

AGENDA

Audit and Governance Committee

Date: **Friday 27 January 2012**

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:

Pete Martens, Committee Manager

Tel: 01432 260248

Email: pmartens@herefordshire.gov.uk

If you would like help to understand this document, or would like it in another format, please call Pete Martens, Committee Manager on 01432 260248 or e-mail pmartens@herefordshire.gov.uk in advance of the meeting.

Agenda for the Meeting of the Audit and Governance Committee

Membership

Chairman
Vice-Chairman

Councillor J Stone
Councillor JW Millar

Councillor CNH Attwood
Councillor EMK Chave
Councillor PGH Cutter
Councillor KS Guthrie
Councillor AJ Hempton-Smith
Councillor TM James
Councillor Brig P Jones CBE
Councillor PJ McCaull

GUIDANCE ON DECLARING PERSONAL AND PREJUDICIAL INTERESTS AT MEETINGS

What is a personal interest?

You have a personal interest in a matter if that matter affects the well-being or financial position of you, your relatives or people with whom you have a close personal association more than it would affect the majority of other people in the ward(s) to which the matter relates.

A personal interest can affect you, your relatives or people with whom you have a close personal association positively or negatively. If you or they would stand to lose by the decision, you should also declare it.

You also have a personal interest in a matter if it relates to any interests, which you must register.

What do I need to do if I have a personal interest?

You must declare it when you get to the item on the agenda headed "Declarations of Interest" or as soon as it becomes apparent to you. You may still speak and vote unless it is a prejudicial interest.

If a matter affects a body to which you have been appointed by the authority, or a body exercising functions of a public nature, you only need declare the interest if you are going to speak on the matter.

What is a prejudicial interest?

You have a prejudicial interest in a matter if;

- a) a member of the public, who knows the relevant facts, would reasonably think your personal interest is so significant that it is likely to prejudice your judgment of the public interest; and
- b) the matter affects your financial interests or relates to a licensing or regulatory matter; and
- c) the interest does not fall within one of the exempt categories at paragraph 10(2)(c) of the Code of Conduct.

What do I need to do if I have a prejudicial interest?

If you have a prejudicial interest you must withdraw from the meeting. However, under paragraph 12(2) of the Code of Conduct, if members of the public are allowed to make representations, give evidence or answer questions about that matter, you may also make representations as if you were a member of the public. However, you must withdraw from the meeting once you have made your representations and before any debate starts.

AGENDA

	Pages
1. APOLOGIES FOR ABSENCE To receive apologies for absence.	
2. NAMED SUBSTITUTES (IF ANY) To receive details any details of Members nominated to attend the meeting in place of a Member of the Committee.	
3. DECLARATIONS OF INTEREST To receive any declarations of interest by Members in respect of items on the Agenda.	
4. MINUTES To approve and sign the Minutes of the meeting held on 10th November 2011.	1 - 4
5. THE CONSTITUTION - NEW GOVERNANCE ARRANGEMENTS To note and welcome the new membership of the Committee; and to consider the arrangements that need to be put in place to recommend any future changes that are necessary to the Constitution.	5 - 14
6. INTERNAL AUDIT PROGRESS 2011/12 To note the progress of internal audit work and any key internal control issues arising from work recently completed.	15 - 22
7. DATE OF NEXT MEETING 9th March 2012 at 10:00 am.	

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 Thursday 10 November 2011 at 2.00 pm

Present: Councillor J Stone (Chairman)
Councillor JW Millar (Vice Chairman)

Councillors: CNH Attwood, EMK Chave, KS Guthrie, Brig P Jones CBE and PJ McCaull

In attendance: Councillor TM James

80. APOLOGIES FOR ABSENCE

Apologies for absence were received from Dr Phillip Ashurst, Non-Executive Director NHS Herefordshire.

81. NAMED SUBSTITUTES (IF ANY)

There were no named substitutes present at the meeting.

