be. This is due to the many variables involved. These include the processes that need to be followed (the most significant being procuring the facility), construction costs, taxes, commodity prices and the euro exchange rate. Some modelling of costs has been undertaken by consultants and based on current known facts the waste to energy plant would according to the Council's evaluation provide better value for money than other options, such as doing nothing. However, it will only be at the time that planning consent is granted that the total likely contract costs can be identified to establish cost, affordability and VFM. It is important that when the key decisions relating to value for money are made they are fully evidenced.

**39** There has been a thorough evaluation of options as part of the review of the Joint Municipal Waste Management Strategy (JMWMS). Members were consulted, focus groups were held and there was engagement with businesses. A large postal survey was undertaken from which there was a 20 per cent response. The consultation was made available on-line, so anyone could respond and give their views.



**40** The consultation identified that a key focus for the public was climate change and that informed the strategy and final decisions. Value for money and waste prevention were also issues raised through the public consultation. The options appraisal was undertaken by consultants with expertise in this type of work, using a recognised and supported analysis model. A wide range of options were initially identified and a set of criteria used to identify the preferred option. The option chosen is not the cheapest but has benefits which others did not, including that it was tried and tested technology which was identified by the Councils as being a critical factor.

**41** Project management has been strengthened. A detailed project plan has been developed which links with the contractor's plan. The Councils understand the risks associated with the project which fall into land use, planning, procurement, and contractual risk. External advice is sought to understand and mitigate risks although some, such as the decision on the planning application and timescales remain a risk. The Councils recognise the need to bolster its commercial knowledge and expertise. Risk management has improved and the register comprehensively reviewed. The Councils are aware of the commercial sensitivities around this work, and needs to continue to manage them carefully so that information that should be transparent is transparent.

### **Support for Older People**

**42** Demand for the services that support older people in Herefordshire is increasing. The Council predict that the number of older people that need care services will increase significantly, year-on-year. Council Officers expect an extra 55 per cent of older people will need help by 2020. The service continues to overspend annually.

**43** The Council and PCT understand that meeting this increase in demand will have a major impact on the way they deliver services to older people in Herefordshire. They realise that to meet this demand they must make best use of the resources.

**44** I agreed to work with the Council to review how it has changed its services for older people to deliver better Value for Money.

**45** I undertook the work in two phases.

- I completed phase one (which looked at how the Council charge for care services and how it managed the cost of its care services) in August 2008 and agreed my findings with the Council. The most important finding reported to the Council was that there was not an effective commissioning strategy.
- I initially completed phase two (which looked at joint commissioning) and met with senior officers to discuss our findings in December 2008. My conclusions included that Herefordshire Council had a traditional commissioning process, with older people commissioning only developing in specific areas, such as daycare. Social services commissioning lacked direction, with a limited focus on proactive commissioning.

**46** In February 2009 the Council and PCT told us they had agreed to set up a new 'Integrated Commissioning Directorate' and that the new Directorate would be in place by 31 March 2009. Until restructuring had been completed I could not say if it would deliver improvement. I therefore agreed to review what improvement had been delivered, after allowing sufficient time for the changes to make a difference.

**47** I completed my follow-up review in August 2010. I found that Herefordshire Integrated Commissioning Directorate is setting in place changes designed to deliver improvement, but some elements of the change process are still in the early stage of development. I said:

- The Directorate has produced strategies for key service areas, such as a dementia care strategy that is designed to provide a holistic response to Dementia services, but it is near the beginning of its development. The Directorate has set up a home care improvement project designed to identify how it can enhance delivery of domiciliary care services.
- The Directorate has put in place arrangements designed to improve the value for money it achieves from commissioning social care services and has reviewed key older person care pathways jointly with NHS providers. New care pathways are being designed. It has acted to improve relations with independent sector service providers, working with the local provider forum to agree new service specifications and co-produced market development plans.

**48** I concluded that work has been going on for some time to address this and that there are now appropriate arrangements in place but these will take some time to make a difference.

### **Transformation programme**

**49** In June 2010 I carried out a review of the Council's progress with the Shared Services programme, a key part of the Council's plans to transform the way its services are delivered.

**50** My team has fed back the findings to Officers at regular intervals culminating in a presentation to the Chief Executive and other key staff in September. At that stage the transformation programme was being re-defined to ensure it will be delivered. There is still a need to continue to invest in modernising IT and processes enabling service improvements and efficiencies. Examples include in-house scanning of planning documents, the ability of customers to submit on-line planning applications and a commitment accounting module for Frameworki (Social Services system) to drive resource allocation.

**51** My main recommendations were to learn the lessons from the previous transformation programme, Herefordshire Connects and:

- provide a renewed focus on standardising and streamlining processes and ensuring clarity over the expected level of benefits from planned investment;

- review the business case for shared services, especially the changing external circumstances; and
- ensure corporate change plans are better coordinated, benefits are captured and decision makers always get full and accurate information.

**52** Work was already underway to address these before the review concluded in September 2010. The Council's action plan addresses all my recommendations but will take time to implement.

## **Regeneration**

**53** The large scale redevelopment of the Edgar Street Grid (ESG) area of Hereford is the biggest regeneration programme in the county and is one of Advantage West Midlands' (AWM) and other regional agencies' key priorities. It is a long term project to develop a 100 acre site in the city centre for retail, business, housing, leisure, civic and other uses, having been accorded the status of top 20 'impact investment locations' in the West Midlands. To date I have maintained a watching brief over the ESG's development but as the project is now at a key stage of its development and in response to a range of concerns and questions raised with me by members of the public, I agreed with the Council to carry out a review of the Council's governance arrangements for the ESG project as part of the 2010/11 audit plan. ESG has now become Hereford Futures Limited with a change of focus from the regeneration of the ESG site to the wider regeneration of Hereford.

**54** I focused my work around the relevant value for money criteria which were managing finances, governing the business and managing resources.

**55** A financial model has been developed to map overall costs. Capital and revenue monitoring is an ongoing process with the Council providing high level information to councillors via regular reports. The Council and Hereford Futures should consider how their work on improving communication can find ways to use the range of financial information to reiterate key messages to the public and stakeholders.

**56** It is clear that the Council considered a range of options for delivering the project and took expert advice which was presented to Councillors as part of the decision making process.

**57** The plans for the regeneration of the area have been regularly updated as a result of consultation and other activity. However, until the recent changes that resulted in the replacement of the ESG board by Hereford Futures, there have been no reviews of whether the Joint Venture Company (JVC) remained the right model. Given the complexity of the project and the turnover of Councillors, the Council needs to consider whether its reports are clear enough to enable all councillors to query whether arrangements remain fit for purpose.

**58** There has been a consistent strategic vision for the outcomes intended from the ESG and this has been agreed with and supported by regional partners. However, until recently, communication to the public of the work programme has lacked co-ordination. This is beginning to improve. Lessons from previous consultation and involvement exercises have been used to shape ongoing work.

**59** The ESG (now Hereford Futures) Board was properly constituted and Internal Audit work has confirmed that governance arrangements are satisfactory. The Council needs to consider if the information presented to Councillors is sufficient to enable them to respond to queries from the public and to ask probing questions.

**60** Strategic risks are covered by the registers for the Council, and for ESG. However the Council could consider whether the inclusion of more specific statements in its strategic register could aid Officers and Councillors work on policy development and challenge.

**61** The Council does not have arrangements to gauge whether its contribution to the JVC is securing value for money. It needs to develop methods to enable it to do this including benchmarking.

**62** The Council should shortly complete an action plan to address the four recommendations in my detailed report.

### **Planning Services Follow-up**

**63** Eighteen months ago I completed and reported the results of my review of the Council's planning services. My report concluded that the roles of Officers and Members in planning decision making and the processes they followed were overly complicated and lacked transparency. Since then the Council has worked quickly, responding to the challenges set out in my review and to the recommendations made in the Council's own Environmental Scrutiny Review. The new arrangements were established and operating fully by July 2010.

**64** One year on, I conclude that the Council has made substantial progress in addressing most of the recommendations agreed by the Cabinet in July 2009. There are strong signs that the new committee arrangements introduced in January 2010 are having a positive impact on the quality of planning decision making and on the efficiency and effectiveness of the planning service.

**65** The revised roles of Members and Officers have greater clarity and the impact is noticeable within the conduct of the Planning Committee meetings. Planning Committee Members and also non-committee Members coming to Committee in their capacity as local ward members have risen to the challenge of their new roles. Debate is enhanced and there is more transparency to decision making.



**66** Fewer applications are coming to Committee but those that do are the more complex, more unusual applications and of significance across a wider area.

**67** Good outcomes can be seen across the extensive set of recommendations arising from the Council's scrutiny review. Particularly of note is the improved focus on enforcement and forward planning coming from the reorganisation of resources across the planning services. This has led to good progress in local plan making, with increasing levels of engagement in the process by stakeholders. Also there is now a dedicated enforcement service with revised procedures.

**68** A further area of progress is the strengthening of the arrangements to negotiate, monitor and manage the delivery of Section 106 (Planning Obligations) agreements, following the appointment of a dedicated S106 planning officer.

**69** I have produced a brief interim report on my findings. I am also working with one of the Council's accountants to review the impact of the changes that have been made on the economy and efficiency of the service.

## **Approach to local value for money work from 2010/11**

**70** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**71** My work in 2010-11 will be based on a reduced number of reporting criteria specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**72** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

## Closing remarks

**73** I have discussed and agreed this letter with the Chief Executive and the Director of Resources. I will present this letter at the Audit and Governance Committee in January and will provide copies to all Members.

**74** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Adult Social Care	March 2010
Annual Governance Report	September 2010
VFM Conclusion Report	September 2010
Transformation Programme	September 2010
Edgar Street Grid	September 2010
Final Accounts Memorandum	October 2010
Planning Services Follow up	November 2010

**75** The Council has taken a positive and helpful approach to our audit. I wish to thank the Herefordshire Council staff for their support and cooperation during the audit.

Elizabeth Cave  
District Auditor  
November 2010

# Appendix 1 Glossary

## **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## **Audit opinion**

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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

## **Financial statements**

The annual accounts and accompanying notes.

## **Qualified**

The auditor has some reservations or concerns.

## **Unqualified**

The auditor does not have any reservations.

## **Value for money conclusion**

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 money, people and time.

## Appendix 2 Action plan

### Recommendations

#### Recommendation 1

Address the issue of overspending in Adult Social Care.

<b>Responsibility</b>	Jana Burton
-----------------------	-------------

<b>Priority</b>	High
-----------------	------

<b>Date</b>	April 2011
-------------	------------

**Comments**

#### Recommendation 2

Continue to implement the agreed action plan from our work on the transformation programme.

<b>Responsibility</b>	Dean Taylor
-----------------------	-------------

<b>Priority</b>	High
-----------------	------

<b>Date</b>	May 2011
-------------	----------

**Comments**

#### Recommendation 3

Continue to actively pursue a satisfactory and prompt solution to waste management. Ensure that when the key decisions are made on whether the preferred solution delivers value for money, these are fully evidenced.

<b>Responsibility</b>	Geoff Hughes
-----------------------	--------------

<b>Priority</b>	High
-----------------	------

<b>Date</b>	September 2011
-------------	----------------

**Comments**

#### Recommendation 4

Develop arrangements to gauge whether the Council's contribution to the Hereford Futures JVC is securing value for money.

<b>Responsibility</b>	Geoff Hughes
-----------------------	--------------

<b>Priority</b>	Medium
-----------------	--------

<b>Date</b>	March 2011
-------------	------------

**Comments**

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2010.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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



Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

November 2010



<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 JANUARY 2011</b>
<b>TITLE OF REPORT:</b>	<b>INTERIM AUDIT SERVICES ASSURANCE REPORT 2010/11 NO.3</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

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

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT the report be noted.**

### **Key Points Summary**

- Seven key issues were identified in the Council's Annual Governance Statement. Four have been closed. (Appendix 1 refers).
- Subject to Committee agreement there are currently four Committee Resolutions that are open (Appendix 2 refers);
- Of the audits completed two were given an unsatisfactory audit opinion and one a marginal opinion ( Appendix 3 refers)

### **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.

---

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. Four key issues have been closed.

