

# AGENDA

## Audit and Governance Committee

Date: **Tuesday 23 August 2011**

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Time: **10.00 am**

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

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

For any further information please contact:

**Pete Martens, Committee Manager**

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If you would like help to understand this document, or would like it in another format or language, please call Pete Martens, Committee Manager 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 J Stone</b>
	<b>Councillor CNH Attwood</b>
	<b>Councillor EMK Chave</b>
	<b>Councillor KS Guthrie</b>
	<b>Councillor Brig P Jones CBE</b>
	<b>Councillor PJ McCaul</b>
	<b>Councillor JW Millar</b>

## 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

	<b>Pages</b>
<b>1. APOLOGIES FOR ABSENCE</b> To receive apologies for absence.	
<b>2. 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.	
<b>3. DECLARATIONS OF INTEREST</b> To receive any declarations of interest by Members in respect of items on the Agenda.	
<b>4. MINUTES</b> To approve and sign the Minutes of the meeting held on 23 June, 2011.	1 - 4
<b>5. APPOINTMENT OF VICE-CHAIRMAN</b> To appoint a Vice-Chairman for the ensuing year.	
<b>6. TERMS OF REFERENCE</b> To consider the terms of reference of the Audit and Governance Committee.	5 - 14
<b>7. WORK PROGRAMME 2011/12</b> To consider a draft forward work programme.	15 - 24
<b>8. ANNUAL INTERNAL AUDIT PLAN - 2011/12</b> To consider the Annual Internal Audit Plan - 2011/12.	25 - 44
<b>9. ANNUAL GOVERNANCE STATEMENT</b> To consider the Annual Governance Statement for 2010/11.	45 - 60
<b>10. MONITORING OFFICER REPORT 2010-11</b> To inform the Committee about the matters within the responsibility of the Monitoring Officer and the Council's performance for 2010-11 with regard to the complaints to the Ombudsman and the standards framework.	61 - 72
<b>11. DATE OF NEXT MEETING</b> Thursday 29 September at 2:00pm	





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- 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.
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# **COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL**

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

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HEREFORDSHIRE COUNCIL

**MINUTES of the meeting of Audit and Governance Committee held at Council Chamber - Brockington on Tuesday 28 June 2011 at 2.00 pm**

**Present:** Councillor J Stone (Chairman)  
Councillor (Vice Chairman)

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

**In attendance:** Councillors TM James

**52. INTRODUCTION BY THE CHAIRMAN**

The Chairman welcomed the new Members and Officers to the meeting and expressed his thanks to the Chairman, Vice-Chairman Members and Officers for their achievements with the previous Audit and Governance Committee. He also expressed his thanks to the Officers for the recent training event for Members and said that further sessions would be arranged in due course.

The Chairman drew attention to the fact that a Vice-Chairman still had to be appointed for the current municipal year and that an item would be placed on the Agenda for the next meeting.

**53. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor JW Miller.

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

There were no named substitutes present at the meeting.

**55. DECLARATIONS OF INTEREST**

There were no declarations of interest made at the meeting.

**56. MINUTES**

**RESOLVED:** That the Minutes of the meeting held on 18th March 2011 be approved as a correct record and signed by the Chairman.

**57. ANNUAL AUDIT FEE LETTER AND AUDIT WORK 2011/12**

The Chief Officer - Finance and Commercial Services presented a report about the work to be undertaken for 2011/12 financial year by the Audit Commission. He said that the proposed indicative fee was £274,672 which was a decrease on the planned fees of £305,191 for 2010/11. Information about the reasons for the reduction was outlined in the report. He advised about the proposed outputs of the work which would cover the audit of

financial statements, value for money conclusion and Government accounts aspects. A separate audit plan would be issued in December 2011. This would include any risks that may be identified from the financial statements audit and a value for money conclusion may also be reflected in it. At that time if there were any fee amendments, they would be subject to discussion with the Officers and a further report would be submitted to the Committee. Due to the budgetary pressures facing local government during forthcoming years the Audit commission would be examining the Councils resilience arrangement to deal funding reductions through such areas as value for money, risks and savings, rather than concentrating on individual financial processes.

The Committee noted the main aspects of the report and received further information from the Interim Chief Internal Auditor about the work being undertaken by the Audit Commission. Members felt that it would be helpful to have some of the documents referred to in the report for background information and the Chief Officer - Finance and Commercial Services would arrange for these to be provided.

#### **RESOLVED THAT**

- (a) the content of the Audit Commission's Annual Audit Fee Letter be noted; and**
- (b) the planned outputs contained in the letter be noted.**

#### **58. AUDIT UPDATE 2011/12**

A report was presented by the Interim Chief Internal Auditor about the arrangements for dealing with the Council's internal audit provision and issues arising from the work recently completed. He advised that following a procurement process, KPMG LLP had been appointed as internal auditors subject to contract. Whilst contractual matters were resolved, KPMG LLP was providing interim support and the council's planned audit work was continuing. The company had also been assigned to provide audit and counter fraud services to Herefordshire Primary Care Trust (PCT) and Herefordshire Hospitals NHS Trust (NHS Trust).

The Committee noted that during this transitional phase, agreement had been reached that KPMG would second two members of staff into the Audit Services Team on a part-time basis. The new arrangements came into place on 16th June and would continue in the short term. In answer to a question from a Member, the Interim Chief Internal Auditor said that he could not give a precise date about when the contractual arrangements would be concluded because there were still certain factors governing the transfer of staff to KPMG. The Committee would be advised of progress in due course.

The Interim Chief Internal Auditor said that the Annual Assurance Report including the annual internal audit opinion was being finalised for consideration at the next meeting of the Committee. He also said that the Audit Team was refreshing the Audit Plan for 2011/12 which would also be presented to Members when finalised. Members also thought it would be helpful if they could be provided with a copy of the Council's corporate risk register.

#### **RESOLVED THAT**

**the report be received and noted.**

## 59. STATEMENT OF ACCOUNTS

The Head of Corporate Finance presented a report about the 2010/11 Statement of Accounts. The purpose of the Statement of Accounts was to provide information to the public, Members, employees and other interested parties, such as the Audit Commission. The Statement was a technical document which set out the Council's financial accounting information. Management accounting information was reported to Cabinet and the Scrutiny Committees throughout the year and the out-turn position would be reported to Cabinet on 30th June.2011. She outlined the salient points of the Statement and explained the role of the Committee in relation to it.

The Head of Corporate Finance confirmed that due to a change to the accounts regulations the Chief officer – Finance and Commercial Services was required to certify the accounts by the end of June. The Audit & Governance Committee would be required to review and approve the accounts by the end of September.

The Committee noted that the focus of the formal Statement of Accounts was the financial accounting and external reporting requirements of the Council, and that this would be reported to the Committee at its meeting in September 2011. The Chairman felt that it would be useful to have an informal run through this topic prior to the meeting. Members asked a number of questions about the statement including:-

- the anticipated income from the new livestock market and on how its use would expand;
- net borrowing to support balances – it was noted that borrowing supported the capital programme and was not used to support the revenue account;
- more information about the job-titles of those senior staff who received a salary of £50,000 or more – it was noted that in a number of instances those included in the statement were on salaries below this figure but appeared in the statement because redundancy payments had taken them over this threshold. The Chief Officer - Finance and Commercial Services drew attention to the requirements in place for the job titles of only senior managers to be listed. He also drew attention to the fact that there was a considerable amount of information on the Council's website about the salary ranges of senior officers and that he would be able to provide Members with an appropriate list;
- Members would find it useful to have a summary sheet about the information contained within the document which set out the overall position of the Council's finances; and
- the provision of a work plan for the Committee

### **RESOLVED THAT:**

**the report be received and noted.**

The meeting ended at 3.05 pm

**CHAIRMAN**





<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>23 AUGUST 2011</b>
<b>TITLE OF REPORT:</b>	<b>TERMS OF REFERENCE</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

The purpose of this report is to outline to Members the terms of reference of the Audit and Governance Committee.

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT the report be noted.**

### **Key Points Summary**

- The Terms of Reference of the Audit and Governance Committee are set out in Part 5, Section 5.12 of the Council's constitution. They are repeated in Appendix 1 of this report.
- The Committee's responsibilities in relation to governance are clearly stated. The main purpose of the Committee is to review and approve the Council's annual governance statement and annual statements of account. The Committee is also charged with other responsibilities in relation to the review of various policies and procedures.
- The Committee is not responsible for the establishment and review of the overall governance framework i.e. the constitution. This responsibility rests with Council.