82. DECLARATIONS OF INTEREST

There were no declarations of interest made at the meeting.

83. MINUTES

RESOLVED: That the minutes of the meeting held on 29 September 2011 be approved as a correct record and signed by the Chairman, subject to the following amendments:

Minute 77(Statement of Accounts) the addition of reference to:

- reference made to the auditing of the Amey Contract;
- potential error which could impact on the revenue account;
- comparison with other authorities about benchmarking of borrowing;
- clarification of the grading levels eg "satisfactory", "adequate" or "not adequate" with a glossary or legend to indicate progress - Chief Officer Finance and Commercial to write to Members about this

84. ANUAL AUDIT LETTER 2010/2011

The Chairman welcomed the District Auditor, Liz Cave, and the Auditor, Terry Tobin, to the meeting.

The Chief Officer Finance and Commercial presented a report about the Audit Commission's Annual Audit Letter for 2010/11. The letter provided the audit was comprised of 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 had received an unqualified opinion. The letter also provided confirmation that the Council had managed the implementation of International Financial Reporting Standards (IFRS) extremely well.

The Chief Officer Finance and Commercial said that an Action Plan would be prepared through the Council's Leadership Team and submitted to the Committee in January 2012.

Liz Cave, the District Auditor, said that there had been a positive outcome of the audit of the Council's accounts. The Council's financial resilience procedures arrangements had been found to be good in the medium term and demonstrated robust management arrangements. The Council had been able to adequately absorb the overspend in social care had from its reserves. Local Government had the on-going problem of being faced with increasing pressure on public finances but decreasing levels of grant from the Government. It was therefore essential for the Council to ensure that adequate provision was made for Cabinet to be provided with regular progress reports on the savings being achieved in individual services and also for benefit cards to be more specific.

The increasing need for supporting the elderly in Herefordshire had led to overspend. The District Auditor felt that the Council had made good progress in developing its procedures and how the processes were managed but that it also needed to concentrate on outcomes and adequate budgetary provision. The felt that the Council's financial resilience management arrangements were sound and the overspend on social care had been adequately absorbed from reserves. There would however be increasing financial pressures and it needed to be made clear to Members what the reserves were and what they could be used for, rather than reducing spending. Although the reporting levels were good, monthly reports should be provided to Cabinet on the matter. The potential overspend needed to be carefully monitored and managed.

The Chairman thanked the District Auditor for her assessment and guidance and Members asked a number of questions including the role of the Committee and what the expectations were of its Members. The committee also sought guidance on whether the progress reports were to be submitted to Cabinet or also the Committee and all Members. The Chief Officer Finance and Commercial explained that the role of the Committee centred on the Audit & Governance Action Plan and whether it was being effectively delivered. Details about the Council's budget fell within the remit of Cabinet with input from Overview and Scrutiny where appropriate. Members had been sent a letter from the Head Law Governance and Resilience about proposals which would be submitted to forthcoming Council recommending expanding the role of the Committee to review the Constitution. It would also be recommended that the membership of the Committee should be increased to better enable it to fulfil this role.

Members noted the new role of the Committee and discussed the most effective way in which it could fulfil its role in dealing with the Action Plan. In particular it was felt to be important that the Committee should be able to:

- review the robustness of the Action Plan, view trends and be assured that the necessary actions were being undertaken;
- receive assurance that specific recommendations which were approved were subsequently being carried out;
- ensure that the appropriate officers could attend meetings to further explain the progress of matters;

- be provided with an overview of action being taken to reduce costs but maintain good service provision;
- be informed that planned savings were being achieved;
- be able to review the effectiveness of the Action Plan during the course of forthcoming meetings;

Other aspects set out within the Annual Audit Letter which the Committee felt to need careful monitoring included:

- expenditure commitments prior to the Council's Social Care system Framework i being fully implemented;
- careful financial management of the areas identified to be at risk due to financial pressures and adequate arrangements to deal with the associated risks.