### **Audit and Corporate Governance Committee Resolutions**

- 5 Regarding resolutions made by the Committee to November 2010 (Appendix 2 refers) subject to committee approval there are five open and ongoing following the last meeting held on 12<sup>th</sup> November 2010. Replies received from relevant officers have been included in the updated version of the appendix.

### **Fundamental Systems**

- 6 The Council's target is for all fundamental systems to achieve at least a satisfactory audit opinion. Work in this area is well advanced with a final report issued for Education Transport, which was given a marginal audit opinion due to the need for improved risk management, income control and procedures, management checks and guidance to staff. 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

### **Non Fundamental Systems**

- 7 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. Other work is at various stages of progress.

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

- 8 Preliminary work in relation to the National Fraud Initiative (NFI) 2010 is complete, relevant offices have been requested to submit relevant data to the Audit Commission. All relevant data has been submitted. The NFI Data Protection Compliance Return has been completed and submitted.
- 9 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.

### **Other Key Systems**

- 10 Member's allowances and expenses were reviewed and given a satisfactory audit opinion.



- 11 CRB consultancy work to provide advice and guidance regarding the robustness of the new CRB system has now been completed.

#### **ICT Protocols and Control (Council –Wide)**

- 12 Work within this area includes a joint report on physical security covering both the Council and Primary Care Trust.

#### **Establishments**

- 13 Work continues to assess the financial management arrangements for schools in line with the Department for Children, Schools, and Families (DCSF) Standard. Currently 18 schools have met the standard, with seven reviews out in draft, and one is work in progress.

#### **Verification and Probity**

- 14 The review of Good Environmental Management (GEM) has been completed and some minor non-compliances were found.

#### **Recommendations**

- 15 To date Audit Services has made 296 recommendation of which 294 (99%) have been accepted by officers.

- 16 Overall follow up work on past recommendations made can be summarised as follows

Status	Number	%
No longer relevant	3	4.5
Completed	32	47.8
Mostly Complete	5	7.5
Partly Complete	18	26.9
Not addressed	9	13.3
Total	67	100.0

- 17 As requested by the committee 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 was that of the 16 recommendations six were partly complete and five not addressed

- 18 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. The Director of Resources has directed that a further audit visit is planned to ensure actions are embedded.

### **Outsourcing update**

- 19 The Official Journal Contract Notice for the provision of internal audit and counter fraud services to Herefordshire Council, Herefordshire Primary Care Trust and Herefordshire Hospitals NHS Trust has been published. It is also intended that the framework contract may be utilised by other public sector organisations in Herefordshire including education establishments

### **Financial Implications**

21. There are no financial Implications.

### **Legal Implications**

- 22 There are no Legal Implications.

### **Risk Management**

23. 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 Audit Services Management Team monitor the plan on a weekly basis in order to mitigate this risk, the Director of Resources will receive monthly reports on progress.

### **Appendices**

**Appendix 1- Annual Governance Statement 2009/10 Key Issues Identified.**

**Appendix 2 – Open and Ongoing Resolutions as at 12<sup>th</sup> November 2010**

**Appendix 3 – Status Audit Plan 2010/11**

### **Background Papers**

- Audit Plan 20010/11 previously approved by the Audit and Governance Committee on 29 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>	<b>Status</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.	Closed
5.3	The need to continue to embed Risk Management. ( Deputy Chief Executive)	A risk management awareness brochure has been developed and is now available on the Councils Intranet. In addition Risk Leads have been appointed within Directorates to champion risk management, assist and support all staff in their risk management responsibilities. There now in place a Council Assurance Framework (CAF), this incorporates the Corporate Risk Register. An update on the Risk Management Action Plan is a separate agenda item for the Audit and Governance Committee meeting of 17 <sup>th</sup> January 2011. Training for Heads of Service has been completed.	Open
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.	Closed
5.5	The formal assessment of the Council's system of internal audit.( Director of Resources)	The outcome of the review was presented to the Audit and Governance	Closed

**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>	<b>Status</b>
		Committee meeting on 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 was presented to the Audit and Governance Committee on 17 <sup>th</sup> September 2010.	Closed
5.7	Ensure that improvements are made to the key system given a marginal audit opinion. (Director of Resources)	Audit Services follow up field work has been completed, the Audit and Governance Committee will be informed of progress.	Open
5.8	(Completion of the Good Environmental Management Audit Plan. (Sustainable Communities Director)	The required training took place on 19 <sup>th</sup> to 21 <sup>st</sup> October. Attendees and their managers have been told that they are expected to make 5 days available per year for auditing on an ongoing basis. The ISO 14001 external audit visit on 1 <sup>st</sup> December identified that there was insufficient evidence available to demonstrate that the audit programme was on track for completion, it also commented that new auditors had been trained to rectify this over the coming months.	Open

**Audit & Corporate Governance Committee  
Open and Ongoing Resolutions & Recommendations made as at 12 November 2010**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
<b>OPEN AND ONGOING ITEMS</b>								
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	Following Consultation with the Chairman and Deputy Chairman the review will form part of the Inventory Audit planned by Audit Service. The Audit visit was carried out on 6 <sup>th</sup> January the Committee will be given a verbal update.	30/04/2010	Open
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.	John Jones	Linked to 119 below	30/06/10	Closed ( Linked 119)
89	5	19/06/09	Review of Procurement	The introduction of procurement and contract performance reporting systems , recommendation R2 paragraph 14 of the Audit Commission's report	David Powell	The production and publication of a Monthly Directors report entitled Commercial Scorecard. It covers performance using a balanced	September 2010	Closed

**APPENDIX 2**

**Audit & Corporate Governance Committee  
Open and Ongoing Resolutions & Recommendations made as at 12 November 2010**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
						<p>scorecard template. This has been in place since Sept 10. The report content will be linked to the Performance Plus system as it rolls out this year.</p> <p>The setting up of the Commercial Board which peer reviews all commercial commitments above £500k. This has been in place since Nov10 and will improve new spend performance. It has been agreed that it should also cover post procurement activities i.e. Contract Management. Details are being drawn up.</p> <p>The updated publication of the Capital Approvals process to ensure high commitment capital</p>		

**APPENDIX 2**

**Audit & Corporate Governance Committee  
Open and Ongoing Resolutions & Recommendations made as at 12 November 2010**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
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	<p>spend is tested for against the Commercial strategy before approvals. This will start in Jan 11 and will improve new spend performance.</p> <p>The implementation and roll out of a Contract Management software module alongside the Procurement software module from April 11. This will provide the means to collect and monitor performance information online. It will be assessed alongside the corporate Performance Plus system for fit.</p>	12 <sup>th</sup> March 2010	Open

APPENDIX 2

Audit & Corporate Governance Committee  
 Open and Ongoing Resolutions & Recommendations made as at 12 November 2010

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
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	that 'The Committee shall receive assurance from the Chief Internal Auditor that officers are complying with the Council's procurement policy and processes in all respects'. There is a programme of audit work, which covers compliance. However 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	January 2011	Open



APPENDIX 2

**Audit & Corporate Governance Committee  
Open and Ongoing Resolutions & Recommendations made as at 12 November 2010**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
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	Joint Management Team has commented and a revised Audit Strategy and Charter reports is a separate agenda item.	January 2011	Open
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	A report was presented to the Committee at its meeting on 12 <sup>th</sup> November 2010, The Committee noted the report and requested that a further report be presented to the January committee meeting	November 2010	Closed ( linked to 116,117,118)
116	30	12/11/10	Corporate Risk Register	That the report be noted , noting also some inconsistencies in the report and that a further report be presented to the next meeting	Dean Taylor	The report forms a separate agenda item.	January 2011	Closed
117	31	12/11/10	Risk Recommendations Implementation- Action Plan	That a further report be made to the next meeting providing assurance that dynamic risk management is embedded throughout the Council	Dean Taylor	The report forms a separate agenda item.	January 2011	Closed
118	31	12/11/10	Risk Recommendations Implementation-	A joint meeting be set up of the Council's Audit and Governance	Dean Taylor	To be arranged.		Open

**APPENDIX 2**

**Audit & Corporate Governance Committee  
Open and Ongoing Resolutions & Recommendations made as at 12 November 2010**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
119	33	12/11/10	Action Plan Interim Assurance Report	Committee and the PCT Audit and Assurance Committee A report be made to the next meeting regarding the cost of elections to Town and Parish Councils	David Powell	The Electoral Services Manager produced costs for the May Parish elections, which have been sent to HALC with a covering letter. HALC has agreed to circulate both	17 <sup>th</sup> January 2011	Closed

**HEREFORDSHIRE COUNCIL  
AUDIT PLAN 2010-11**

<b>AUDIT AREA</b>	<b>STATUS</b>	<b>AUDIT OPINION</b>
<b>a. FUNDAMENTALS</b>		
Debtors	Draft with Client	
Creditors	Draft with Client	
Education Transport	Final	Marginal
Cash and Deposit	Draft with Client	
Treasury Management	Draft with Client	
Payroll	Work In Progress	
Bank Reconciliation	Draft with Client	
<b>b. NON -FUNDAMENTALS</b>		
Car park Income	Final	unsatisfactory
Agency Payments	Draft with Client	
Homeless Persons Loans	Final draft	
Penalty Charge Notice	Work In Progress	
Continuing Health Care (Joint)	Work In Progress	
<b>c. GOVERNANCE AND ANTIFRAUD</b>		
Annual Governance Statement 2009/10	Final	Satisfactory
National Fraud Initiative	Work in progress and ongoing	
Procurement and contract procedures-Children Services	Draft with Manger	
<b>d. OTHER KEY SYSTEMS</b>		
Members Allowances and Expenses (December 2009 to March 2010)	Final	Satisfactory
Members Allowances and Expenses (April 2010 to July 2010)	Draft with Client	
CRB - Consultancy	Final	N/a
<b>e. ICT.PROTOCOLS AND CONTROLS(COUNCIL – WIDE)</b>		
Thorn ISO 27001 Physical Security (Joint)	Final	Minor Non-compliance
ISO 27001 Business Continuity (Joint)	Draft with Manager	
Information Policy Group (IPG) Consultancy	Draft with Manager	
Benefits Realisation	Draft with Client	
HomePoint Security	Final	Satisfactory
<b>f. ESTABLISHMENTS</b>		
Earl Mortimer College (Minster College)	Final	unsatisfactory
John Masefield High School	Final	Satisfactory
<b>Schools Establishment Audits (DCSF Standard)</b>		
Aylestone High School	Draft with Client	
Bishops of Hereford Bluecoat	Work In Progress	
Whitecross High School	Draft with Client	
Ashfield Park Primary School	Final	FMSIS-Met
Bosbury C.E. Primary School	Draft with Client	
Bridstow C. E. Primary School	Final	FMSIS-Met
Burghill Primary School	Final	FMSIS-Met
Bodenham St. Michaels C.E Primary School	Final	FMSIS-Met
St. Joseph's R.C. Primary School	Final	FMSIS-Met
Colwall C.E. Primary School	Final	FMSIS-Met
Lea C.E. Primary School	Draft with Client	

**HEREFORDSHIRE COUNCIL  
AUDIT PLAN 2010-11**

<b>AUDIT AREA</b>	<b>STATUS</b>	<b>AUDIT OPINION</b>
Llangrove C. E. Primary School	Final	FMSIS-Met
Longtown Primary School	Final	FMSIS-Met
Lord Scudamore Primary School	Final	FMSIS-Met
Michaelchurch Escley Primary School	Final	FMSIS-Met
Much Marcle R. C. Primary School	Draft with Client	
Our lady's R. C. Primary School	Final	FMSIS-Met
Peterchurch Primary School	Final	FMSIS-Met
Shobdon Primary School	Final	FMSIS-Met
Fownhope St. Marys C. E. Primary School	Draft with Client	
Mordiford Primary School	Draft with Client	
St. Peters Primary School, Bromyard	Final	FMSIS-Met
St. Weonards Primary School	Final	FMSIS-Met
Stoke Prior (Leominster) Primary School	Final	FMSIS-Met
Sutton Primary School	Final	FMSIS-Met
Whitchurch C. E. Primary School	Final	FMSIS-Met
<b>g. VERIFICATION AND PROBITY</b>		
ISO 14001 GEM Systems	Final	Minor Non-compliance
Inventory Checks	Ongoing	
<b>h. RECOMMENDATION FOLLOW UP</b>		
Trade and Domestic Waste	Final	N/a
Travel and Subsistence	Final	N/a
Procurement and Contract Procedures -Resources	Final	N/a
ISIS Payments	Draft with Client	
ISO 27001 Quarter 1	Final	N/a
ISO 27001 Quarter 2	Final	N/a
ISO 14001 (GEM) Quarter 1	Final	N/a
ISO 14001 (GEM) Quarter 2/3	Final	N/a
Herefordshire Music Service	Work In Progress	
<b>i. PERFORMANCE MANAGEMENT</b>		
Performance Indicators	Work In Progress	
Performance Management	Final	Satisfactory

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 JANUARY 2011</b>
<b>TITLE OF REPORT:</b>	<b>REVISED AUDIT STRATEGY AND AUDIT CHARTER 2010</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To present the revised 2010/11 Audit Strategy and Audit Charter for consideration and approval by the Audit and Governance Committee, following receipt of comments from Joint Management Team

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT the revised 2010/11 Audit Strategy and Audit Charter, be approved.**

### **Key Points Summary**

- The Audit and Governance Code requires the Committee to review and approve the Internal Audit Strategy and Internal Audit Charter once a year.
- The Audit Strategy and Audit Charter for 2009/10 was reviewed and adopted in March 2009.