### **Alternative Options**

- 1 None.

### **Reasons for Recommendations**

- 2 To ensure the Committee understands the extent of its responsibilities.

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Further information on the subject of this report is available from  
Saverio Della Rocca, Interim Head of Audit on (01432) 260425

## Introduction and Background

- 3 Section 12, paragraph 5.12.5 of the Audit and Governance Code sets out the terms of reference of the Audit and Governance Committee. At the Committee induction event and at the last Committee in June, Members discussed their responsibilities in respect of governance and sought clarification as the extent of their responsibilities.

## Key Considerations

- 4 The Council has adopted a Constitution which sets out how it operates and how it makes decisions. The constitution is in eight parts:
- Part 1 is a summary of our Constitution together with an introduction to the Council.
  - Part 2 contains 13 articles which explain how key parts of the Council work;
  - Part 3 says who does what;
  - Part 4 contains detailed rules about how particular things operate;
  - Part 5 provides more details about how Councillors and Council staff work together;
  - Part 6 sets out the allowances that Councillors are paid;
  - Part 7 explains the Cabinet and Scrutiny Committee roles and the Council's management structure; and
  - Part 8 is a glossary explaining meanings of particular words and phrases used in the Constitution.
- 5 The Council is responsible for the overall governance framework. It adopts and changes the Constitution and is also responsible for determining the Budget and Policy Framework and approving the plans and strategies within it including the Corporate Plan. The Cabinet is responsible for all executive actions. The Overview and Scrutiny Committees are primarily responsible for holding the executive to account and developing proposals for policy development to the Cabinet or the Council. There is no statutory basis in the legislation for a free standing audit committee and this committee's role draws primarily on the overview and scrutiny function for its legitimacy. Accordingly it does not have any executive powers. However, it does have a free standing role in approving the annual accounts and governance statement, since these cannot be signed off by the Cabinet. The following sections describe the committee's remit in more detail.
- 6 Part 5 of the constitution includes the Audit and Governance Code and the terms of reference of the Audit and Governance Committee. The Committee's responsibilities in relation to governance are clearly stated. The Council appoints this 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 the Committee is therefore to review and approve the Council's annual governance statement - its declaration as to how the governance framework has operated within the financial year - and annual statements of account.
- 7 The Committee is also required to provide effective and objective scrutiny of the Council's governance arrangements that are relevant to the committee's remit. This includes:
- Reviewing and commenting on any issue referred to it by the Chief Executive, a Director, or Cabinet Member or by any Herefordshire Council body;
  - 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;

- Approving the Council's counter fraud and corruption policies and reviewing them on a biennial basis;
- Reviewing and approving the Council's whistle blowing policy on a biennial basis; and
- Being part of the consultation process when the Council's complaints policy is being reviewed.

8 The Committee's work programme reflects the above requirements.

## **Financial Implications**

9 There are no financial Implications.

## **Legal Implications**

10 There are no legal Implications.

## **Risk Management**

11 There is a risk that the Committee does not understand the extent of its obligations under its terms of reference. This paper helps mitigate that risk.

## **Appendices**

### **Appendix 1- Audit and Governance Committee terms of reference**



## Section 12 - Audit and Governance Code

### 5.12.1 Composition

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

### 5.12.2 Purpose

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

### 5.12.3 Key Terms

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

### 5.12.4 Scope of the Audit & Governance Committee

- 5.12.4.1 The functions, powers and duties of the Audit and Governance Committee are set out in its Terms of Reference at 5.12.5. The Committee is able to call senior officers and appropriate members to account on issues within the Committee's remit as defined by its Terms of Reference.
- 5.12.4.2 The Committee is not responsible for reviewing specialist external inspection reports on service performance (for example, the annual OFSTED inspection) unless issues have been identified that directly

relate to matters within the Committee's remit (for example, risk management of service related issues).

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

### 5.12.5 Terms of Reference

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

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

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

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

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

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

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

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

- a Reviewing and approving the internal audit strategy, internal audit charter and annual internal audit plan once a year, commenting on the adequacy of internal audit resources to ensure key systems are examined in line with the assessed level of risk. Exceptionally, the Committee may identify specific lines of enquiry for internal audit work in line with paragraph 5.12.5.12 (f).
- b Reviewing performance against the internal audit plan through the interim and final audit assurance reports prepared by the Chief Internal Auditor for each of the Committee's meetings.
- c Noting the external auditor's opinion on the quality and effectiveness of the internal audit function.
- d Commenting on the scope for further improvement in internal audit performance and / or cost effectiveness where it is appropriate to do so.

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

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

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

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

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



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

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

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



<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>23 AUGUST 2011</b>
<b>TITLE OF REPORT:</b>	<b>WORK PROGRAMME 2011/12</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

The purpose of this report is to provide Members with a draft forward work programme to enable them to discharge their responsibilities as the Audit and Governance Committee.

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT subject to any comments the Committee approves the work programme as a basis for future agenda items and considers how the provisional training session scheduled for November could be used.**

### **Key Points Summary**

- The Terms of Reference of the Audit and Governance Committee are set out in Appendix 1 (section 5.12.5).
- The work programme has been drafted with reference to the requirements set out in Section 5.12.5. The work programme may be modified by the Chairman following consultation with the Vice Chairman and the Chief Officer - Financial and Commercial Services.
- Training sessions may be undertaken as part of the programme and whilst time has been allocated for this in November 2011, the content of the training has not yet been decided. The Committee may wish to consider its training needs in due course.

### **Alternative Options**

- 1 None as the Committee must fulfil its requirements as set out in the terms of reference although it may request others items of information in addition to that set out in the work programme.

## **Reasons for Recommendations**

- 2 To ensure the Committee can meet its terms of reference.

## **Introduction and Background**

- 3 Section 12, paragraph 5.12.5 of the Audit and Governance Code sets out the terms of reference of the Audit and Governance Committee. In order to discharge these responsibilities effectively the Committee needs to plan its forward programme.

## **Key Considerations**

- 4 The Committee's terms of reference have been developed in line with the latest best practice. The items set out in the work programme are the minimum information requirements the Committee needs to fulfil its obligations.
- 5 The Committee may request other information/reports as appropriate but will need to ensure that it does not extend beyond its remit.
- 6 The work programme may be modified by the Chairman following consultation with the Vice Chairman and the Chief Officer - Financial and Commercial Services.
- 7 Should any urgent, prominent or high profile issues arise, the Chairman may consider that issue.
- 8 Should Members become aware of any issues they consider may be added to the work programme, they should contact the Chairman or Democratic Services to log the issue so that it can be taken into account when planning future agendas or when planning the work programme.
- 9 Time has been allocated in November for a training session for the Committee. The Committee will need to consider which topics it may wish to cover.

## **Financial Implications**

- 10 There are no financial Implications.

## **Legal Implications**

- 11 There are no legal Implications.

## **Risk Management**

- 12 There is a risk that the Committee will not fulfil its obligations under its terms of reference. The work programme mitigates this risk.

## **Appendices**

**Appendix 1- Audit and Governance Committee terms of reference**

**Appendix 2 - Draft work programme 2011/12**

## Section 12 - Audit and Governance Code

### 5.12.1 Composition

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

### 5.12.2 Purpose

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

### 5.12.3 Key Terms

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

### 5.12.4 Scope of the Audit & Governance Committee

- 5.12.4.1 The functions, powers and duties of the Audit and Governance Committee are set out in its Terms of Reference at 5.12.5. The Committee is able to call senior officers and appropriate members to account on issues within the Committee's remit as defined by its Terms of Reference.
- 5.12.4.2 The Committee is not responsible for reviewing specialist external inspection reports on service performance (for example, the annual OFSTED inspection) unless issues have been identified that directly

relate to matters within the Committee's remit (for example, risk management of service related issues).