The Chief Officer Finance and Commercial provided the Committee with further information about the measures that had been put in place to deal with the areas of concern to Committee and outlined the recovery plan which had been developed.

Having considered the various aspects of the report of the Chief Officer Finance and Commercial it was:

RESOLVED THAT:

The Annual Audit Letter is noted.

85. INTERNAL AUDIT PROGRESS 2011/12

The Interim Internal Audit Manager provided the Committee with an update of the main activities of the Council's Audit Section and was pleased to report that all those areas studied had been giving assurances or substantial assurances about their efficiency and effectiveness. There were some twenty reviews underway at the moment including community pfi, Halo and the Amey contract. One member of staff had been seconded to Hoople (the shared services organisation) and this may result in the need for additional staffing support being obtained from KPMG if found to be necessary. He said that a progress report would be submitted to the next meeting of the Committee in January 2012.

86. FORTHCOMING MEETINGS

The dates of forthcoming meetings are:

27th January 2012

9th March 2012

The meeting ended at 3.15 pm

CHAIRMAN

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	27 JANUARY 2012
TITLE OF REPORT:	THE CONSTITUTION – NEW GOVERNANCE ARRANGEMENTS
REPORT BY:	ASSISTANT DIRECTOR LAW GOVERNANCE AND RESILIENCE

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To note and welcome the new membership of the Committee; and to consider the arrangements that need to be put in place to recommend any future changes that are necessary to the Constitution

Recommendations

THAT:

- (a) **the new membership of the Committee and its new responsibilities be noted;**
- (b) **the Committee gives consideration to the way it wishes to deal with proposed changes to the Constitution; and**
- (c) **provision be made in the work programme of the Committee to deal with proposed changes to the Constitution.**

Key Points Summary

- A major review of the Constitution has been undertaken by the former Constitution Review Working Group but it is likely that further changes will be required periodically.
- At its meeting on 18th November 2011, Council decided that ownership of such changes should be passed to the Audit and Governance Committee to make recommendations to the Council as appropriate.
- the Committee has been increased from seven to ten seats to cater for the new arrangements and Councillors PGH Cutter; AJ Hempton-Smith and TM James are welcomed as the new Members.

Further information on the subject of this report is available from
Pete Martens Committee Manager on (01432) 260248

- The Standards Committee is investigating the arrangements which can be introduced to deal with complaints about Councillors when the current standards regime comes to an end as required under the Localism Act 2011.
- One of the proposals from the Standards Committee is that a Standards Panel be created to hear complaints and for a report about the findings to be referred to the Audit and Governance Committee in cases involving a complaint about a Member of the Council. The proposals will be the subject of a report to Council and the Audit and Governance Committee will be informed of the outcome.

Alternative Options

- 1 Council has previously considered the alternative options. Continuing with the CRWG was felt to be less transparent and would not be subject to public access, the Access to Information Rules or the rules guaranteeing political proportionality.
2. Another option would have been for the Constitution to have been given to the Standards Committee. The future of this Committee is still to be determined in the light of changes to the Standards Regime which will be introduced by the Localism Act 2011 when it comes into force.
3. The third option would have been to create a specialised Audit Committee with a small number of members, with governance and the Constitution becoming the responsibility of a larger Governance and Constitution Committee. This would have meant an extra committee and an extra chairman's allowance

Reasons for Recommendations

4. To enable the Committee to note the new arrangements and decide on how it wishes to consider changes to the Constitution to be recommended to Council.

Introduction and Background

- 5 The former CRWG was introduced on 24 July 2009 and its work was completed last year following the major review of the Constitution.
6. At its meeting on 18th November 2011 Council decided that the Audit and Governance Committee should consider any further proposed changes that are required to the Constitution. The number of seats on the Committee has been increased from seven to ten with an allocation of five Conservative; two Independent; two Its Our County and one Liberal Democrat Members.
7. The following amendments to the Constitution have been made:-

Part 2 – Articles

- 2.7.2 the addition of the words “and that the Constitution is reviewed and amended as appropriate”

Part 3 – The Functions Scheme

- 3.6.3 Audit and Governance Functions

the addition of paragraph n. with the words “review and make recommendations to Council to amend the Constitution”.