### **Alternative Options**

- 1 There are no alternative options as this is a requirement of the Audit and Governance Code agreed by Council on 13 November 2009.

### **Reasons for Recommendations**

- 2 The Audit and Governance Code requires the Audit and Governance Committee to review and approve the Audit Strategy and the Audit Charter once a year.

---

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

## **Introduction and Background**

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

## **Key Considerations**

- 4 The Audit Strategy is a high level statement showing how Audit Services will be delivered and developed in accordance with the Audit Charter (Appendix 2 refers).
5. The Audit and Governance Code requires the Committee to review and approve the Internal Audit Strategy and Internal Audit Charter once a year.
- 6 The Audit Strategy and Audit Charter for 2009/10 was reviewed and adopted in March 2009.
7. The 2010/11 Audit Strategy (Appendix 1 refers) covers
  - Audit Services objectives and outcomes;
  - Resilience of the Audit Opinion;
  - Identification of significant issues and risks;
  - Provision of service;
  - Resources and skills; and
  - Internal Control Audit Opinion Matrix
8. The Audit Charter sets out the purpose, authority and responsibility of internal Audit.

## **Community Impact**

9. None Identified

## **Financial Implications**

- 10 There will be no additional cost to the Audit Services budget.

## **Legal Implications**

11. None identified.

## **Risk Management**

12. The Chief Internal Auditor has a responsibility to produce the Audit Strategy and the Audit Charter. If the Audit Strategy and Audit Charter is not reviewed and adopted there is the risk of non compliance with the Audit and Governance Code and the CIPFA Code of Practice for Internal Audit in Local Government (2006).

## **Consultees**

- 13 The Joint Management Team were consulted on contents of the Audit Strategy and the Audit

Charter and their comments added.

## **Appendices**

Appendix 1 – Revised Audit Strategy 2010/11

Appendix 2 – Revised Audit Charter 2010/11

## **Background Papers**

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





## AUDIT SERVICE STRATEGY 2010/11

### Introduction

1. The Accounts and Audit Regulations 2003 as amended requires the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
2. Under the Council's Financial Procedure Rules the Director of Resources has delegated responsibility for maintaining an adequate and effective audit service.
3. The Code of Practice for Internal Audit in Local Government (2006) requires the Chief Internal Auditor to produce an Audit Strategy, which is a high level statement of how the internal audit service will be delivered and developed in accordance with its terms of reference and how it links to the organisational objectives and priorities.

### Objectives and Outcomes

4. The terms of reference for Audit Service are very comprehensive and are set out in the Audit Charter.
5. The main organisational outcomes for the service are to:-
  - i. Present to the Audit and Governance Committee a risk based Audit Plan designed to implement the Audit Strategy.
  - ii. Provide Interim assurance reports to the Audit and Governance Committee which updates members on the work status and bring to their attention any key internal control issues.
  - iii. Provide an Annual Assurance Report which gives an audit opinion on the Council's overall system of Internal Control.
6. Audit Service outcomes are linked to the Council's objectives, as evidenced within the Audit Services' Service Plan for 2010. The Plan also highlights the service performance indicators which will be monitored as part of the Council's Performance Management Framework.

### Resilience of the Audit Opinion

7. The audit opinion on the Council's systems of internal control will be based on a review of the following:
  - (a) Financial standards, which will cover the Council's fundamental systems.
  - (b) Non-fundamental systems.
  - (c) Corporate governance arrangements to include anti-fraud activity.
  - (d) Other key systems.
  - (e) ICT protocols and controls (Council-wide).
  - (f) Establishment visits.

- (g) Verification and probity audits.
  - (h) Corporate issues as they arise.
  - (i) Level of recommendations agreed for action by management and results of recommendations follow up
  - (j) Performance management.
8. An audit opinion will be given to each audit review, which will inform the Chief Internal Auditor's overall opinion on the Council's system of internal control (paragraph 17 refers).
  9. Regular Interim Assurance reports will be presented to the Audit and Governance Committee, with the Annual Assurance report presented in the June following the financial year to which it relates.

### **Identification of Significant Issues and Risks**

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

### **Provision of the Services**

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

### **Shared Services**

18. Develop and implement in partnership with the Hereford Hospital Trust and The Herefordshire Primary Care Trust a joint externalised framework for delivery of Audit Services and Counter Fraud Services across the partnership, which would be available to other public services within Herefordshire.

### **Resources and Skills**

19. Following the completion of the risk based audit plan, any differences between the plan and resources available will be identified and reported to members as appropriate. The Audit

and Governance Committee will also be informed of audits removed from the plan to align the risk based plan to audit resources available.

20. Each audit assignment will be given a complexity rating and the auditor chosen to complete the assignment will have the required skills as set out in the CIPFA Good Practice Guide to Skills and Competencies. In addition, full managerial support will be given during all audit assignments.

21. **Internal Control Audit Opinion Matrix**

		<b>Overall Opinion</b>	<b>Maximum % Weighting</b>
(a)	Financial standards, which will cover the Council's fundamental systems.		<b>25</b>
(b)	Non-fundamental systems.		<b>5</b>
(c)	Corporate governance arrangements to include anti-fraud activity.		<b>15</b>
(d)	Other key systems.		<b>15</b>
(e)	ICT protocols and controls ( Council –wide)		<b>12</b>
(f)	Establishment visits.		<b>2</b>
(g)	Verification and probity audits.		<b>2</b>
(h)	Other corporate issues as they arise to include external inspections.		<b>3</b>
(i)	Level of recommendations agreed for action by management and results of recommendation follow ups		<b>11</b>
(i)	Performance Management.		<b>10</b>
			<b>100</b>

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

**January 2011**



**AUDIT SERVICES CHARTER  
2010/11**

**Introduction**

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

**Statutory Background**

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

**The Nature of Audit Services**

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

**Audit and Governance Committee**

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

**AUDIT SERVICES CHARTER  
2010/11**

- 4.7 Provide the Chairman of the Committee with a copy of audit review reports with an unsound, unsatisfactory or marginal audit opinion.
- 4.8 Provide the Chairman of the Committee with written confirmation of audit review reports with a satisfactory or good audit opinion.

**Internal Controls**

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

**The Role of Audit Services**

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

**Values of Audit Services**

- 7. The Council expects the Audit Services Team to carry out their function in accordance with the following operational values:
  - 7.1 Demonstrating integrity in all aspects of their work.
  - 7.2 Impartiality in discharging all responsibilities, and not allow bias, prejudice or undue influence to limit or override objectivity.
  - 7.3 Applying knowledge, skills and experience to their work, seeking additional advice and support where necessary to ensure work is carried out competently.

**AUDIT SERVICES CHARTER  
2010/11**

- 7.4 Safeguarding all information received and ensuring no unauthorised disclosure of information unless there is a legal or professional requirement to do so.
- 7.5 Being client focused at all times.
- 7.6 Offering constructive comments and practical solutions.
- 7.7 Being proactive in approach.
- 7.8 Adopting a professional attitude to all tasks.
- 7.9 Being responsive to requests for advice.

**Aim of Audit Services**

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

**Functions of Audit Services**

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

**AUDIT SERVICES CHARTER  
2010/11**

- 9.8 Review service delivery arrangements and projects to ascertain whether the activities are being carried out as planned and the results are consistent with the Council's established policies.
- 9.9 Maintain a programme of review and assessment of the Council's risk management processes in order to provide assurance on their integrity.
- 9.10 Carry out any ad hoc appraisals, inspections, investigations, examinations or reviews requested by senior management or the political executive.
- 9.11 Act as the liaison with the Council's external auditors and coordinate audit effort with the Audit Commission in order to avoid duplication of effort and increase audit coverage.
- 9.12 Develop a shared audit protocol with colleagues in partner organisations in order to avoid duplication of effort and maximise internal audit coverage.
- 9.13 Maintain technical competence through continuing education and active participation in professional activities.
- 9.14 Adhere to the code of ethics, standards and guidelines of the relevant professional institutes and the Auditing Practices Board.
- 9.15 Utilize the resources designated for use by the Audit Services Team to maximise the efficiency and effectiveness of the internal audit function.
- 9.16 Serve on internal working groups as appointed by senior management.

**Independence of Audit Services**

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

**Authority of Audit Services**

- 12. This Charter and the Council's Standing Orders and Financial Regulations confirm the authority conferred on the Audit Services Team by the Council.
- 13. The Chief Internal Auditor and the Audit Services Team have the authority to:
  - 13.1 Decide on the nature, scope and timing of audits.
  - 13.2 Have access at reasonable times to premises or land used by the Council.



**AUDIT SERVICES CHARTER  
2010/11**

- 13.3 Have access at reasonable times to any employee or employee.
  - 13.4 Have access to all assets, records, documents, correspondence and control systems relating to any matter or business of the Council.
  - 13.5 Have any information and explanation considered necessary concerning any matter under examination.
14. The Council's officers are required to assist the Audit Services Team in the performance of their audit duties and to respond promptly to any requests for information, explanation, discussion, entry to premises or access to documents.

**Scope of Audit Services**

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

**Audit Protocol**

17. The Audit Services Team is required to observe the following protocol in carrying out their internal function:
- 17.1 Provide advance notice to the manager of each service area to be audited.
  - 17.2 Conduct a preparatory meeting with the nominated manager of the service being audited to discuss the nature of the audit, the length of engagement and the coordination of the review around operational constraints. The detail of the audit programme will be reviewed at that meeting with the nominated manager in order to ensure proper and thorough audit coverage.
  - 17.3 Conduct interim meetings with the nominated service manager as appropriate to discuss progress with the review and findings as they arise.
  - 17.4 Preparation of a written draft internal audit report following the conclusion of the audit.
  - 17.5 Conduct a final meeting with the nominated service manager to discuss the draft report and confirm the accuracy of the audit findings and the appropriateness of the audit recommendations.
  - 17.6 Agreed amendments to the draft report will be reflected in the final report along with the nominated service manager's response to the

**AUDIT SERVICES CHARTER  
2010/11**

recommendations. Final copies of the report will be distributed as appropriate.

- 17.7 The Head of Service is responsible for making sure that the action plan included in the audit report is implemented.

**The Audit Plan**

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

**Audit Reporting**

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

**Audit Standards**

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

**Deterring and Detecting Fraud**

22. Managing the risk of Fraud and Corruption and the deterrence of fraud is a responsibility of management. The Audit Services Team is responsible for examining and evaluating the adequacy and effectiveness of actions taken by management to fulfil this obligation.
24. The remit of the internal audit function is much wider than prevention of fraud as set out in this Charter. Service managers must also be clear that auditing procedures alone, no matter how professionally they are carried out, cannot guarantee that fraud will be detected.
25. The Director of Resources will decide in consultation with the Chief Internal Auditor the scope of any internal enquiries or investigations, subject to consultation with the relevant member of the Joint Management Team as appropriate.