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

**5.12.5 Terms of Reference**

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

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

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

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

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

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

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

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

- a Reviewing and approving the internal audit strategy, internal audit charter and annual internal audit plan once a year, commenting on the adequacy of internal audit resources to ensure key systems are examined in line with the assessed level of risk. Exceptionally, the Committee may identify specific lines of enquiry for internal audit work in line with paragraph 5.12.5.12 (f).
- b Reviewing performance against the internal audit plan through the interim and final audit assurance reports prepared by the Chief Internal Auditor for each of the Committee's meetings.
- c Noting the external auditor's opinion on the quality and effectiveness of the internal audit function.
- d Commenting on the scope for further improvement in internal audit performance and / or cost effectiveness where it is appropriate to do so.

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

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

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

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



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



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

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

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



## APPENDIX 2 - Audit and Governance Committee proposed work programme 2011/12

<b>13 July 2011</b>	<b>August (TBC)</b>
<p><b>Internal Audit</b></p> <ul style="list-style-type: none"> <li>• Head of Audit – Annual Opinion 2010/11 [5.12.5.7 a, c]</li> <li>• Internal Audit Strategy and Annual Internal Plan 2011/12 [5.12.5.5 a]</li> </ul> <p><b>Other</b></p> <ul style="list-style-type: none"> <li>• TBC</li> </ul>	<p><b>Internal Audit</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement 2010/11 [Ref 5.12.5.1 a, e] [5.12.5.4 a]</li> </ul> <p><b>Other</b></p> <p>TBC</p>
<b>16 September 2011</b>	<b>11 November 2011</b>
<p><b>Internal Audit</b></p> <ul style="list-style-type: none"> <li>• Internal Audit Progress Report [5.12.5.5 b] [5.12.5.7 b]</li> <li>• Summary of Audit Reports finalised within Quarter [5.12.5.3 b] [5.12.5.6 a,b,c]</li> <li>• Review of implementation of recommendations – Internal and External Audit (High and Medium Recommendations only) and Progress of issues identified within AGS [5.12.5.2 a,c] [5.12.5.8 c]</li> </ul> <p><b>External Audit</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Report– 2010/11 [5.12.5.5 c] [5.12.5.8 a,b] [5.12.5.11 d]</li> <li>• Auditor’s report giving an opinion on the financial statements – 2010/11</li> <li>• Value for Money Conclusion – 2010/11</li> </ul> <p><b>Risk Management</b></p> <ul style="list-style-type: none"> <li>• Annual Report 2010/11 [5.12.5.4 b]</li> </ul> <p><b>Other</b></p> <ul style="list-style-type: none"> <li>• Financial Statements Approval – 2010/11 [5.12.5.11 b]</li> <li>• Reviewing and approving the annual letter of representation [5.12.5.11]</li> <li>• Receiving biannual forecasts of revenue and capital outturn [5.12.5.11 a]</li> </ul>	<p><b>Internal Audit</b></p> <ul style="list-style-type: none"> <li>• Internal Audit Progress Report [5.12.5.5 b] [5.12.5.7 b]</li> <li>• Summary of Audit Reports finalised within Quarter [5.12.5.3 b] [5.12.5.6 a,b,c]</li> <li>• Review of implementation of recommendations – Internal and External Audit (High and Medium Recommendations only) and Progress of issue identified within AGS [5.12.5.2 a,c] [5.12.5.8 c]</li> </ul> <p><b>External Audit</b></p> <ul style="list-style-type: none"> <li>• Final accounts memorandum – 2010/11</li> <li>• Annual audit letter – 2010/11</li> </ul> <p><b>Other</b></p> <ul style="list-style-type: none"> <li>• Meeting privately with the Internal Auditors</li> <li>• Meeting privately with the External Auditors [5.12.5.9]</li> <li>• Inspection Reports (where appropriate) [5.12.5.8 a]</li> </ul> <p><b>Audit Committee Training Session [5.12.5.12 b]</b></p>

27 January 2012	9 March 2011
<p><b>Internal Audit</b></p> <ul style="list-style-type: none"> <li>• Internal Audit Progress Report [5.12.5.5 b] [5.12.5.7 b]</li> <li>• Summary of Audit Reports finalised within Quarter [5.12.5.3 b] [5.12.5.6 a,b,c]</li> <li>• Review of implementation of recommendations – Internal and External Audit (High and Medium Recommendations only) and Progress of Issue identified within AGS [5.12.5.2 a, c] [5.12.5.8 c]</li> <li>•</li> </ul> <p><b>External Audit</b></p> <ul style="list-style-type: none"> <li>• Update Note [5.12.5.8 b]</li> </ul> <p><b>Other</b></p> <ul style="list-style-type: none"> <li>• Reviewing any proposed amendments to the Council's code of corporate governance, financial procedure rules, contract and procurement procedure rules, scheme of delegation, budget policy, procedure rules or governance arrangements [5.12.5.10]</li> <li>• Annual Governance Report (from the Monitoring Officer)</li> <li>• Procurement Report [5.12.5.12 d]</li> </ul>	<p><b>Internal Audit</b></p> <ul style="list-style-type: none"> <li>• Internal Audit Progress Report [5.12.5.5 b] [5.12.5.7 b]</li> <li>• Summary of Audit Reports finalised within Quarter[5.12.5.3 b] [5.12.5.6 a,b,c]</li> <li>• Review of implementation of recommendations – Internal and External Audit (High and Medium Recommendations only) and Progress of Issue identified within AGS[5.12.5.2 a,c] [5.12.5.8 c]</li> <li>•</li> </ul> <p><b>Other</b></p> <ul style="list-style-type: none"> <li>• Audit and Governance Committee – Terms of Reference review</li> <li>• Review of the effectiveness of the Audit and Governance Committee and the Terms of Reference [5.12.5.12 g] [5.12.5.12 h]</li> <li>• Counter Fraud and Corruption policies – Annual Review and Approval [5.12.5.2 b]</li> <li>• Whistleblowing policy – Annual Review and Approval [5.12.5.2 c]</li> <li>• Review of Complaints Policy(if applicable) [5.12.5.2 d]</li> <li>• Receiving biannual forecasts of revenue and capital outturn [5.12.5.11 a]</li> <li>• Annual Review of Internal Audit [5.12.5.5 d] [5.12.5.9 d]</li> <li>• Review of External Audit [5.12.5.12]</li> </ul>

Notes

1. Each proposed work item has been referenced back to the Audit and Governance Code to demonstrate how the work programme helps the Committee discharge its responsibilities.
2. Please note: 5.12.5.9 – Reviewing and agreeing the external auditors annual audit plan, including the annual fee for 2011/12 was reviewed and agreed by the Audit and Governance Committee on 28 June 2011.

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>23 AUGUST 2011</b>
<b>TITLE OF REPORT:</b>	<b>ANNUAL INTERNAL AUDIT PLAN - 2011/12</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

The purpose of this report is to seek the Audit and Governance Committee's approval of the Annual Internal Audit Plan - 2011/12.

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT**

- (a) **Subject to any comments the Annual Internal Audit Plan - 2011/12 is reviewed and approved.**

### **Key Points Summary**

- The draft Annual Internal Audit Plan - 2011/12 is set out in Appendix 1.
- The draft Annual Internal Audit Plan - 2011/12 has been reviewed and agreed by the HPSLT.

### **Alternative Options**

- 1 There are no alternative options as this is a requirement of the Audit and Governance Code.

### **Reasons for Recommendations**

- 2 This is a requirement of the Audit and Governance Code.

## **Introduction and Background**

- 3 Preparation and adoption of the Annual Internal Audit Plan represents best practice as required by the CIPFA Code of Practice of Internal Audit in Local Government (2006) and the document is an integral part of the Council's internal control assurance process. Under its terms of reference the Audit and Governance Committee is required to review and approve the Annual Internal Audit Plan.

## **Key Considerations**

- 4 The CIPFA Code of Practice for Internal Audit in Local Government (2006) states that "The Head of Internal Audit should prepare a risk-based audit plan designed to implement the audit strategy".
- 5 The Annual Internal Audit Plan (attached at Appendix 1) is a risk based plan that takes account of the Council's key issues and objectives. This plan has been compiled through discussions with the Chief Officer (Finance and Commercial Services), input from the HPSLT, Internal Audit's knowledge of the Local Government sector, a desk top review of key documents such as the Council's risk registers and a review of findings from previous internal audits.

## **Financial Implications**

- 6 There are no financial Implications.