8. An extract from the Constitution on the matters relating to the Committee is attached at appendix 1

Key Considerations

9. The changes will assist with the Council's governance arrangements which are aimed at providing accountability and transparency of decision making.

Community Impact

10. The new arrangements will not have any community impact other than providing greater clarity of the decision making process.

Equality and Human Rights

11. This decision does not have equality implications for the purposes of the Equality Act 2010.

Financial Implications

12. There are no significant financial implications under the new arrangements.

Legal Implications

13. The new arrangements are compliant with the Local Government Act 1972 and the Local Government and Housing Act 1989.

Risk Management

14. Continuance of the previous CRWG could have led to a loss of accountability and transparency. Transfer to the Committee addresses the risk of reputational damage.

Consultees

15. None

Appendices

16. Appendix 1 Functions of Audit and Governance Committee

Background Papers

None identified.

EXTRACT FROM THE CONSTITUTION

PART 1 – INTRODUCTION AND SUMMARY

- 1.18.1 The Audit and Governance Committee considers the Council's governance arrangements and ensures that the financial affairs of the Council are properly conducted. (See Part 2 Article 7 for more detail.)

PART 2 – ARTICLES

2.7.2 The Audit and Governance Committee

- 2.7.2.1 The Audit and Governance Committee is responsible for overseeing the work of the Council's internal and external auditors, making recommendations to ensure the Council is well run and has good arrangements for managing money and risks, **and that the Constitution is reviewed and amended as appropriate.**

- 2.7.2.2 The Audit and Governance Committee is established and its membership determined by the Council.

Role

- 2.7.2.3 The Audit and Governance Committee has the roles and functions set out in Part 3 section 6 and the Audit and Governance Code (Part 5 section 12).

Composition

- 2.7.2.4 The Audit and Governance Committee comprises **ten** members of the Council and may also include an independent person who is not a Councillor and who has the same voting rights as other members of the Committee.

Proceedings

- 2.7.2.5 The proceedings of the Audit and Governance Committee and any sub-committee will be conducted in accordance with the rules in Part 4 section 1.

Joint working of Standards and Audit and Governance Committees

- 2.7.2.6 The Standards Committee and the Audit and Governance Committee will co-operate on governance matters and will have the right to report directly to the Council Meeting on those matters.

PART 3 - THE FUNCTIONS SCHEME

3.6.3 Audit and Governance Functions

- 3.6.3.1 The Council has established an Audit and Governance Committee to undertake audit and governance functions for the purposes set out in the Audit and Governance Code (Part 5 section 12)

- 3.6.3.2 The terms of reference are in line with the Chartered Institute of Public Finance and Accountancy's best practice guidance and are set out in full in the Audit and Governance Code (Part 5 section 12)

3.6.3.3 The role of the Audit and Governance Committee is to:

- a consider the effectiveness of the Council's risk management arrangements, the control environment and associated counter fraud and corruptions arrangements
- b seek assurance that action is taken on risk related issues identified by auditors and inspectors
- c satisfy themselves that the Council's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it
- d approve the internal audit strategy and plan and monitor its implementation
- e approve the Internal Audit strategy and plan and oversee its performance
- f review summary internal audit reports and the main issues arising and seek assurance that action is taken where necessary
- g receive the annual report of the Head of Internal Audit
- h consider reports of external audit and inspection agencies and take appropriate action where relevant to the remit of the Audit and Governance Committee
- i ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies
- j ensure that the Council actively promotes the value of the audit function and processes
- k review the financial statements, the external auditor's opinion and reports to members and oversee management action in response to the issues raised by external audit
- l consider any other matters not covered by the best practice guidance for Audit Committees but which are appropriate for the Audit and Governance Committee and are not within the remit of any other Council Committee or body.
- m approve, on behalf of the Council, the Council's statements of accounts, income and expenditure and balance sheet, or record of payments.

n. review and make recommendations to Council to amend the Constitution

PART 5 – THE CODES

SECTION 11 - AUDIT AND GOVERNANCE CODE

5.11.1 Composition

- 5.11.1.1 The Committee will consist of seven non-executive councillors and may include an independent person who is not a councillor. This person, if appointed, must be appointed chairman of the Committee in accordance with Council Procedure Rule 4.1.5.2 (Part 4 section 1).