**Scrutiny Function**

26. The Audit Service is aware of the different role of the Scrutiny functions within the Council i.e to review policy and challenge whether the executive has made the

**AUDIT SERVICES CHARTER  
2010/11**

right decisions to deliver policy goals, Due to the nature of their role their functions are outside the scope of the work of the audit service.

**Monitoring Officer**

27. The Audit Service will support the Monitoring Officer in promoting the benefits of good governance, in addition to promoting the highest ethics and standards across the Council based upon the principles of integrity, objectivity, competence and confidentiality.

**January 2011**





<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 JANUARY 2011</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 Audit and Governance Committee notes the information on invoices rejected.**

### **Introduction and Background**

- 1 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**

---

Further information on the subject of this report is available from  
Mike Toney, Head of Benefit & Exchequer Services on (01432) 260399

- 2 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.
- 3 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 November is an average payment time of 13.72 days with 84.91% of invoices paid within 20 days of receipt and with 53.45% of these paid within 10 days.
- 4 A table showing the number of invoices rejected for the three month period September to November is attached as an appendix to this report.

## **Community Impact**

None

## **Financial Implications**

None

## **Legal Implications**

None

## **Risk Management**

- 5 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**

- 6 Breakdown of Returned Payment Vouchers by Directorate

## **Background Papers**

- 7 Financial Procedure Rules

**APPENDIX**

**BREAKDOWN OF RETURNED PAYMENT VOUCHERS BY DIRECTORATE**

<b><u>Directorate</u></b>	<b>Sept 10</b>	<b>Oct 10</b>	<b>Nov 10</b>
Clinical Leadership & Quality	0	0	0
CYPD	2	2	3
Deputy C.E.	1	1	0
Integrated Commissioning	0	0	0
Provider Services	5	4	0
Resources	1	1	2
Sustainable Communities	2	1	2
Chief Executive	1	0	1
School	1	0	0
Total	<hr/> 13	<hr/> 9	<hr/> 8





<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 JANUARY 2011</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 is required to produce IFRS compliant accounts from 2010/11, with restated comparative data for 2009/10.
- A detailed project plan has been prepared and is attached as Appendix A.
- The CIPFA Guidance notes on the IFRS Code was received on 23 December 2010 and is being reviewed.
- Much of the work on the restated 2009/10 accounts has been undertaken. However, during December resources within Financial Services have been focused on the Local Government Finance Settlement and the deadline of 31 December 2010 for the fully restated accounts was not achieved. The slippage is not considered critical to the overall achievement of the IFRS implementation.

### **Alternative Options**

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

---

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

## **Reasons for Recommendations**

2. Not applicable.

## **Introduction and Background**

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

## **Key Considerations**

4. Since the report to the Audit and Governance Committee on 12 November 2010, the detailed project plan has been updated and is attached as Appendix A.
5. The main areas of progress since the last report have been;
  - Government grants in the 31 March 2009 and 31 March 2010 balance sheets have been restated.
  - The council's contract with Fosca has been reviewed against the IFRS criteria for embedded leases and has been assessed as not containing an embedded lease.
  - Holiday accruals have been calculated for 2008/09 and 2009/10 for schools-based staff and prior year balance sheets restated.
  - Assets requiring re-categorisation have been identified.
6. Working papers for the above have been submitted to the audit commission to be audited.
7. CIPFA has now produced the guidance notes for the IFRS Code, which was received on 23 December. This is a document of 759 pages, which contains the detail behind the IFRS Code, and this is now being reviewed.
8. The target date for restating the 1 April 2009 and 31 March 2010 balance sheets was 31 December 2010, a date set internally rather than to meet an external requirement. Although a substantial amount of the work has been undertaken, the full restatement was not completed by that date. One of the main reasons for this is that the Local Government Settlement announced in December was very complicated and challenging and the accountants have been focussing on analysing the figures and working on the budget position. The slippage is not considered critical to the overall achievement of the IFRS implementation.

## **Community Impact**

9. Not applicable.

## **Financial Implications**

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

## **Legal Implications**

11. None.

## **Risk Management**

12. 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.
13. The successful delivery of unqualified accounts will require greater involvement from non-financial services staff than has previously been the case.
14. 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**

15. None.

## **Appendices**

16. Appendix A – IFRS Detailed Project Plan.

## **Background Papers**

17. 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

General	Action Required	By	Progress to date	Lead role
Transition Balance Sheet / accounts	<ul style="list-style-type: none"> <li>Obtain information required to restate 1 April 2009 balance sheet</li> </ul>	Dec 10	<ul style="list-style-type: none"> <li>Figures for employee benefits, grants and cash equivalents completed.</li> <li>Awaiting further information on some leases</li> <li>Awaiting valuations for properties which have changed categories.</li> <li>Completed tasks submitted to the Audit Commission</li> </ul>	Finance project team/Alison Hext
73	<ul style="list-style-type: none"> <li>Need to prepare transition balance sheet by restating opening 1.4.09 balances for IFRS.</li> </ul>	Dec 10	<ul style="list-style-type: none"> <li>Template prepared and completed as above</li> </ul>	
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> <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	<ul style="list-style-type: none"> <li>Skeleton accounts completed</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		Dec 2010	<ul style="list-style-type: none"> <li>Templates have been set up for the new format IFRS accounts and the restated prior year Statements</li> <li>IFRS skeleton statements completed</li> </ul>	Heather Foster

Key Areas in detail	Action Required	By	Progress to date	Lead role
<p><b>Leases (IAS 17)</b></p> <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> <p>Dec 10</p>	<ul style="list-style-type: none"> <li>• Property list collated and reviewed.</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 have been reviewed. 4 potential school finance leases</li> <li>• Most are operational, a few potential finance leases</li> <li>• A few outstanding leases awaiting property valuations</li> <li>• IFRIC 4 review completed and submitted to Audit Commission</li> <li>• Working papers complete except for the few outstanding leases</li> </ul>	<p>Josie Smith/Lindsey Galbraith Alison Hext</p>

<p><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.</p>	<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>	<p>Nov-09  June 2011</p>	<p>Template completed</p>	<p>Heather Foster  Sarah Curtis</p>
--	---	----------------------------------	---------------------------	---

<p><b>Employee Benefits: (IAS 19)</b>          This IFRS specifically requires Authorities to accrue for untaken holiday entitlement and flexi-leave at year end.</p>	<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 non-schools staff</li> <li>• Estimate and post 2009/10 accruals for school based staff using CIPFA methodology</li> </ul>	<p>July-09  Aug-09 Oct 09 Oct 09 Apr 10 Dec 10  Dec 10</p>	<p>Completed  Completed Completed Completed Completed Calculation completed With audit commission awaiting audit Calculation Completed With audit commission awaiting audit</p>	<p>Julia Hathaway/Linda Bradford</p>
---	---	--	---	--------------------------------------

<p><b>Property, Plant &amp; Equipment</b></p>	<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> <li>• Review asset lives (50 year rule does not apply under IFRS)</li> <li>• Restate 2009/10 transactions where required</li> </ul>	<p>Nov 10</p> <p>Nov 10</p> <p>Aug 10</p> <p>Oct 10</p> <p>Sept 10</p> <p>Dec 10</p> <p>Dec 10</p> <p>Dec 10 Mar 11</p> <p>Aug 2010</p> <p>Dec 10</p>	<p>Component policy completed</p> <p>Elements of spend is being recorded</p> <p>Modern equivalent to be incorporated into annual 20% valuations</p> <p>List reviewed and assets reclassified</p> <p>List confirming revaluations required is completed and awaiting revaluation</p>	<p>Alison Hext</p> <p>Alison Hext</p> <p>Sarah curtis/ Alison Hext</p> <p>Lindsey Galbraith</p> <p>Alison Hext</p> <p>Sarah Curtis/ Alison Hext</p> <p>Alison Hext</p> <p>Alison Hext</p> <p>Alison Hext</p> <p>Alison Hext</p> <p>Alison Hext</p> <p>Alison Hext</p> <p>S Curtis</p>
---	---	---	---	---	---



		Dec 10		
<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> <li>Properties transferred in the year to be re-valued on Transfer (existing use value) and restated under IFRS balance sheet.</li> <li>Restate 2009/10 transactions for revaluations, depreciation and acquisitions</li> </ul>	Dec 10  Dec 10  Dec 10	Fixed Asset Register amended and revaluation reserve restated	Alison Hext/Sarah Curtis  Alison Hext  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> <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> <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  Dec 10  Dec 10  Dec 10	Done  Opening balance sheet amended  Adjustment made	Alison Hext/Sarah Curtis    Sarah Curtis

<p><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&amp;E. There is a clear distinction between Impairment and Revaluation.</p>	<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>	<p>Dec 2010</p>		<p>Sarah Curtis</p>
<p><b>Infrastructure Assets</b> Valuation of infrastructure assets to move to current valuation after 2010/11</p>	<ul style="list-style-type: none"> <li>WGA return for 2009/10 will require gross replacement cost to be identified</li> <li>WGA Return for 2010/11 will require gross replacement cost to be identified for further categories of infrastructure assets</li> </ul>	<p>July 2010 July 2011</p>	<ul style="list-style-type: none"> <li>Completed – only carriageways required.</li> </ul>	<p>Julia Hathaway Julia Hathaway/C live Hall</p>
<p><b>Cashflow statement</b> New format - Simplified headings .Cashflow reconciles cash and cash equivalents rather than liquid resources.</p>	<ul style="list-style-type: none"> <li>Restate 2009/10 cash flow for IFRS format</li> </ul>	<p>Dec-10</p>	<ul style="list-style-type: none"> <li>Template completed</li> </ul>	<p>Heather Foster/Julia Hathaway</p>
<p><b>Group Accounts</b> Accounting for subsidiaries not significantly different to UK GAAP. Definition of associates changed under IAS 28</p>	<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>	<p>Dec-10</p>	<ul style="list-style-type: none"> <li>Reviewed the changes and only one relationship needs re-assessing. Information has been forwarded to Legal.</li> </ul>	<p>Julia Hathaway/Legal Services</p>

<p><b>Grants</b></p> <p>Under IFRS the conditions on which grants are recognised in the revenue account have changed. The Capital Grants Deferred Account no longer exists.</p>	<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> <li>• Review Revenue Grants Carried forward in 08/09 and 09/10. Adjust for treatment under IFRS</li> </ul>	<p>Dec-10</p>	<p>Restatement of capital grants have been completed and submitted to the audit commission for review</p>	<p>Josie Smith</p> <p>Julia Hathaway</p>
---	--	---------------	---	--





<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 JANUARY 2011</b>
<b>TITLE OF REPORT:</b>	<b>AGRESSO PROJECT UPDATE</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

None

### **Purpose**

To provide a briefing on the Agresso project, and the Audit implications as the system nears go-live.

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT the report be noted**

### **Alternative Options**

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

### **Introduction**

1. Agresso is an Enterprise Resource Planning (ERP) system. This integrated computer-based application can be used to manage internal and external resources, including tangible assets, financial resources, materials, and human resources. Its purpose is to facilitate the efficient flow of information between all business functions inside the boundaries of an organization and manage the connections to outside stakeholders.
2. A project is underway to implement Agresso within the Council, Hereford Hospitals the Primary Care Trusts. This report gives an overview of the project, and some detail specifically for the activities that have implications for Audit in the run-up to the 1<sup>st</sup> April 2011 initial go-live.

### **Project Background**

3. Many Commercial and Public Sector organisations have sought to implement ERP systems to help streamline their businesses and consolidate information centrally, thus creating the opportunity to reduce the number of disparate computer and paper-based

systems.

4. For the three clients in Herefordshire, Agresso has been selected to be implemented and is a key enabler for the Shared Services. The table below details the elements of the Agresso system that each of the clients has opted to implement.