## **Legal Implications**

- 7 Under the Accounts and Audit Regulations 2003 (as amended) established that the Council shall 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.
- 8 In addition under Section 151 of the Local Government Finance Act 1972 the Chief Officer – Finance and Commercial (as Section 151 Officer) is responsible for ensuring that proper arrangements exist for the management of the Council's financial affairs. An adequate and effective Internal Audit function which is led by a robust Internal Audit Plan is fundamental to the fulfilment of that responsibility.

## **Risk Management**

- 9 There is the risk that the Annual Internal Audit Plan does not take into account the key issues and risks facing the Council and does not provide adequate coverage of the Council's key systems for the Head of Internal Audit to form an opinion on the Council's control environment. The process by which the plan has been compiled mitigates this risk.

## **Appendices**

### **Appendix 1- Annual Internal Audit Plan 2011/12**



# **Internal audit Strategy and Plan 2011-12 DRAFT**

Herefordshire Council  
July 2011

# Contents

The contacts in connection  
with this report are:

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**1. Executive summary**

**2. Internal audit objectives**

**3. Developing the plan**

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2. Opinion and description of levels of assurance



# 1. Executive summary

## 1.1 Purpose of this report

This report meets the requirements under the Code of Practice for Internal Audit in Local Government (2006) (“the Code”) for the Head of Internal Audit to produce a Internal Audit Strategy together with an annual Internal Audit Plan. The Strategy is a high level statement of how the internal audit service will be delivered and developed. The annual Internal Audit Plan sets out the number and types of review which will be undertaken to deliver the Internal Audit Strategy.

Under the Code there a number of areas that the Strategy must detail. We have set these out below:

- Internal Audit objectives;
- How the Head of Internal Audit will form and evidence the opinion on the control environment to support the Annual Governance Statement;
- How Internal Audit’s work will identify and address significant local and national issues and risks;
- How the service will be provided, ie internally, externally, or a mix of the two; and
- The resources and skills required to deliver the strategy.

We have set out detail to support each of these requirements within the main body of our report.

## 1.2 Internal Audit’s objectives

The core role of Internal Audit is to provide assurance to senior management that there are adequate and effective internal control arrangements in place to mitigate key risks and achieve objectives. In performing its role, Internal Audit aims to, where appropriate:

- contribute to the improvement of the internal control environment;
- identify opportunities for performance improvement;
- evaluate where systems are over controlled or inefficient; and
- identify cost saving opportunities.

The detailed terms of reference for Internal Audit are set out within the Audit Charter.

## 1.3 Key issues and Risks

The Council is facing a number of significant challenges over the next financial year as it continues to implement the ‘Rising to the Challenge’ programme and its innovative joint working arrangements with NHS Herefordshire whilst operating within a very financially constrained public sector economy (which includes the newly merged Integrated Care Organisation – Wye Valley NHS Trust).

The Council needs to continue to work closely with its functional partner NHS Herefordshire, its new acute and community provider and emerging GP consortia to tackle key challenges around commissioning, care quality and public health whilst at the same time continuing to modernise, improve and streamline core Council services. All of the developments proposed and in progress present you with opportunities to improve the quality of services available to the population the Council serves - but they do also represent significant change and potential risk.

During this period of change, the effectiveness of the Council’s routine control and governance processes such as risk management, performance management and financial management are as important as ever. We have therefore produced an internal audit plan for 2011-12, which considers each of these areas and demonstrates how we will assist you and provide you with the assurances you need to manage the risks you face in the current financial year. Our plan also includes reviewing other key risk areas including Social Care (planning, commissioning and quality) and the implementation of the Shared Services company.

## 1.4 Developing the plan

We have compiled a risk based plan that takes account of the Council’s key issues and objectives. This plan has been compiled through discussions with the Chief Officer (Finance and Commercial Services), our knowledge of the sector, a desk top review of key documents, such as the Council’s risk registers and a review of findings from previous internal audits.

We have also held conversations with the HPSLT and have fed in comments and issues arising to this plan.

# 1. Executive summary (cont)

The Internal Audit Plan includes reviews of key financial, operational and corporate systems. We believe that a total of 750 – 900 days of internal audit input is required to deliver the plan. This input will ensure that a fully comprehensive internal audit service is provided to the Council. We have set out our draft Internal Audit Plan at Appendix 1 and have provided further information on this area in Section 4.

## 1.5 Resources

The Audit Service is currently being led by secondees from KPMG, Sav Della Rocca as Interim Head of Audit and Mukhtar Khangura as Internal Audit Manager, with support from the in-house team. All staff have considerable experience of providing an effective and efficient internal audit service.

## 1.6 Audit Approach

We have a comprehensive audit approach and quality assurance process that meets the Code of Practice for Internal Audit in Local Government (2006). This process is set out in our Audit Charter and is summarised in Section 6. This process ensures that our work is of a high standard and delivers a quality internal audit service to the Council.

## 2. Internal Audit objectives

### 2.1 Internal Audit Objectives

Internal Audit 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.

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.

### 2.2 Core Role of Internal Audit

The core role of the Internal Audit is to provide assurance to Members and senior management that there are adequate and effective internal control arrangements in place to mitigate key risks and achieve objectives. In these ever changing time we believe that Internal Audit should not only provide its core role but provide a added value service. In performing its role, Internal Audit aims to, where appropriate:

- contribute to the improvement of the internal control environment;
- identify opportunities for performance improvement;
- evaluate where systems are over controlled or inefficient; and
- identify cost saving opportunities.

Internal Audit is not responsible for ensuring that adequate and effective internal controls are established to manage the key risks – that responsibility lies with senior management.

### 2.3 Independence of Audit Services

The Interim Head of Audit reports directly to the Chief Officer (Finance and Commercial Services). The Chief Officer (Finance and Commercial Services) is the Council's Responsible Financial Officer under the terms of Section 151 of the Local Government Act 1972.

The Interim Head of Audit is responsible for the day to day management of the Audit Services Team.

## 3. Developing the Plan

### 3.1 Developing the plan

All local authorities face a very challenging environment with pressures to both increase performance and decrease costs. We believe that a responsive and effective internal audit function can help the Council in meeting these challenges while assisting the Council achieve its objectives. This can only be achieved through developing a comprehensive Internal Audit Plan in which the resources available to the internal audit function are allocated to areas of greatest need. We have developed the draft plan taking into consideration the issues below:



### 3.2 Desktop review

In developing the Internal Audit Plan, we have taken account of the following:

- The Council's risk register's (The Council Assurance Framework, The Partnership Assurance Framework and The Board Assurance Framework documents);
- Discussions with officers including the views of the Chief Officer (Finance and Commercial Services);
- Emerging issues and risks facing the sector;
- The Council's objectives detailed within its Corporate Plan 2011-14;
- Existing projects, strategies and initiatives that the Council is undertaking;
- Input from the Internal Audit Team;
- The performance of the Council from a review of its Key Performance Indicators; and
- The Council's "Rising to the Challenge" project.

### 3.3 Views of HPSLT and other officers

We have met with members of SLT and have factored in their views to the existing plan. In some instances, Strategic Directors have asked that further meetings are held to determine the exact nature and scope of individual reviews. For example, we have allocated time in the plan to focus on issues in relation to Integrated Commissioning, quality of care and public health. The precise coverage of these reviews will be addressed through further discussions with relevant officers.

## 3. Developing the Plan

### 3.3 Liaison with the External Auditors

We understand the importance of the good working relationships with the External auditors in order to minimise duplication of effort. We are due to meet with the external auditors shortly in order to build their requirements into the audit plan, where appropriate, through our joint working protocol.

### 3.4 Liaison with the other assurance providers

We recognise that there are other assurance providers (both internal and external) who provide some assurance over aspects of the Council's operations e.g. OFSTED, Care Quality Commission, Benefits and Exchequer, LMS and Finance Team. Where possible we will seek to place reliance on such work and reduce internal audit coverage appropriately. For example, the level of audit work on schools is being reduced from approximately 300 days in the prior year to 50 days this year as the LMS and Finance Team are doing checks on quarterly returns from bank account schools.

We are also liaising with the internal audit team within NHS Herefordshire to ensure that effective working relationship is established and to identify areas for joint review. We have identified a number of potential areas including shared services, and commissioning.