5.11.2 Purpose

Council or Committee report template 10Nov11

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

5.11.3 Key Terms

5.11.3.1 The **annual governance statement framework** identifies the individual systems and sources of evidence used to support the preparation of the **annual governance statement**.

5.11.3.2 The key systems identified in the framework include risk management, procurement, the whistle blowing policy, the control environment and associated counter fraud and corruption arrangements, and the complaints process.

5.11.3.3 The key sources of evidence identified in the framework include the annual governance letter, external audit reports and the Chief Internal Auditor's audit assurance reports.

5.11.3.4 The **annual governance statement** is prepared in advance of the annual statements of account; it provides a commentary from management on compliance with the Council's code of governance and identifies areas for further improvement.

5.11.4 Scope of the Audit & Governance Committee

5.11.4.1 The functions, powers and duties of the Audit and Governance Committee are set out in its Terms of Reference at 5.11.5. The Committee is able to call senior officers and appropriate members to account on issues within the Committee's remit as defined by its Terms of Reference.

5.11.4.2 The Committee is not responsible for reviewing specialist external inspection reports on service performance (for example, the annual OFSTED inspection) unless issues have been identified that directly relate to matters within the Committee's remit (for example, risk management of service related issues).

5.11.4.3 The Committee will not receive detailed information on investigations relating to individuals. The general governance principles and control issues may be discussed, in confidential session if applicable, at an appropriate time, to protect the identity of individuals and so as not to prejudice any potential action by the Council.

5.11.5 Terms of Reference

5.11.5.1 The Committee's terms of reference shall be maintained in line with the Chartered Institute of Public Finance & Accountancy's (CIPFA's) latest best practice guidance for Audit Committees. The key statements made by CIPFA are highlighted in bold in the Committee's Terms of Reference. **[See 3.6.3]**

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

- a reviewing and approving the annual governance statement framework once a year.

- b approving the Council's counter fraud and corruption policies and reviewing them on a biennial basis.
- c reviewing and approving the Council's whistle blowing policy on a biennial basis.
- d being part of the consultation process when the Council's complaints policy is being reviewed.
- e monitoring the effective operation and development of the systems identified in the annual governance statement framework, calling for special reports where necessary and bringing to notice any inconsistency, short comings, gaps or duplications in these systems.

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

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

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

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

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

- a reviewing and approving the internal audit strategy, internal audit charter and annual internal audit plan once a year, commenting on the adequacy of internal audit resources to ensure key systems are examined in line with the assessed level of risk. Exceptionally, the Committee may identify specific lines of enquiry for internal audit work in line with paragraph 5.11.5.12 (f).
- b reviewing performance against the internal audit plan through the interim and final audit assurance reports prepared by the Chief Internal Auditor for each of the Committee's meetings.
- c noting the external auditor's opinion on the quality and effectiveness of the internal audit function.
- d commenting on the scope for further improvement in internal audit performance and / or cost effectiveness where it is appropriate to do so.

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

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

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

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

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

- a reviewing and commenting on external audit and inspection reports.
- b reviewing and commenting on the management response to external audit and inspection recommendations.
- c monitoring progress in implementing the management response to external audit and inspection recommendations.

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

- a reviewing and agreeing the external auditor's annual audit plan, including the annual audit fee.
- b receiving regular update reports on progress from the external auditor.
- c meeting privately with the external auditor once a year, if required.
- d monitoring the effectiveness of relationships between the external and internal auditors to ensure that the combined value of the two audit processes is maximised.