Main area of functionality to be implemented/ Client	Financial Ledger (Reporting, Financial Manage)	Payroll	HR	E-procurement (Proactis)	Sales to Cash (Debtors)	Procure to Pay (Creditors)
Herefordshire Council	Yes	Yes	Yes	Yes	Yes	Yes
Hereford Hospitals Trust	Yes	No <sup>1</sup>	No	Yes	Yes	Yes
Primary Care Trust	Yes	No	No	Yes	Yes	Yes

5. For the Council, Agresso provides the opportunity to consolidate previous disparate functions (e.g. bringing Payroll functions together) and streamline existing processes.
6. The new processes and ways of working will need to be reviewed again as further detail about Shared Services (and specifically the Target Operating Model) is agreed and becomes available. This will be post go-live.
7. There are no issues of concern with the Council's existing Financial Ledger system (Cedar) but it does not support future business needs (e.g. Shared Services) as it is not designed as a fully integrated Finance, HR and Payroll system.
8. Cedar's Supplier (COA Solutions) did form part of a competitive tendering process that was undertaken during 2009.
9. Agresso was selected as it offered similar functionality to other products, greater flexibility once installed, and for a lower total cost of ownership than its rivals.
10. For the Council alone the initial go-live will see around 200 users requiring to be trained. Eventually the majority of employees will use Agresso.

## Unit4 (Agresso Supplier)

11. Agresso is an international product marketed by a company called Unit4 which has a

---

<sup>1</sup> The NHS has a national HR (Electronic Staff Record) and Payroll system

range of financial and business system products, and operations in more than 20 Countries.

12. Under the contract with Unit4 the project receives support from the Supplier in a number of forms;
  - Project Management – Unit4’s Project Manager is regularly on-site and is responsible (in conjunction with the local Project Manager) for driving the projects’ activities on a day to day basis.
  - Domain Experts – Unit4 provide experts in a given field to work with local project staff in their various business areas e.g. finance, payroll, HR. This involves designing and building the most efficient business processes, and creating and testing within Agresso.

## **Project Resources**

### **13. People**

As mentioned previously there is a fulltime Project Manager driving the activities on behalf of the three clients. Currently (as it fluctuates with project requirements), also forming part of the project team are;

- Business Analyst – responsible for documenting current processes and helping design new ones.
- Change Lead – responsible for Communications, Training and supporting the clients in making the necessary changes to implement the system
- Business Area Leads – as stated earlier, there are a number of individuals from the business areas working as part of the project team. Currently this numbers 6 full time individuals, plus others who play a formal part in the project team.

### **14. Finance**

The Council’s share of the project budget is £ 2,078,596 and currently forecast spend is within this amount. Some items (e.g. employee self-service) are scheduled to be delivered next Financial Year, and this is budgeted within this figure. Financial updates are received by the Project Board.

## **Build Phase**

15. Agresso in common with all ERP systems is tailored to support the business processes of the organisation. Locally, Solution Design Documents (SDD’s) have been created for each impacted area to detail their requirement and how the system will be used. The SDD’s have been created by a Design Group with comprises of Senior Managers from the business areas, supported by the Project team and Unit4. The SDD is then used in response to configure Agresso accordingly, which is known as the Build Phase.
16. The Council and PCT have opted for an Assisted build, whereby local staff have been seconded into a project team to build and configure Agresso supported by the Supplier when required. Due to compressed timescales, the Hospitals Trust selected a Managed build, whereby Unit4 has been engaged to create the build on their behalf.

17. During the summer of 2011, it is planned that employee Self-Service will be rolled out. An example of this could be an employee claiming expenses or changing their own home address following a domestic move, which should further reduce transaction costs. The Director of Resources will ensure an audit of self service will take place.
18. The benefits of an ERP system can be significant, but are only be achieved if the system supports the organisation as designed. The intention of pre go-live testing is to;
  - identify instances where the system hasn't been built in accordance with the SDD; and
  - establish if the process in the SDD is incorrect, or the system itself is not behaving as designed, or not interacting with other systems as anticipated.

## Testing

19. System testing is crucial to ensure that the system supports the business as anticipated, at several different levels. Testing will seek to ensure that the proposed business processes work efficiently within the system. At a more detailed level, testing will seek to prove that Staff and Suppliers will be paid correctly, and that governance arrangements (e.g. authorisation thresholds) cannot be overridden or circumvented.
20. The usual method of testing is to produce scripts (based on the SDD), which are then executed to evaluate the systems performance. The results of these tests are then recorded. If issues are identified, they are categorised as to their severity and the urgency that resolution is required, and this information is then used to direct local or Unit4's effort. The results of testing can then be used by the organisation to support a decision to go-live.
21. Testing is typically broken into two distinct phases, each phase focusing on different aspects of the implementation.
22. **Integrated System Testing (IST):** These scripts seek to assure the technical aspects of the implementation and the integration with other systems. For instance, whether employees' pay is calculated correctly, the BACS payment file to pay them is correct, and as payslips are printed by Amey, whether the electronic file produced by Agresso can be used by them. Often this testing is undertaken by the project team, and its successful completion is a pre-requisite to the next phase. Each script will be executed a maximum of three times (or cycles).
23. **User Acceptance Testing (UAT):** UAT focuses principally on the Users interaction with the system. It is essential that end-users are fully involved in this phase, and their input is available to help evaluate the potential impact of failures. For some business areas (e.g. Payroll and Finance) releasing staff at the year-end will be a challenge, but achievable by identifying the specific times when individuals are required.
24. The timescales for the testing phases and cycles are shown in the summary plan in Appendix A.

## Data Migration

25. Data will be extracted from 15 systems as they will be decommissioned post go-live. The historic data (i.e. not now actively required) will be archived to fulfil the Council's and NHS operational and legal requirements,



26. Data required for existing employees, suppliers etc will be migrated, and testing will be undertaken to ensure that this migration is accurate and comprehensive. Whilst some of this data can be loaded in the run up to go-live, items such as Debtor balances cannot be loaded until after closure of the legacy system. Where there are several potential sources of data regarding a single entity the business made the decision on a field by field basis which system to choose from. For example an employee's NI number and payscale comes from the payroll system, whereas their job title comes from the HR system.
27. Cleansing of data is being carried out within the existing business functions in preparation for go-live. This is particularly important where data from several systems is being consolidated, as there were initially many inconsistencies and the consequent danger of creating duplicate records.
28. It is vital that the users check the data has been created and loaded in the test system to enable any faults to be fixed before data is loaded into the Live system
29. The timescales for the data migration are very challenging. The users are making good progress on cleansing the data, the final cut of data for HR and Payroll will be taken just before go-live as will the balances for debtors. It will be possible to move some records before this date to ease the pressure of loading all data at the same time.

## Payroll

30. The testing of payroll is done in two different ways to ensure completeness.
31. **Parallel runs;** Firstly there is a separate 'parallel run' environment, into which a complete set of current data is loaded for comparison to the existing payroll system. This includes any new starters, expenses, overtime etc for the month in question. Any differences for any person are identified, and the fault causing the difference rectified.
32. **Specific Scripts;** In addition a full set of scripts have been created, covering scenarios that do not crop up during the parallel runs. For instance, no new part-time, term-time only staff are appointed during the period of the parallel run, or no-one commences paternity leave etc, then these calculations must also be tested.

## Governance

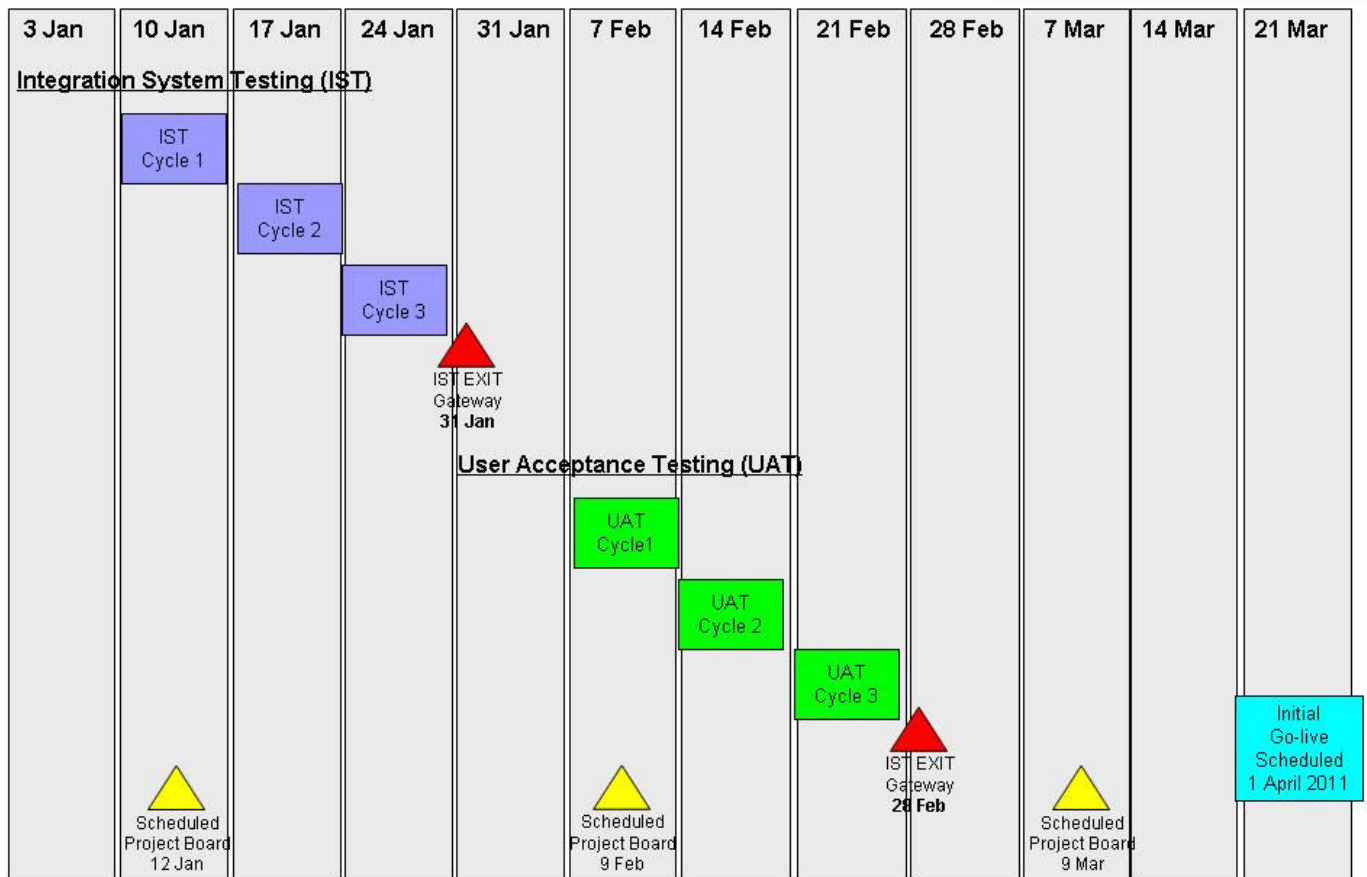
33. The Agresso project forms part of the Streamlining the Business workstream of Rising to the Challenge.
34. There is a Project Board comprising of Directors of Finance and Senior Managers from the three organisations, chaired by David Powell, Director of Resources for the Council. (A full list of Project Board members can be found in Appendix B).
35. The Project Board meets monthly and;
  - receives progress reports from each workstream, and approval is sought for future project activities
  - assesses the risks and issues as they are identified, and agrees mitigating actions if applicable
36. Project Board members also receive a weekly brief (referred to as the Flash report) which

provides a snap-shot of the week's progress and details are new risks that have arisen, or updates on existing risks where pertinent. An example can be found in Appendix C.

37. Once testing commences, each weeks' results will be added to the Flash report to keep the Project Board fully apprised of progress. Also noted on the summary plan, are the monthly Project Board meetings where summary test results will be received and direction sought where applicable.
38. It is likely that if issues are identified during testing, relevant members of the projects Design Group will also be involved to provide immediate guidance and recommendations to the Project Board on their likely business impact.
39. Contingency planning has been undertaken in case elements or all of Agresso is not ready for go-live. This has involved seeking to identify the milestones and direct costs if contracts for existing systems have to be extended. Direction will be sought from Project Board members in the event this is required.