# 4. Key Issues and coverage

## 4.1 Overview

The Council is facing a number of significant challenges and risks over the next financial year as it continues to implement a number of key programmes and initiatives. The Council has identified these risks within its Corporate Risk Register's. These include:

- Failure to deliver the £10.3 cost savings outlined for 2011/12;
- Not achieving £1m worth of efficiencies as part of the Benefits Realisation programme;
- Inadequate commissioning of services which are not delivered to the appropriate cost and quality;
- Failure to progress with the Integrated Waste Management PFI Scheme; and
- Ineffective implementation of the Shared Services Project.

The Council will need assurance that the controls it has in place to mitigate these risks are being effectively applied and that its control environment is robust.

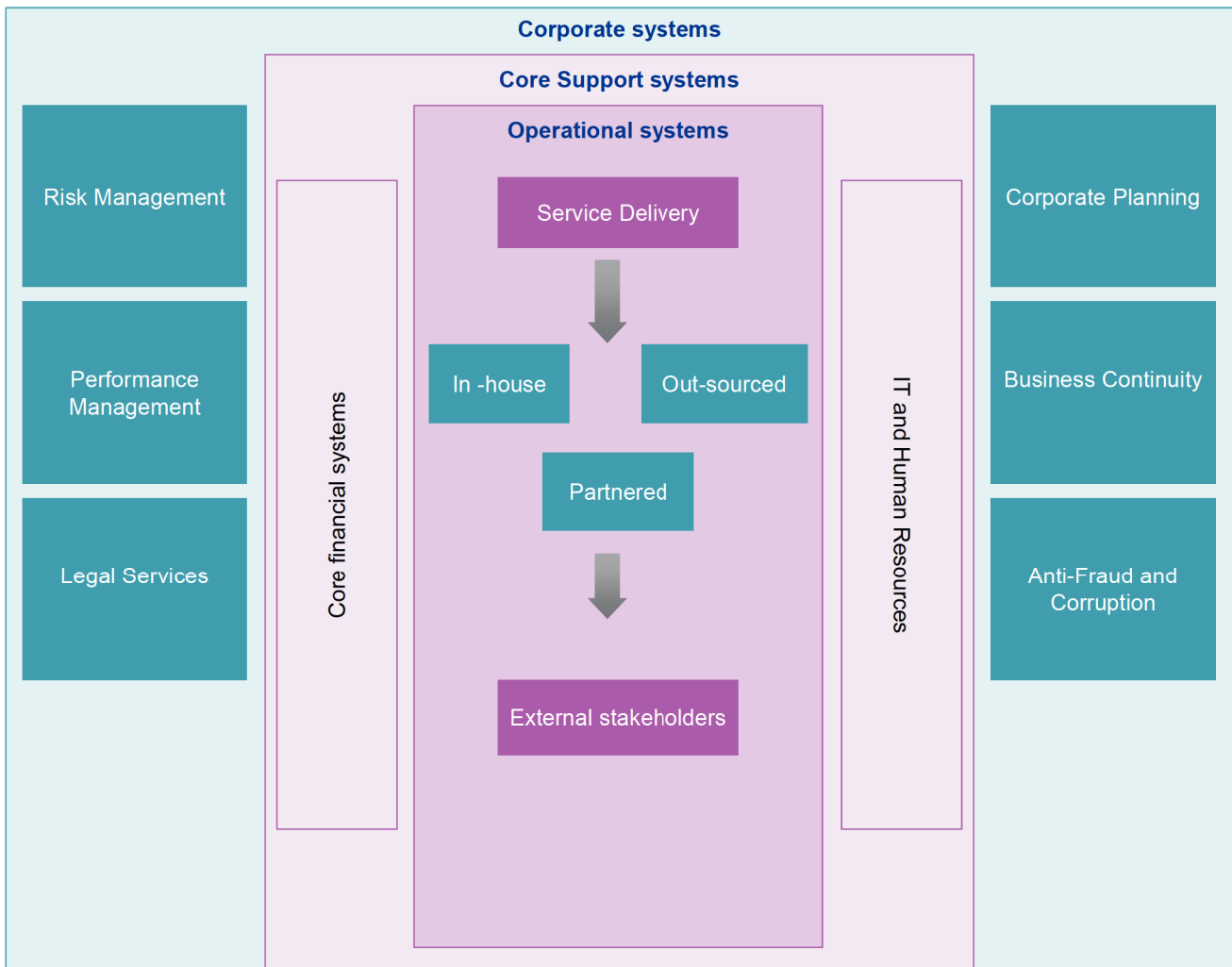
## 4.2 Councils control environment

We have summarised below the Council's overall control environment. The control environment is the collection of systems and processes that helps the Council manage the above risks and achieve its objectives. These groupings form the key strands to our internal audit work:

**Core support:** these include systems that support the Council's service delivery, such as its financial, IT and HR systems;

**Corporate systems:** these are the core business processes that give the Council direction and provide oversight over its activities. For example, the risk management, performance management and corporate planning processes; and

**Operational systems:** these include the main systems associated with the Council's core activities and functions.





## 4. Key Issues and coverage (cont)

### 4.3 Audit Reviews

We have summarised the key areas of our internal audit plan below. The indicative resource allocations for these is shown in Appendix 2.

Area	Internal audit work in 2011-12
<p><b>Core support systems</b></p> <p><b>Core support systems - Financial</b></p> <p><b>Core support systems – Other</b></p>	<p>We have split this work into Core Support Systems – Financial and Other. We have provided further details on both of these areas below.</p> <p>These reviews will include work on the Council's core financial systems, such as its Payroll, Creditors and Bank and Income systems.</p> <p>These reviews will be carried out either as detailed reviews or audits that focus on key high level controls. The approach for each of these audits will be agreed with management prior to the commencement of the review. By adopting this approach we believe that we can prioritise audit resource to areas where it can best be utilised.</p> <p>These reviews will include work on other core systems within the Council including Education Transport, the AMEY contract and Children Services (Early Years).</p>
<p><b>Support system - IT Systems</b></p> <p><b>Corporate system - Anti-Fraud and Corruption</b></p> <p><b>Corporate system - Governance</b></p>	<p>Effective and efficient IT systems are key to ensuring that the Council fulfils its Corporate Objectives. Our work within this area will include reviews of the Council's key applications such as Agresso. In addition we will review the Council's Business Continuity Plan and its IT Strategy to ensure that they are fit for purpose.</p> <p>Our work in this area will also focus on the Council's compliance with ISO27001.</p> <p>The Council has a duty to ensure that its resources are safeguarded against theft, misuse or loss. One of the ways in which it can do this is through the promotion of an effective anti-fraud and corruption environment.</p> <p>Our work in this area will be split into three areas. These will be:</p> <ul style="list-style-type: none"> <li>•helping the Council develop an effective anti-fraud and corruption environment through training Council employees on their responsibilities ;</li> <li>•reviewing the Council's policy documents within this area, such as its Code of Conduct and its Whistleblowing policy;</li> <li>•assessing how the Council could be affected by current issues within the Anti Fraud and Corruption area. For example, we will be reviewing how the Council is implementing the requirements of the Bribery Act 2011.</li> </ul> <p>Clear and effective governance processes are vital to ensure that the Council efficiently manages its business functions. Our work in this area will review the Council's Risk Management and Performance Management functions. In both these areas, the Council is proposing changes to existing arrangements.</p> <p>In addition we will also review the controls and processes by which the Council's Director Assurance Statements are compiled and feed into the Annual Governance Statement.</p>

## 4. Key Issues and coverage (cont)



Area	Internal audit work in 2011-12
<b>Operational systems/risk reviews</b>	<p>Within this area of our plan we include the main systems associated with the Council's core activities and functions. The work in this area will include reviews of:</p> <ul style="list-style-type: none"> <li>•Shared Services;</li> <li>•Adult and Social Care;</li> <li>•Integrated Commissioning;</li> <li>•Public Health;</li> <li>•Sustainability;</li> <li>•PFI Project Management;</li> <li>•Fees and Charges;</li> <li>•Licensing</li> <li>•Planning; and</li> <li>•The HALO Leisure Contract</li> </ul> <p>We will agree the specific terms of reference for each of the above reviews as part of our discussions with management.</p>
<b>Schools</b>	<p>Our work in this area will include a review of the work undertaken by the Shared Services function over Schools bank accounts. As part of our work on Schools we will also sample review a selection of schools based on input from the Directorate of Children and Young Services. This work will involve a detailed review of a schools financial and operational functions.</p>
<b>Follow Up</b>	<p>This work in the area will entail following up high risk recommendation's made within previous year's report and assessing the progress the Council has made in implementing them.</p>
<b>Contingency</b>	<p>A number of days will remain unallocated to ensure that there is sufficient flexibility built within the plan to account for unexpected issues which may arise during the year and which require Internal Audit's input.</p>
<b>Management</b>	<p>Our management time will cover planning, quality control, client meetings, attendance at the Audit and Governance Committee and preparation of our Annual Opinion.</p>



# 5. Resources

## 5.1 Audit team

The core members of your audit team are set out below. The team will be led by Sav DellaRocca as the Interim Head of Audit. Sav will be supported by Mukhtar Khangura who will act as the interim Internal Audit Manager. Both Sav and Mukhtar have been seconded into their roles from KPMG LLP.