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

- a providing effective and objective scrutiny of the Council's governance arrangements, that are relevant to the committee's remit.
- b reviewing and commenting on any issue referred to it by the Chief Executive, a Director, or Cabinet Member or by any Herefordshire Council body.

- c reviewing and making recommendations on any proposed amendments to the Council's code of corporate governance, financial procedure rules, contract and procurement procedure rules, scheme of delegation, budget policy, procedure rules or governance arrangements.

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

- a receiving biannual forecasts of revenue and capital outturn, satisfying itself that appropriate and timely measures are in place to ensure compliance with paragraph 4.7.10 of the Council's Financial Procedure Rules (Part 4 section 7).
- b reviewing and approving the annual statement of accounts, commenting where appropriate on any issues that need to be brought to the attention of the Council.
- c Reviewing and approving the annual letter of representation.
- d Receiving the external auditor's annual governance letter and commenting on the management response to any recommendations made.

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

- a the Committee's meetings shall follow the principles of scrutiny i.e. no party whip shall be applied and a constructive, evidence based approach will be used.
- b the Committee shall ensure that its members receive adequate training on the areas covered by the Terms of Reference.
- c the Committee's members will ensure that any sensitive or confidential information obtained as a result of membership of the Committee is treated as such.
- d the Committee shall receive assurance from the Chief Internal Auditor that officers are complying with the Council's procurement policy and processes in all respects.
- e the Committee shall comment on the scope, depth and value for money of external audit.
- f in consultation with the Section 151 Officer, the Committee shall call for reviews/reports where the committee has identified significant gaps in the Council's internal control and governance processes, and develop the scope of these reviews with the Chief Internal Auditor.
- g the Committee shall review its effectiveness and Terms of Reference on an annual basis.
- h the Committee shall monitor progress in developing joint internal audit arrangements on matters of mutual or shared interest with NHS Herefordshire (the Primary Care Trust).
- i the Committee will contribute to the Council's programme of improvement in the standards of accuracy, clarity, comprehensiveness and conciseness in the Council's financial and associated documentation.

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	27 JANUARY 2012
TITLE OF REPORT:	INTERNAL AUDIT PROGRESS 2011/12
REPORT BY:	INTERNAL AUDIT - FINANCE AND COMMERCIAL SERVICES

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

The purpose of this Internal Audit Report is to update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.

Recommendation

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

Key Points Summary

- Audit Services has finalised 12 reviews. One review is in draft, this relates to a review over the Director Assurance Statements process. No significant issues were raised in any of these audits.
- There are 18 audits being completed. These include General Ledger, IT, Creditors and a review of the balances brought forward on the Agresso system.
- Audit Services are continuing to provide support, guidance and information in a number of areas to Council Officer's in respect of The Shared Services Partnership and specific Whistleblowing incidents.

Alternative Options

- 1 This report is for information and 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
Saverio DellaRocca – Interim Head of Audit Services on (01432) 260425

Introduction and Background

- 3 To ensure that the Committee is informed of the status of internal audit work and any key internal control issues identified from work completed in the last quarter.

Key Considerations

Summary of progress against the audit plan

- 4 The Internal Audit plan was approved by the Audit and Governance Committee on 23 August 2011. We have set out the number and type of audit reviews to be completed in Appendix 1. The following table provides further information on the status of these reviews:

Total number of Audit Reviews	No of Audits Completed	No of Audits completed in Draft	No of Audits on-going and agreed with management	No of Audits to be scheduled and to be agreed with management
36	12	1	18	5

- 5 Thirteen audit reviews and reports have been either been finalised or are in draft. No significant issues were raised.
- 6 There are currently a number of reviews being completed by Audit Services. Work on these is progressing well. The remainder of the reviews in the audit plan are being scoped and agreed with members of the Council's Leadership Team or other Directors/Managers as appropriate.
- 7 A member of the Audit Services Team has been seconded to the Shared Services Partnership until September 2012. Any impact on the section's ability to deliver the plan is being managed through a combination of KPMG and Council staff being used to complete audit reviews. Where appropriate KPMG is also providing specialist input to deliver some audit reviews such as the audits of the Risk Management, Business Continuity and Health and Safety. Audit Services remains confident that sufficient audit work will be completed by the year end so that the Interim Head of Audit Services can form an opinion on the Council's system of internal control.