## Appendix A – Summary plan for Testing activities

### Agresso Testing Summary Plan



## Appendix B – List of Agresso Project Board members

Name	Role	Organisation
David Powell	Director of Resources (Chair of Project Board)	Herefordshire Council
Howard Oddy	Director of Finance	Hereford Hospitals Trust
Marcia Pert	Director of Resources	Primary Care Trust
Zack Pandor	Joint Director ICT	Herefordshire Council, Hereford Hospitals Trust and Herefordshire Primary Care Trust
Suzanne Penny	Interim Head of Workforce and OD	Herefordshire Council
Akif Kazi	Shared Services Programme	Herefordshire Council
Jonathan Riches	ISS Implementation Project Manager	Herefordshire Council
Joe Cairney	Project Manager (Agresso)	Unit4
Sue Jones	Professional Services Manager (Agresso)	Unit4
Simon Lind	Connects Programme Manager	Herefordshire Council



	<b>A</b>	Project delays to date have used up available contingency. There is a risk that any further delays could impact on go-live date	Monitor carefully. Director of Resources has agreed to mobilise extra resource if required.
	<b>A</b>	Timescales for delivery of @UK integration are tight.	Ensure any decisions required are made quickly. Keep careful track of progress.
<b>Next Steps</b>	<ul style="list-style-type: none"> <li>Complete test scripting</li> <li>Complete workflow design</li> <li>Interface Design &amp; Build</li> <li>Support team proposal</li> <li>Disaster management strategy</li> <li>Data migration &amp; cleansing tests</li> <li>Explore options for maximising benefit from Version One scanning</li> <li>Finalise Training Strategy &amp; recruit training consultant</li> </ul>		

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17 JANUARY 2011</b>
<b>TITLE OF REPORT:</b>	<b>RISK RECOMMENDATIONS IMPLEMENTATION – PROGRESS REPORT</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To inform the Committee of progress on implementing risk recommendations.

### **Key Decision**

This is not a Key Decision.

### **Recommendation(s)**

**THAT** the progress to date be noted.

### **Key Points Summary**

- The report notes progress on embedding risk management

### **Alternative Options**

- 1 None.

### **Reasons for Recommendations**

- 2 To note improvements in risk management effectiveness.

### **Introduction and Background**

- 3 The Council is obliged to have (and be able to demonstrate) that risk and risk management lies at the heart of its decision making processes.
- 4 The Deputy Chief Executive commissioned Gilbert George (risk consultant) to undertake a review of the Council and NHSH (PCT) existing risk management methodology. The review also looked at links between risk management, governance, assurance and reporting and made recommendations for improved effectiveness. Appendix A is an update on progress

---

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

made to date.

- 5 In order to raise further the profile and importance of risk management a brochure entitled 'Raising Risk Management Awareness' has been produced and circulated to all staff via team briefings (see *Appendix B*).

## **Key Considerations**

- 6 The attached implementation template contains updates on 23 recommendations. The status of the recommendations falls into one of three categories indicating whether they have been implemented or are work in progress or no action has been taken.
- 7 The Raising Risk Management brochure increases awareness by providing a broad awareness of risk management's link to day to day activity. It contains a summary of the partnership approach to risk management. The hierarchy of risk registers and risk escalation criteria is highlighted. It reflects the work to align PCT and council risk management processes.

## **Community Impact**

- 8 None.

## **Financial Implications**

- 9 None identified in respect of process as nominations to posts made within existing resources. Potential financial costs incurred if external trainers used.

## **Legal Implications**

- 10 Describes risk and assurance arrangements to reduce risk of liability and claims

## **Risk Management**

- 11 Describes risk and assurance arrangements

## **Consultees**

- 12 Councillor Bramer, Deputy Chief Executive, Directors, Senior Managers, Corporate Risk Manager and Directorate Risk leads.

## **Appendices**

- A - Risk Management Recommendations Implementation Template
- B - Raising Risk Management Awareness

## **Background Papers**

None identified.



## Risk Management Recommendations Implementation Template

Recommendations (status):	
	Implemented
	Work in progress
	Behind target

No	Recommendations	Action Plan	By Whom	Target Date	Revised Date	Implemented Date	Status
1	<b>PCT</b> - Audit and Assurance Committee to ensure a better balance of time at Audit and Assurance Committee meeting is spent between (Audit/Internal Controls) and (Governance, Risk Management and Assurance) and that the work programme allows sufficient time for review and discussion of Governance, Risk Management and Assurance matters.	<b>PCT</b> – Chairman of the Audit and Assurance Committee in liaison with the Director of Resources to agree agenda and ensure adequate time for full discussion on all Governance matters.	Chairman of Audit and Assurance Committee and Director of Resources	Nov-10	Mar-11		It has been agreed that a more objective review will be undertaken by moving date for assessment to the end of the financial year.
2	<b>PCT</b> - current subcommittees – The Terms of Reference (ToR) of all PCT sub-committees be amended to include responsibility for reviewing and challenging significant risks (15 and above), controls and action plans extracted from directorate risk registers where sub-committee direct oversight: Audit and Assurance Committee; Performance & Quality Committee; Health and Social Care Programme; Board; Clinical Reference Group (PEC); Charitable Funds Committee; Remuneration Committee and Provider Board	<b>PCT</b> – (1) Board Secretary to liaise with Chairs of subcommittees and advisory groups and inform them of Board approval of recommendation. (2) Sub-committees and advisory groups Terms of Reference to be amended by Board Secretary in line with recommendation. (3) Directorate risk champion(s) to be responsible for making available risk registers populated by high level risks 15> for scrutiny and review by subcommittees.	Board Secretary	Dec-10	Feb-11		(1) Sub-committee Chairs informed (2) Sub-committees and advisory groups Terms of Reference amended (3) Availability of risk registers at subcommittees monitoring to be extended to February 2011
3	<b>PCT</b> - Pro-forma risk template - Embed practice of Board Assurance Pro-Forma template usage at all sub-committees and advisory groups for capturing new risks and issuing to the Board Secretary for escalation.	<b>PCT</b> - Board Secretary to ensure all Chairs of subcommittees understand process and monitor adherence.	Board Secretary	Sep-10	Oct-10	Oct-10	Implemented - Updated Pro-Forma template issued by Board Secretary

No	Recommendations	Action Plan	By Whom	Target Date	Revised Date	Implemented Date	Status
4	<p>PCT &amp; Council - A Corporate Risk Management Group (CRMG) to be established to review risks across Herefordshire Public Service Partnership, reporting to the Herefordshire Public Services Steering Group and JMT.</p>	<p><b>Council &amp; PCT</b> - The Performance Improvement Network (PIN) group to be responsible for identifying and reviewing risks across Herefordshire Public Service Partnership, liaising with the nominated Corporate Governance Manager and reporting to the Herefordshire Public Services Steering Group and JMT using the Partnership Assurance Framework (PAF).</p>	Deputy Chief Executive	Nov-10		Nov-10	Implemented - Partnership Assurance Framework presented to JMT 9 Nov and HPS 23 Nov.
5	<p>PCT &amp; Council - All Directors to be responsible for ensuring that their directorate risk registers are a standing item at all Directorate Team Meetings and that all risks are assigned owners and associated action plans are reviewed. <b>all risk discussions must be minuted</b></p>	<p>Directorate risk leads to ensure Risk Registers are a standing item at Directorate team meetings.</p>	Directors	Sep-10		Sep-10	Implemented
6	<p>PCT &amp; Council - (6a) Directorate risk leads - each directorate and project team must have a nominated risk register lead who will have the role of championing risk awareness and overseeing the directorate/project risk register, with the full support of the relevant Director. Each director must effectively communicate risk management arrangements to all staff in their directorate. (6b) Risk management brochure to be distributed to raise risk awareness within PCT and Council. (6c) Risk leads to be gatekeepers of directorate risk registers.</p>	<p>PCT (a) Inform all Directorate Risk Champions and project leads of recommendations approved by the Board. (b) Design risk management brochure. (c) Risk leads to be informed of role.</p>	Risk Consultant	Sep-10	Dec-10	Dec-10	Implemented

No	Recommendations	Action Plan	By Whom	Target Date	Revised Date	Implemented Date	Status
7	<b>PCT &amp; Council</b> - PCT Board /Cabinet Members – to undertake bi-annual refresher training in both risk and performance management. Induction programme must include risk management for new PCT Board Members.	Risk management training programme to be designed.	Nominated Corporate Governance Manager, Democratic Services Manager, PCT Board Secretary and HR Learning Training and Development Team -	Dec 2011 / Jan 2012			The Modern Council e-induction package is used for new Elected Members. The Democratic Services Manager will address any specific learning needs in this area for Cabinet Members. The Board Secretary will review the levels of training received to date, with NEDs and agree on a programme.
8	<b>PCT &amp; Council Staff</b> – a comprehensive, mandatory training on an annual refresher basis for all Directors and Senior Managers in the principles and processes relating to risk and performance management including project and partnership risks, understanding risk tolerance. In addition these disciplines need to be incorporated within the induction training programme.	Risk management training programme to be designed.	HR Learning Training and Development (Liz Wallace HR)	Apr-11			From 2011 a standards-based induction for Provider Services/ICO managers will include risk assessment and performance management. This induction can be extended to new Council/PCT managers (pending review). E-learning will be explored for on-going and refresher training
9	<b>PCT &amp; Council</b> Corporate Governance Manager to be nominated supporting both PCT and Council in wide ranging governance matters covering (within existing resources): Corporate governance, Clinical governance, Risk management, Financial governance, Information governance, Staff governance; and Inter organizational (Partnership).	Implementation dependent on reorganisation structure Agree options with relevant Services, taking account of other governance functions across HPS.	Deputy Chief Executive	Sep-10	Feb-11		Interim risk arrangements in place - a resilience limit is being created to strengthen risk management and assurance capacity.
10	<b>PCT Board Assurance Framework (BAF)</b> – ‘the Board Secretary’ will continue to be responsible for maintaining and reporting the BAF to the PCT Board, Audit and Assurance and JMT, pending organizational management review	Continuation of existing arrangements.	Board Secretary	Sep-10		Sep-10	Implemented- Board Secretary informed 16 Sep 2010

No	Recommendations	Action Plan	By Whom	Target Date	Revised Date	Implemented Date	Status
11	<b>PCT &amp; Council</b> - At the end of each financial year each director will be required to complete an internal risk management evaluation of their directorate for review by the PCT Audit and Assurance Committee and Council Audit and Governance Committee. Risk management evaluation will also form part of Directors' performance appraisal overseen by the Chief Executive.	Directors to be informed of the process.	Chief Executive	Apr-11			Chief Executive Office is leading on the implementation liaising with Chief Executive, Deputy Chief Executive and Directors
12	<b>PCT</b> - The Corporate Risk Register to be kept up to date by Executive Directors and the register to be reviewed by: Board (quarterly) Audit and Assurance Committee (every meeting) Joint Management Team (exception reporting)	Directors to fully understand risk escalation process and review Corporate Risk Registers frequently.	Board Secretary	Sep-10		Sep-10	Implemented - Corporate risk register now incorporated into Board Assurance Framework
13	<b>PCT</b> - Board members to have access to the BAF and a process to be established for raising any new risks outside of any formal Board meeting via the Board Secretary.	Updated BAF to be issued to Board members after each Board meeting and procedure established to enable Board members to update BAF outside formal meetings.	Board Secretary	Sep-10		Sep-10	Implemented
14	<b>PCT &amp; Council</b> - All formal projects ( <i>those with objectives, milestones, outputs, outcomes, time and resources constraints</i> ) to have, as a standing item on their agendas - the review of their project risk register.	<b>PCT</b> - Director(s) who sponsor projects to communicate recommendation and monitor adherence.	Appropriate Director	Sep-10		Sep-10	Implemented
15	<b>PCT &amp; Council</b> - Audit trail of changes to risk registers to be maintained by directorate risk leads and key issues reported to the Directorate Management Team as necessary.	Risk leads to collaborate and design simple process of maintaining changes to risk registers.	Directorate Risk Leads	Sep-10	Dec-10	Dec-10	Implemented - Risk registers redesigned to automatically log any changes made to registers
16	<b>PCT &amp; Council</b> should accelerate the development of Performance Plus for corporate performance and risk reporting and also develop an integrated Performance and Risk Management Framework.	<b>PCT</b> - Review of project milestone	Deputy Chief Executive	Sep-10	Apr-11		JMT have discussed development of Performance Plus and reviewed implementation plans.