Your internal audit team			
			
<b>Sav DellaRocca</b> <i>Interim Head of Audit</i>		<b>Mukhtar Khangura</b> <i>Interim Internal Audit Manager</i>	
Other members of the Audit Team			
<b>Julie Jones</b> <i>Senior Auditor</i>	<b>Gary Williams</b> <i>IT Auditor</i>	<b>Vicky Roissetter</b> <i>Principal Auditor</i>	<b>Sharon Williams</b> <i>Principal Auditor</i>

All of the core Audit team members have significant experience of providing internal audit services. Sav and Mukhtar will be supported by four in-house staff who have been providing internal services to the Council for a number of years and have considerable experience and knowledge of the organisation.

In addition to these core members of your team we will draw on other resources from KPMG to complete our reviews. These staff will report to Sav to ensure that their work is co-ordinated and to ensure that there is seamless delivery of the internal audit service.

# 6. Our Audit Approach and Performance Indicators

## 6.1 Our Audit Approach

We aim to provide a service that not only meets your needs but also maintains consistently high standards and meets the requirements of the Code of Internal Audit. Our detailed audit approach is set out in our Internal Audit Manual, however, we summarised some aspects of the process below:

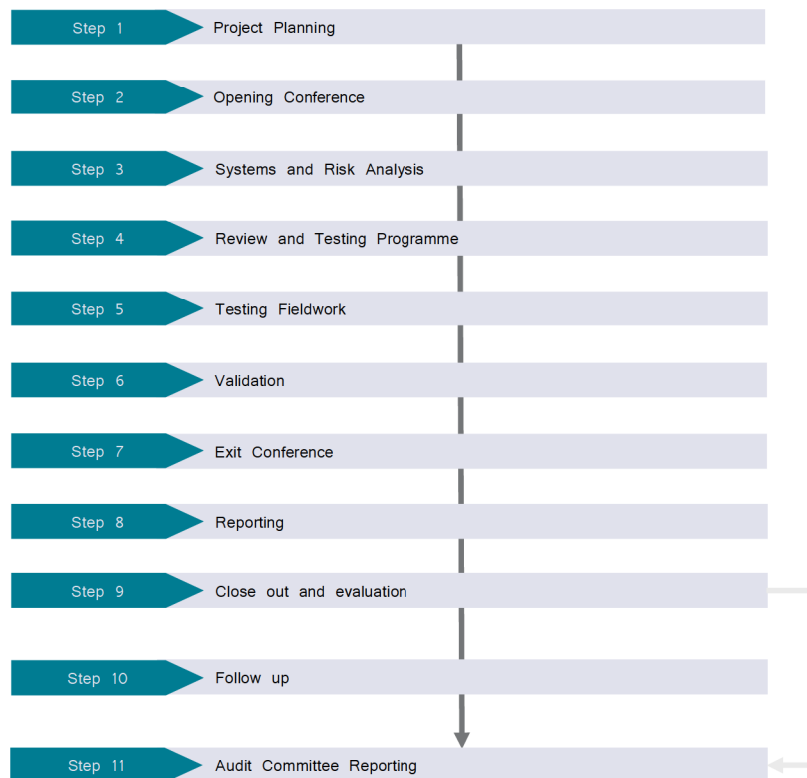
- Preparation of a detailed audit plan;
- Preparation of terms of reference which are provided to you two weeks prior to the audit commencing;
- The use of qualified, highly trained and experienced staff;
- Regular review of progress against the plan to ensure we are delivering the work we have promised;
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to the firm's review protocol; and
- The review of all audit files and reports by a Manager and Head of Audit as part of Quality Assurance process.

## 6.2 Operating principles – the assignment process

We will utilise a risk-based approach to the individual reviews in line with the Code. This involves:

- Identifying the risks that may impact on the systems achieving their objectives and identifying and evaluating the systems of internal control designed by management;
- Compliance testing of the operation of controls;
- Making appropriate recommendations and advising management on how systems of internal control may be streamlined or strengthened.

The different delivery stages of the audit process are shown below. Our approach to individual reviews recognises that different approaches will be required in different circumstances, for example in some cases as systems are being developed or revised it may be beneficial for us to defer detailed testing until a later date, but instead focus on understanding and contributing to the development of the design of the control framework.



## 6. Our Audit Approach and Performance Indicators

### 6.3 Reporting

On completion of our individual reviews, we will produce a report for management that will outline the objectives and scope of our work, risks considered during our review, an assessment of the effectiveness of internal controls and considerations for performance improvements. Each report will include an implementation plan.

Following our internal audit work for the year we will produce an annual internal audit report. This will summarise the work completed and will provide an overall opinion in respect of risk, control and governance arrangements.

### 6.4 Performance Indicators

Our internal procedures ensure that the service we deliver is of an appropriate quality and in compliance with the Code. Over the year, we will also be working to a number of performance measures, these include ones detailed below:

Performance Measure	Target
The percentage of Audits completed within plus 10% of target times.	80%
Managers review drafts reports within 15 working days of receipt	80%
Finals issued within 10 days of agreement by client	80%
Independent review of Audit Services against the CIPFA Code for Internal Auditors	N/A
CIPFA Audit Satisfaction Survey sent out	N/A
The percentage of Service managers satisfied with the Service	90%
Percentage of recommendations accepted by management	95%

We will report performance against these indicators as part of our Annual Assurance Report.

# Appendix 1 - Resource allocation for 2011-12

Our overall audit plan is detailed on the following pages. We have explained below how this has been structured and the how the elements of the plan relate to our planning processes:

System	Internal audit risk assessment				Year
	Inherent	Control	Materiality	Aggregate	11-12

The first part of our analysis shows which area is being reviewed (i.e. operational, corporate or support system) and the specific system proposed for review.

The second part of our analysis considers our internal audit risk assessment and uses the following risk assessment process to analyse the system under review:

The third part of our analysis shows the audit coverage.

Inherent risk	Control risk	Materiality and risk	Aggregate
Our assessment of the overall level of risk associated with the audit area – this is effectively a gross relative risk of the potential impact on you in this area.	Our assessment of the risk that exists within a particular area based upon the controls that we are aware you have put in place – effectively the likelihood of the risk being realised. This is informed by previous internal audit reports and discussions with officers, but will be refined over time.	Our assessment of the potential financial or organisational consequence to you. This might be judged by the potential for a monetary loss or the extent to which it impacts on core business objectives.	This is our overall assessment of risk associated with each of the audit areas. It is reached with regard to each of the previous assessment of risks.

We have set out below audits for 2011/12 based on our risk assessment process above. We have also set out (where applicable) reviews which link into the Council's risk register's (detailed by "Yes"). Audit reviews which do not explicitly link into the Council's risk register are detailed as shaded areas. These reviews are required for a number of reasons including, to inform the overall opinion on the Council's internal controls system's given by the Head of Audit.