Audit Reviews

- 8 Two of the areas where we gave a "Substantial" audit opinion were Member Allowances and Officer Expenses. We found a number of strengths within both processes including clear and documented procedures in place, the accurate and timely completion of member and officer allowance forms and the Council publishing the amount paid in Member allowances in accordance with statutory obligations. We made no recommendations following our review of Member Allowances and made one low level recommendation in respect of the Officer Allowance review.
- 9 We have also completed an initial review of the Council's Anti-Fraud and Corruption arrangements and are in the process of completing our report. Given the importance of this area Internal Audit Services will be running Anti-Fraud and Corruption Workshops which will highlight to officer's their responsibilities in this area and how to identify and report any potential frauds which they become aware of. These workshops will be held in February 2012.

Audit and Other Reviews in Progress

- 10 Audit Services are currently progressing a number of audits. These include:
- Creditors inc Procurement;
 - General Ledger and Financial Management Systems – Bank reconciliations;
 - Risk Management;
 - Business Continuity;
 - Health and Safety;
 - Shared Services - Governance;
 - Peoples Services – Procurement; and
 - Agresso - Transfer of balances.
- 11 These reviews will be completed and draft reports issued in due course. We will report any significant issues arising from these reviews to the next Audit and Governance Committee.

Current and Forthcoming Audit Reviews

- 12 In the Internal Audit Plan we provisionally set out a number of key focus areas, but agreed with Herefordshire Public Services Leadership Team that further discussions would be held with Directors and Senior Manager's to determine the exact status of audit input. As part of this process we have held discussions with a number of officers, including the Resilience Team Manager with whom we have agreed the scope of our audits of the Council's Health and Safety, Risk Management and Business Continuity functions. Within each of these areas we have focused on key issues, for example within Risk Management we are focusing on how effective the Council's risk policies are in ensuring that risk is adequately controlled and monitored. In Health and Safety we have reviewed the controls which ensure the Council complies with Health and Safety legislation and in Business Continuity we have focused on how effective the Council's policies and controls are in ensuring that it can continue its services in the event of a significant issue impacting the organisation.
- 13 We also attended the Places and Communities Directorate's Management Team Meeting in November 2011. At the meeting we discussed a number of audit reviews which impact on the Directorate, including reviews of the HALO and AMEY contracts. We recently met with the Head of Highways and Community Services and discussed the AMEY contract. We agreed to review a number of particular areas within the AMEY contract including overall governance arrangements, the use of key performance indicators in contract monitoring, a review of internal verification arrangements for the processing of payments and the rationale for the potential extension of the current contract. We have also met with the Cultural Services Manager regarding the HALO project and agreed specific terms of reference for our review of this area. Our work will include a review of the Council's governance framework over the HALO leisure management contract, the methods for capturing and reporting HALO performance to management and Members and how the Council inputs into the setting of Fees and Charges for the use of Leisure Facilities managed by HALO.

Other Audit Input

- 14 Audit Services has provided input into a review of the Council's Whistleblowing process which was requested by the Assistant Director (Law, Governance and Compliance). This included documenting the Whistleblowing process through a flow chart of the current framework and providing analysis and feedback on how it could be improved and streamlined.
- 15 Audit Services has also provided input and assistance into the Council's Task and Finish Group on Fees' and Charges. The Group's aim is to assess if the current charging policy can support service delivery and understand the rationale behind subsidisation of some Council services.