No	Recommendations	Action Plan	By Whom	Target Date	Revised Date	Implemented Date	Status
17	<p><b>PCT</b> – An annual Board workshop should be held to review strategic objectives. Commissioning desired outcomes and associated risks and agree top strategic objectives and associated risks (<i>in view of the pace of change in the external environment workshop may be required to be held half yearly</i>).</p> <p><b>Council</b> – An annual Cabinet workshop should be held to review strategic objectives and associated risks in light of changing external environment and agree top strategic objectives and associated risks (in view of the pace of change in the external environment workshop may be required to be held half yearly).</p>	<p>PCT- Agreement to be reached between Chair / Chief Executive / Deputy Chief Executive and workshop to be designed.</p>	<p>Chair / Chief Executive / Deputy Chief Executive / Board Secretary</p>	<p>Sep/Oct 2010</p>	<p>Feb-11</p>		<p>Cabinet Members and Board Members meet regularly to review risks (HPS Steering Group)</p>
18	<p><b>Council</b> - To enable further integration of process and procedures in line with the PCT and to provide a consistent basis for reporting strategic risks the Council Assurance Framework (CAF) to be developed.</p>	<p>Council Assurance Framework to be developed</p>	<p>Corporate Risk Manager</p>	<p>Sep-10</p>	<p>Dec-10</p>	<p>Dec-10</p>	<p>Implemented</p>
19	<p><b>Council</b> – All directorates to comply with Risk Management and Assurance Guidance particularly risk register formats, compliance review to be undertaken by the Council Corporate Risk Manager.</p>	<p>Review of all Council risk registers to be undertaken for compliance with risk guidance</p>	<p>Corporate Risk Manager</p>	<p>Oct-10</p>	<p>Jan-11</p>	<p>Jan-11</p>	<p>Review undertaken; the majority of registers comply with approved format and work is underway for full compliance by all directorates by Jan 2011</p>
20	<p><b>Council</b> – Adopts the PCT Assurance Proforma Template for use at its Overview and Scrutiny Committees for identifying risks.</p>	<p>Chairs of Overview and Scrutiny Committees to be briefed liaising with executive staff member servicing committee</p>	<p>Corporate Risk Manager</p>	<p>Dec-10</p>	<p>Jan-11</p>	<p>Jan-11</p>	<p>Discussions held with Councillor Bramer on developing a light touch approach of identifying risks at Overview and Scrutiny Committee meetings.</p>

No	Recommendations	Action Plan	By Whom	Target Date	Revised Date	Implemented Date	Status
27	<p><b>PCT - Risk Management</b> must be an integral element of all new business areas / programme / projects, new business areas must apply a six - step process:</p> <ol style="list-style-type: none"> <li>1 Nominate a risk lead for the business area, assessing individuals' expertise, experience, capabilities and skills in risk management</li> <li>2 Gather quality information on risks identified</li> <li>3 Assess potential impact of risk using PCT risk scoring methodology</li> <li>4 Interpreting risk and causation</li> <li>5 Consider risk opportunities</li> <li>6 On large projects where there are a number of actions to mitigate against a risk, a cost benefit analysis be undertaken to inform the decision making process on the most appropriate action plan to be implemented (detailed guidance to be drafted and issued to all project and programme managers setting out criteria including definition of large projects).</li> </ol>	<p>PCT – Council's Corporate Programmes team Risk Management guidance for projects and programmes be adopted. On large projects (to be defined by nominated Corporate Governance Manager) where there are a number of actions to mitigate against a risk that a cost benefit analysis be undertaken to inform the decision making process on the most appropriate action plan to be implemented (Council's Corporate Programmes team to be engaged for support).</p>	Corporate Governance Manager	Nov-10	Mar-11		All nominated directorate risk leads to monitor compliance and report to their Director March 2011
22	<p><b>Herefordshire Partnership Steering Group – To</b> identify new partnership risks.</p>	<p>Herefordshire Partnership Services adopts PCT Assurance Pro-Forma templates and procedure established for communicating risks.</p>	Democratic Services Manager	Nov-10		Nov-10	Implemented

No	Recommendations	Action Plan	By Whom	Target Date	Revised Date	Implemented Date	Status
23	<p>(a) <b>Council</b> – Risk opportunities on the works and services delivered through the Amey partnership are further explored; this requires the council's client team to continue with the gathering of quality data on works performance and cost by widening the sources of data that enable the proper scrutiny and challenge to Amey's costings.</p> <p>(b) <b>Council</b> – The opportunity to extend the scope of the Managing Agent Contract (MAC) contract arrangements with Amey should be explored to capture the potential for further savings, improvements in performance and are enhancements in value for money through extending the better control of cost and effective risk management to a wider range of services.</p> <p>(c) <b>Council</b> – The opportunity to extend the best practice demonstrated in the contract management practices that are in place to manage the Amey partnership to other key partnerships should also be explored, thereby ensuring that risk is properly understood and managed in all key partnerships and the potential for financial savings and improved performance in other areas of service are truly realised.</p>	<p>Council –</p> <p>(a) Amey's council's client team to continue with the gathering of quality data on works performance and cost.</p> <p>(b) Undertake scoping work where Managing Agent Contract (MAC) contract may be extended for both Council and PCT.</p> <p>(c) Explore best practice adoption in other partnership arrangements across Council and PCT.</p>	Highway Network Manager - Clive Hall	Nov-10	Jan-11		Benchmarking is underway and wider market place costings are being developed along with the direct cost information coming from Amey, in some areas there is still work to do to confirm who to compare with and how that might best be done.

updated 07 Jan 2011





# Raising Risk Management Awareness



---

## Foreword

No matter what our role within the council or the Primary Care Trust, risk management is central to what we do. The aim of this brochure is to raise risk awareness amongst all employees and to provide some practical advice on how to identify and to manage risks.

Managing risk is an essential element of all our jobs. It informs decision making, how we deliver services and how we manage change, such as through "Rising to the Challenge". Effective risk management increases the probability of success in achieving our aims and reduces both the probability of failure and the uncertainty of achieving our aims.

While risk is often regarded as a negative thing, risk management is as much about exploiting potential opportunities as preventing problems. Risk management is, therefore, a dynamic management tool and an aid in our decision making process. This will be even more important following the recent comprehensive spending review, where tough choices need to be made. We must be constantly aware of the risks associated with our decision making as we aim to demonstrate effective and efficient use of resources and ensure the timely delivery of high quality services.

In recent months, much work has been undertaken to improve the effectiveness of how we manage risks and to align PCT and council risk management processes. These new processes are fully supported by both the PCT Board and the council's Cabinet. We now need to raise awareness of the importance of risk management and the new arrangements, so that we can create a strong risk culture where everybody in the council and PCT understands the role they have to play.

This brochure provides a summary of the partnership approach to risk management. It highlights the hierarchy of risk registers and risk escalation criteria, and it also emphasises our approach to an open risk management culture.

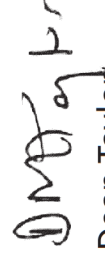
We recognise that risk management is a continuous journey of improvement and encourage all employees to take a few minutes to familiarise themselves with the contents of this brochure. Any views on how we can improve our approach to risk management will be very welcome.



**Philip Ashurst**  
**Chair of the PCT Audit and Governance**



**Councillor Bramer**  
**Cabinet**



**Dean Taylor**  
**Deputy Chief Executive**

---

## Risk management

This document aims to raise awareness and our partnership approach to risk management.

### **So what is risk management – How does it apply to me?**

Risk management is not a new science. In its simplest form it is about asking ourselves the question “What will prevent me from achieving personal/team/directorate/corporate objectives, and what can I do about it?” This question helps us identify and formulate action plans.

### **Why manage risks?**

Failure to manage risk effectively may result in financial losses, disruption to services, threats to public health and safety, bad publicity (harm to our reputation) or claims for compensation, or in extreme cases corporate manslaughter charges.

### **Risk management encompasses:**

- Understanding personal/team/corporate objectives
- Being able to identify, assess and prioritise risks
- Assessing the likelihood and the impact of the risk coming to fruition
- The need to put in place actions to mitigate risks and monitor and review their progress

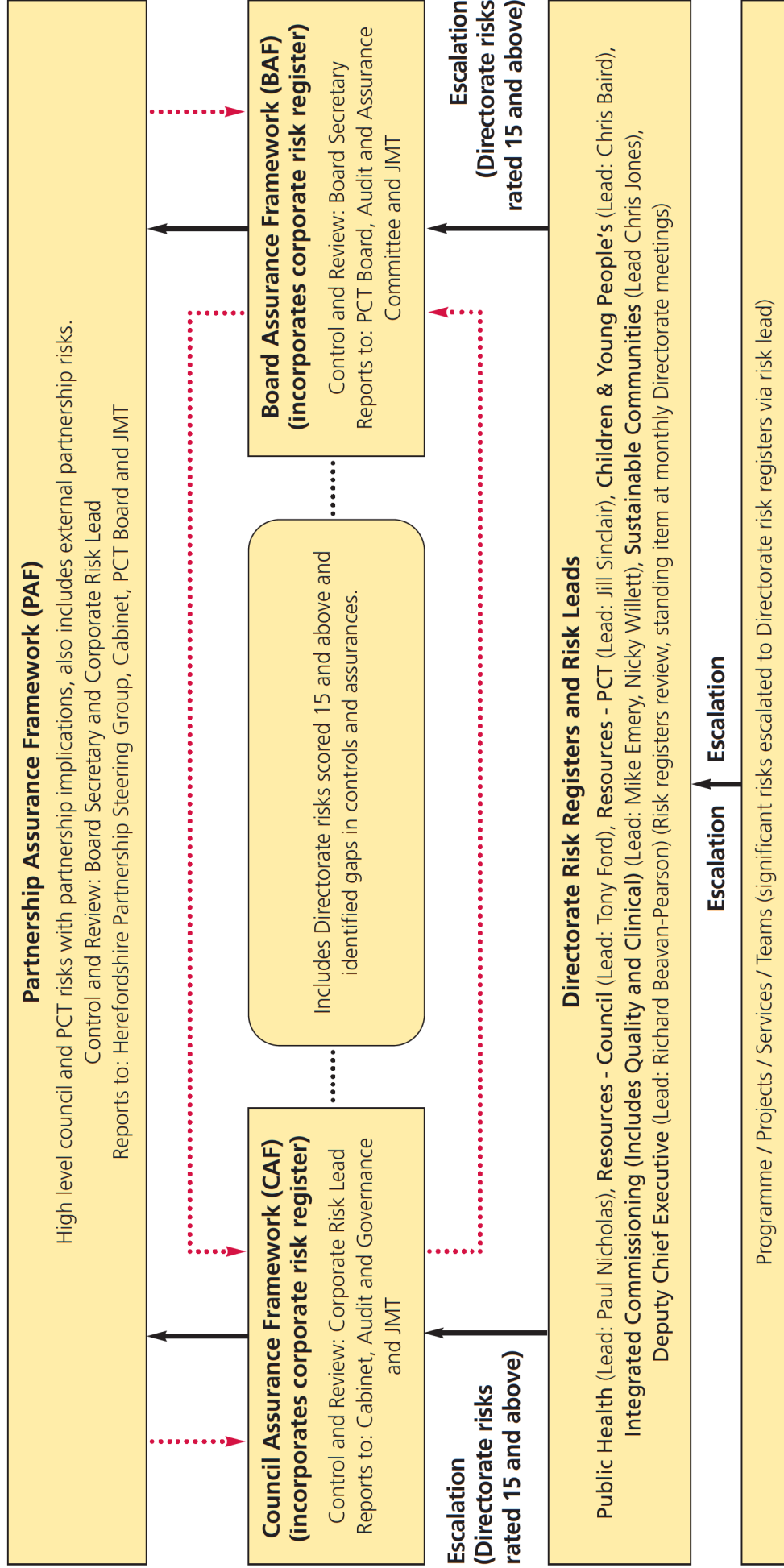
### **How do we manage risk?**

- All staff knowing procedure for reporting risks
- Ensure that risks are recognised and dealt with promptly wherever possible
- Review assurance framework, directorate risk registers on a timely basis
- Ensure that policies and procedures are developed, implemented and properly followed
- Open communications about our risks
- Develop a risk aware culture