Annual plan 2011/12							
		Internal audit risk assessment				Audit coverage	
		Linked to Risk Register's	Inherent Risk	Control Risk	Materiality	Aggregate	Days
Core support systems	Payroll (inc Members allowances)		M	M	H	M	
	Creditors		M	M	H	M	
	Treasury Management	Yes	H	H	H	H	
	Debtors and other Income Streams		M	M	H	M	
	Accountancy and Budgetary Control		H	M	H	H	
	NNDR	Yes	M	M	H	M	
	Council Tax	Yes	M	M	H	H	
	Housing Benefit		M	M	H	H	
	Asset Register	Yes	M	M	M	M	
	Cash and Deposits		M	M	M	M	
	FMS	Yes	M	M	M	M	
	Procurement	Yes	M	M	M	M	

# Appendix 1 - Resource allocation for 2011-12

Annual plan 2011/12							
Internal audit risk assessment							Audit coverage
		Link to Risk Register	Inherent Risk	Control Risk	Materiality	Aggregate	Days
Core support systems	Education Transport	Yes	M	M	M	M	
	Children Services – Early Years	Yes	M	M	M	M	
	AMEY Contract	Yes	M	M	M	M	
	<b>Total for Core Support Systems</b>						200-250
IT systems	ISO 27001	Yes	M	M	M	M	
	Application Testing (inc IDOX and Academy)		M	M	H	M	
	ICT Disaster Recovery	Yes	M	L	H	M	
	IT Strategy	Yes	H	M	M	M	
	<b>Total for IT systems</b>						80-100
Anti-Fraud systems	Anti-Fraud and Corruption Awareness Training	Yes	M	M	M	M	
	Anti-Fraud and Corruption – Audit		M	M	H	M	
	Anti-Fraud and Corruption – Hot Topics		M	L	H	M	
	<b>Total for Anti-Fraud systems</b>						50
Governance systems	Director Annual Assurance Statements		M	M	M	M	
	Risk Management		M	M	H	M	
	Performance Management	Yes	M	L	H	M	
	Benefits Realisation	Yes	M	M	H	M	
	Project Management	Yes	M	M	H	M	
	Governance – (Standing Orders etc)	Yes	M	M	M	M	
	Annual Governance Statement	Yes	M	M	M	M	
	<b>Total for Governance systems</b>						80-110

# Appendix 1 - Resource allocation for 2011-12

System	Internal audit risk assessment					Audit coverage	
	Link to Risk Register	Inherent Risk	Control Risk	Materiality	Aggregate	Days	
Operational systems	Shared Services Project Management	Yes	M	M	M	M	
	Shared Services - Governance (on-going)	Yes	H	M	H	H	
	Rising to the Challenge - Project Monitoring	Yes	M	M	M	M	
	Framework I - Adult and Social Care and Children	Yes	M	H	M	M	
	PFI Project Management	Yes	M	M	M	M	
	Integrated Commissioning	Yes	H	M	M	M	
	Public Health	Yes	H	H	M	H	
	Implementation of Agresso	Yes	M	M	M	M	
	Business Continuity	Yes	M	M	M	M	
	Planning	Yes	M	M	M	M	
	Fee and Charges	Yes	M	M	M	M	
	HALO Leisure Management	Yes	M	M	M	M	
	Licensing	Yes	M	M	M	M	
	<b>Total for Operational systems</b>						140-190
Schools		M	M	M	M	50	
Contingency						30	
MGT	Follow up		N/A for contract management aspects of our work				30
	Contract management and Audit and Governance Committee attendance		N/A for contract management aspects of our work				90
<b>Total</b>						750-900	

We will allocate days for each audit shortly, once we have agreed the scope of each review with the appropriate officer.

## Appendix 2 - Opinion and description of levels of assurance

### Audit Opinion

The audit opinion on the Council's systems of internal control will be based on a review of the following:

- Core Systems, both Financial and Other;
- Anti-Fraud Systems;
- Corporate Systems;
- Governance Systems;
- IT Systems;
- Level of recommendations agreed for action by management.
- Results of the recommendations follow-up review.

An audit conclusion will be given to each audit review, which will inform the Head of Internal Audit's overall opinion on the Council's system of internal control.

Regular progress 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.

We will use the following conclusions as the basis of the levels of assurance that we provide you with after each review (although it should be noted that these represent an indicative approach as the overall assurance provided are a matter of professional judgement).

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, <b>or</b> 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).

## Appendix 2 - Opinion and description of levels of assurance

We have also agreed the following definitions for the priority of the recommendations that we may raise within our reports:

Priority	Definition
<b>Red</b> <i>(Priority 1)</i>	A <b>significant</b> weakness in the system or process which is putting the Council at <b>serious risk</b> of not achieving its <b>strategic</b> aims and objectives. In particular: significant adverse impact on <b>reputation</b> ; non-compliance with key statutory requirements; or substantially raising the likelihood that any of the Council's strategic risks will occur. Any recommendations in this category would require <b>immediate attention</b> .
<b>Amber</b> <i>(Priority 2)</i>	A <b>potentially significant</b> or <b>medium level</b> weakness in the system or process which <b>could</b> put the Council at risk of not achieving its strategic aims and objectives. In particular, having the potential for adverse impact on the Council's reputation or for raising the likelihood of the Council's strategic risks occurring, <b>if not addressed</b> .
<b>Green</b> <i>(Priority 3)</i>	Recommendations which could <b>improve</b> the efficiency and/or effectiveness of the system or process but which are <b>not vital</b> to achieving the Council's strategic aims and objectives. These are generally issues of <b>good practice</b> that we consider would achieve better outcomes.



<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>23 AUGUST 2011</b>
<b>TITLE OF REPORT:</b>	<b>ANNUAL GOVERNANCE STATEMENT</b>
<b>PORTFOLIO AREA:</b>	<b>RESOURCES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

The purpose of this report is to seek the Audit and Governance Committee's approval of the Annual Governance Statement for 2010/11.

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT**

- (a) **The Audit and Governance Committee reviews the draft Annual Governance Statement 2010/11 attached as Appendix 1 to this report.**
- (b) **The Audit and Governance Committee approves the draft Annual Governance Statement 2010/11 for inclusion in the Statement of Accounts for 2010/11.**

### **Key Points Summary**

- The draft Annual Governance Statement 2010/11 is set out in Appendix 1.
- The Annual Governance Statement 2010/11 has been drafted in accordance with the requirements of the Accounts and Audit Regulations 2003.
- The main areas where improvements are required to the Council's governance and control processes include continuing to embed risk management, ensuring improvements are carried out to key systems where marginal assurance is given and controls are embedded within the Shared Services Partnership.

### **Alternative Options**

- 1 There are no alternative options as the publication of the statement is a statutory requirement.

## **Reasons for Recommendations**

- 2 This is a statutory requirement.

## **Introduction and Background**

- 3 Section 12, paragraph 5.12.5 of the Audit and Governance Code sets out the terms of reference of the Audit and Governance Committee. One of the requirements of the terms of reference is that the Committee review and approve the Annual Governance Statement.

## **Key Considerations**

- 4 The Council has a responsibility for conducting at least annually a review of the effectiveness of the governance framework including the system of internal control. This is reported through the Annual Governance Statement which is reviewed and approved by the Audit and Governance Committee prior to its inclusion within the Council's Statement of Accounts. The Annual Governance Statement also provides commentary on how the Council's governance framework including the system of internal control can be improved.
- 5 Actions on significant internal control issues identified in the Annual Governance Statement for 2009/10 were reported to the Audit and Governance Committee as part of the Interim Assurance Reports in 2010/11.
- 6 The Audit and Governance Code authorises the Audit and Governance Committee to review and approve the Council's Annual Governance Statement.

## **Financial Implications**

- 7 There are no financial Implications.

## **Legal Implications**

- 8 The Accounts and Audit Regulations include requirements for all Council's to produce an Annual Governance Statement.

## **Risk Management**

- 9 There is a risk that the statement does not present a full and accurate description of the Council's governance and control arrangements.

## **Appendices**

### **Appendix 1- Audit and Governance Statement 2010/11**

## **Appendix 1**

### **Draft Annual Governance Statement 2010/11**

#### **1. Scope of responsibility**

- 1.1 Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this duty, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. These include arrangements for the management of risk.
- 1.3 The Council has adopted a code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance & Accountancy (“CIPFA”)/Society of Local Authority Chief Executives (“SOLACE”) framework for delivering good governance in local government. A copy of the code can be obtained from the Assistant Director – Law, Governance and Resilience.
- 1.4 The Annual Governance Statement for 2010/11 explains how the Council has complied with its code of corporate governance. It also explains how the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) regulations 2006 in relation to the publication of a statement have been met.