Community Impact

16 This report does not impact on this area.

Equality and Human Rights

17 This report does not impact on this area.

Financial Implications

18 There are no financial Implications.

Legal Implications

19 There are no Legal Implications.

Risk Management

20 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.

Consultees

21 The views of the HPSLT and the Chief Officer, Finance and Commercial were consulted in the drafting of this report.

Appendices

Appendix 1 – Status Audit Plan 2011/12

Appendix 2 – Audit Opinions

Background Papers

22 None

Appendix 1

Herefordshire Council - Internal Audit Plan 2011/12

Progress Update – January 2012

Note – The scope and timing of audits is subject to confirmation and the agreement of the Project Sponsor.

No	Audit Review	Status / Provisional Timescale for completion	Audit Opinion
1	Payroll	In progress	-
2	Member Allowances	Finalised	Substantial
3	Creditors inc Procurement	In progress	-
4	Treasury Management	Finalised	Substantial
5	Debtors and other Income Streams	To be started Jan 2012	-
6	General Ledger inc FMS Bank Reconciliations	In progress	-
7	NNDR and Council Tax	Finalised	Adequate
8	Housing Benefit	Finalised	Substantial
9	Cash and Deposits	Terms of reference and timing being agreed with officers.	-
10	Education Transport	Terms of reference and timing being agreed with officers.	-
11	ISO 27001	Work completed on site – draft report being compiled.	
12	Application Testing – Agresso inc Trf of balances and ISIS	In progress	-
13	IT Strategy	Terms of reference and timing being agreed with officers.	-

14	Anti-Fraud and Corruption – Review of Council’s arrangements and Awareness Training.	The review of the Council’s Anti-Fraud and Corruption arrangements has been completed and a draft report is to be issued shortly. The Anti-Fraud and Corruption Awareness Training has been arranged for February 2012.	-
15	AMEY Contract	In progress	-
16	HALO Leisure Management	To be completed in February 2012	-
17	ABG Grant Review	Finalised	Adequate
18	Anti-Fraud and Corruption – Hot Topics – Officer Expenses	Finalised	Substantial
19	Director Annual Assurance Statements	Draft Report issued	Draft - Adequate
20	Risk Management	In progress	-
21	Health and Safety	In progress	-
22	Business Continuity/ Emergency Planning	In progress	-
23	Performance Management	To be completed in February 2012.	-
24	Rising to the Challenge – Project Monitoring	Currently completing and on site.	-
25	Benefits Realisation	Finalised.	Feedback provided to the Chief Officer – Finance and Commercial. Formal report not issued
26	Project Management – Performance Plus	Finalised.	Feedback provided to the Assistant Director, People, Policy and Partnerships. Formal report not issued.

27	Annual Governance Statement	March 2012	-
28	Shared Services - Governance (on-going)	In progress	-
29	Licensing - Taxi's	Finalised	Adequate
30	Schools	Terms of reference and timing being agreed with officers.	-
31	CYPD Proc Audit	In progress	-
32	Gifts and Hospitality	Finalised	Adequate
33	Anti Money Laundering	Finalised	Adequate
34	Sustainability	January 2012	-
35	Planning	Terms of reference and timing being agreed with officers.	
36	Follow Up – Agency Payments	Finalised	Adequate

Appendix 2 –

Audit Opinions – Definition of Assurance Grading

Conclusion	Definition
No assurance	One or more priority one recommendations and fundamental design or operational weaknesses in more than one part of the area under review (i.e. the weakness or weaknesses identified have a fundamental and immediate impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).
Limited assurance	One or more priority one recommendations, or a high number of medium priority recommendations that taken cumulatively suggest a weak control environment (i.e. the weakness or weaknesses identified have a significant impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).
Adequate assurance	One or more priority two recommendations (i.e. that there are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives - however, if not addressed the weaknesses could increase the likelihood of strategic risks occurring).
Substantial assurance	No or priority three only recommendations. (i.e. any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process).