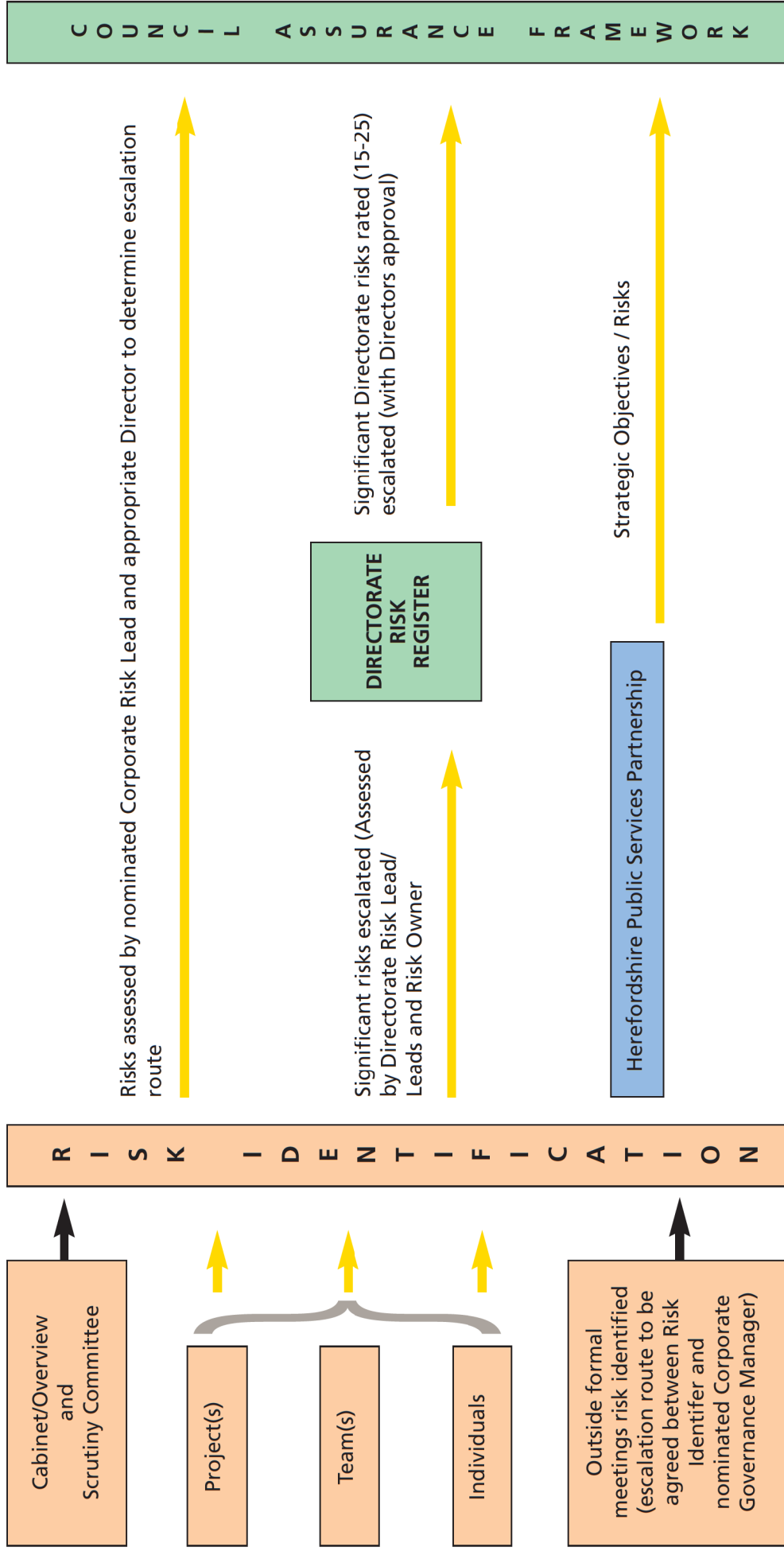
### **What you need to do:**

- Familiarise yourself with:
  - Herefordshire Risk Management and Assurance Policy  
[http://hcsp/DocumentLibrary/LegalServices/Documents/Risk%20Management/HPS\\_Risk\\_Management\\_and\\_Assurance\\_Policy\\_October\\_2009.doc](http://hcsp/DocumentLibrary/LegalServices/Documents/Risk%20Management/HPS_Risk_Management_and_Assurance_Policy_October_2009.doc)
  - Herefordshire Risk Management Guidance  
[http://hcsp/DocumentLibrary/LegalServices/Documents/Risk%20Management/HPS\\_Risk\\_Management\\_and\\_Assurance\\_Guidance\\_August\\_2009.doc](http://hcsp/DocumentLibrary/LegalServices/Documents/Risk%20Management/HPS_Risk_Management_and_Assurance_Guidance_August_2009.doc)
- Risk Leads Guidance (Hyperlink to follow)
- Risk Register Format (See page 8)
- Identify risks and develop action plans
- Make contact with your nominated risk leads on any aspect of risk management
- Attend internal corporate risk training courses

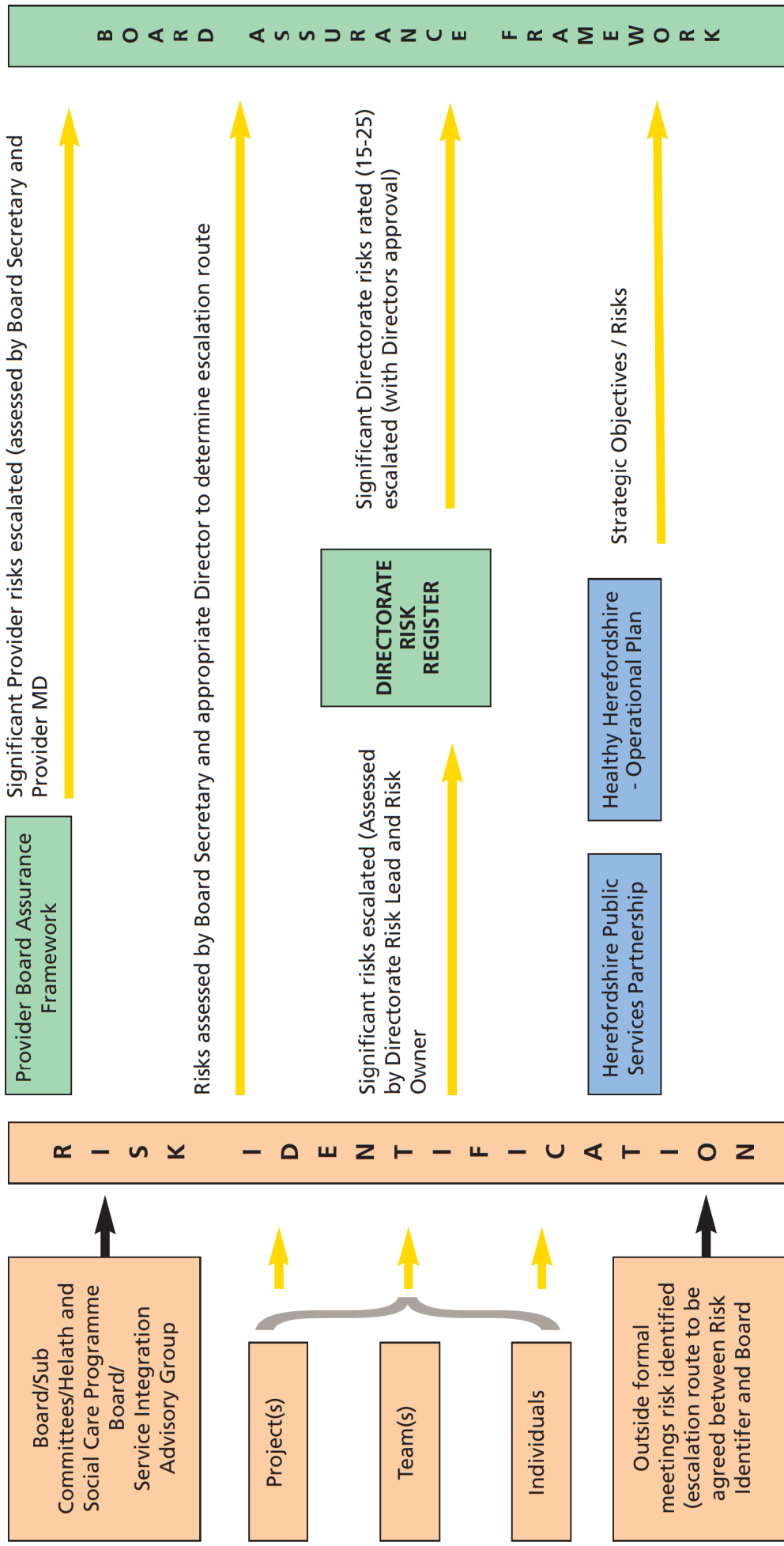
# Council & PCT risk register hierarchy



# Council Risk Escalation Flowchart



# PCT Risk Escalation Flowchart





## Council and PCT Risk Scoring Matrix Description and definitions of LIKELIHOOD of RISK occurring and IMPACT:

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

### Description and definitions of IMPACT/SEVERITY of RISK occurring (examples):

Consequence Types	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Catastrophic
People (including patients, staff, carers and visitors)	No injury	Short term harm Will resolve in a month. First aid treatment required	Semi-permanent harm. Should resolve in a year. Medical treatment required	Permanent or long term harm. Jeopardise well being – abuse, neglect assault. Loss of a service	Single or multiple fatalities
Delivery of services/strategic	No impact on ability to operate local services	Could threaten the efficiency or effectiveness of some services, but dealt with internally	Severe disruption to a service. Non achievement of local delivery plan	Loss of rating indicators/reduction in score in national performance review	Threatens the viability of the organisation

The risk rating equals LIKELIHOOD (5) x IMPACT/SEVERITY (4) = RATING (20)

# Risk Register (extended)

Corporate/Directorate/Services/Project:  
Chief Executive/Director/HOS/Project Owner:

<b>*Risk Rating:</b>	
Extreme	15 to 25
High	8 to 12
Moderate	4 to 6
Low	1 to 3

Risk Reference Number	Council PCT Service Programme Project Objective	INSERT (letter) P - PCT C - Council J - Joint	Risk Description	Risk Rating before Controls			Existing Controls in Place	**Assurances on Controls	Risk Rating after Controls			Positive Assurance Y/N	Gaps in Controls/ Assurance	Corrective Action/Action Plan (incl cost of mitigation)	Key Dates & Timescales	Risk Owner (Name & Title)
				Likelihood (Probability)	Consequence (Severity)	Risk Score			Likelihood (Probability)	Consequence (Severity)	Residual Risk Score					
				0	0	0			0	0	0					
				0	0	0			0	0	0					
				0	0	0			0	0	0					
				0	0	0			0	0	0					
				0	0	0			0	0	0					

Reviewed by:	
Date reviewed:	

\*The risk rating matrix (example)

LIKELIHOOD (L)	CONSEQUENCE (C)	RATING (L*C)
5 Certain	X 5 Catastrophic	25 - Extreme
4 Likely	X 4 Major	16 - Extreme
3 Possible	X 3 Moderate	9 - High
2 Unlikely	X 2 Minor	4 - Moderate
1 Rare	X 1 Insignificant	2 - Low

<b>**Review that identified actions are completed - Assurance:</b>	
Internal sources of assistance (example)	External sources of assurance (examples)
Internal audit Key Performance indicators Performance reports Sub-committee reports	External audit Audit Commission Strategic health authority reports/reviews External benchmarking

<b>***Positive - Assurance</b>
Review confirms controls are in place and are operating satisfactory