#### **2. The purpose of the Governance framework**

- 2.1 The governance framework comprises the systems, processes, culture and values by which the Council is managed and controlled. The framework also sets out how the Council accounts to, engages with and leads the community.
- 2.2 The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
- 2.3 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives as an individual’s failure to comply with policies and procedures, even when provided with comprehensive training on them, can never be entirely eliminated.
- 2.4 The system of internal control is based on an ongoing process designed to:
  - (a) identify the risks to the achievement of the Council’s policies, aims and objectives;
  - (b) evaluate the likelihood and impact of the risks should they be realised; and
  - (c) identify and implement measures to reduce the likelihood of the risks being realised and to negate, or at least mitigate, their potential impact.

#### **3. The Governance framework**

- 3.1 The Council’s corporate governance framework was approved by the Audit and Corporate Governance Committee on 21 November 2008. It seeks to ensure that the principles of

good governance are embedded into all aspects of the Council’s work. The five principles agreed by the Audit and Corporate Governance Committee have been linked to the six principles of good governance outlined in the SOLACE/CIPFA publication “Delivering good Governance in Local Government”.

3.2 For ease of reference, the following table matches the Council’s set of principles with those contained in the SOLACE/CIPFA guidance:

<b>SOLACE/CIPFA* Guidance</b> - Principle 1	Focusing on the purpose of the authority, on outcomes for the community and creating and implementing a vision for the local area.
<b>Council</b> – Principle 1	Provide the best possible service to the people of Herefordshire.
<b>SOLACE/CIPFA* Guidance</b> - Principle 2	Members and officers working together to achieve a common purpose with clearly defined functions and roles.
<b>Council</b> – principle 2	Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness.
<b>SOLACE/CIPFA* Guidance</b> - Principle 3	Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
<b>Council</b> – Principle 3	Require high standards of conduct.
<b>SOLACE/CIPFA* Guidance</b> - Principle 4	Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
<b>Council</b> – Principle 4	Take sound decisions on the basis of good information.
<b>SOLACE/CIPFA* Guidance</b> - Principle 5	Developing the capacity and the capability of members and officers to be effective.
<b>Council</b> – Principle 2	Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness.
<b>SOLACE/CIPFA* Guidance</b> - Principle 6	Engaging with local people and other stakeholders to ensure robust public accountability.
<b>Council</b> – Principle 6	Be transparent and open: responsive to Herefordshire’s needs and accountable to its people.

3.3 To comply with the Code of Governance (approved by Council on 31 October 2008) the following has been carried out:

**Principle 1 – Provide the best possible service to the people of Herefordshire**

3.4 The Council continues to develop the partnership with NHS Herefordshire, with work being done on the best approach to shared service delivery. The Council and PCT work as one organisation to plan, purchase, design and deliver care around people’s individual needs close to where they live. There is a single corporate plan with shared targets, one set of agreed values, a joint management team, and several joined up teams and services.

3.5 In November 2010, the Council agreed to set up a Joint Venture (JV) Company with the NHS Herefordshire and Herefordshire Hospitals Trust to deliver shared services to all the partners with effect from 1 April 2011.

- 3.6 The Council has a Joint Risk Management and Assurance Policy and Joint Risk Management Assurance Guidance which was approved by Cabinet on 26 November 2009.
- 3.7 The Council has an Environmental Management System (British Standard 14001).

**Principle 2 – Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness**

- 3.8 The Constitution clarifies roles and responsibilities and ensures accountability for setting the policy framework, including the corporate objectives and long term outcomes in the Corporate Plan, for fulfilling executive functions including a much clearer scheme of delegation to officers, improved planning arrangements and greater clarity of roles for all councillors.
- 3.9 The Council has undertaken a constitutional review led by the Constitutional Review Working Group (CRWG). This has led to various changes and updates to the Constitution to ensure that it continues to reflect legislative requirements and to remove any ambiguities.
- 3.10 The Chief Executive is the Head of Paid Service, the Chief Officer – Finance and Commercial Services is designated the Section 151 Officer and the Assistant Director – Law, Governance and Resilience is designated the Council’s Monitoring Officer.
- 3.11 There is a formal staff performance review requirement for all officers.

**Principle 3 – Require High Standards of Conduct**

- 3.12 Member officer development on a range of governance topics has been undertaken in the past 12 months. This has included training for Members and Officers on the new Constitution, on the single Planning Committee, which members of the Standards Committee were invited to attend. A bespoke programme of development was carried out to support the overview and scrutiny and scrutiny function, and work planning activity in particular.
- 3.13 Work has continued with Parish Councils to promote good local governance, including undertaking some targeted work with some Councils and more general training and development work with Herefordshire Association of Local Councils (HALC). The Herefordshire Parish Compact was highlighted in a national study on Parish governance.
- 3.14 There are Codes of Conduct for Members and Officers.
- 3.15 The Standards Committee has continued actively to promote high standards of ethical behaviour through its casework, training and development activities. The Standards Committee were consulted on the new Constitution to ensure that it reflected high ethical standards. To respond to the Standard’s Committee increased level of activity, a Vice Chairman was appointed in May 2010.
- 3.16 The Council has a process in place for dealing with complaints about Member behaviour. Between the period January 2010 to February 2011, 47 complaints were received of which 33 required no action, 10 were resolved through additional training being provided and others were dealt with through investigation. 36 of the complaints were related to parish/town councillors and only 11 to Herefordshire councillors.
- 3.17 The Council has shared values, which act as a guide for decision-making and a basis for developing positive and trusting relationships within the Council.

- 3.18 There are procedures and policies in place to ensure that Members and Officers are not influenced by prejudice, bias or conflicts of interest when making decisions and when dealing with stakeholders.
- 3.19 A register of members' interests is maintained and updated on a regular basis.
- 3.20 An updated Anti-fraud and Anti-corruption Policy is in place.
- 3.21 A Whistle-blowing Policy is in place and forms part of the Council's Constitution.
- 3.22 There is a formal Monitoring Officer Statement in relation to the use of the Monitoring Officers powers.
- 3.23 Written assurances are received from key managers. These assurances highlight areas of concern and confirm that the service areas has effective controls in operation.

**Principle 4 – Take sound decisions on the basis of good information**

- 3.24 There is an overview and scrutiny function that encourages constructive challenge.
- 3.25 The Council has an Audit and Governance Committee, which is independent of the executive and scrutiny functions.
- 3.26 The Council has a report writing framework and template which have been developed to ensure that all reports have contributions from key support officers, eg finance, legal, risk management and consultation. Report writing guidance makes it clear what other matters should be considered when preparing reports, eg equalities and human rights, alternative options.
- 3.27 Decisions made by Cabinet and Committees are based upon written reports as presented.
- 3.28 There is a Data Quality Policy previously agreed by Cabinet in May 2008 and updated in July 2010.

**Principle 5 – Be transparent and open: responsive to Herefordshire's needs and accountable to its people**

- 3.29 All meetings are held in public unless there are legal reasons for confidentiality.
- 3.30 The format of the Cabinet meeting is designed to ensure greater transparency of decision-making and to emphasise the separate roles of cabinet members, scrutiny members, political group leaders and to ensure that those in attendance express the views of the members of the Committee or group that they represent.
- 3.31 All Committee agendas, reports and minutes are publicly available on the Council's website other than for confidentiality reasons.
- 3.32 The public are allowed to ask a question at Council as long as a copy of the question is deposited with the Assistant Director – Law, Governance and Resilience.
- 3.33 There is a Herefordshire Customer Insight Unit, established as a single point of contact for Herefordshire Council and the Primary Care Trust. The unit is made up of officers from across the Council and Primary Care Trust, who work together to administer and monitor feedback such as feedback and complaints. Every directorate receives monthly performance reports relating to feedback.

- 3.34 Since being established in January 2010, a total of 177 compliments and 352 complaints have been received. It should be noted that no complaints escalated to the Local Government Ombudsman or to the Parliamentary and Health Service Ombudsman were upheld.
- 3.35 Arrangements are in place for the Council to inform the public about council services and service developments and these include the publication of the Herefordshire Matters Magazine, which is sent to every household in the county on a quarterly basis. This is supplemented by regular press and media notices.
- 3.36 Further information about services can be found on the Council's website and through other channels. For example, local election results were announced via Twitter in a pilot exercise during the 2011 local elections.
- 3.37 Historically, PACT (Police and Communities Together) meetings have been used as regular opportunities for the council and its partners to engage with local people and to discuss issues which are relevant to local communities. This system has been under review and will change in 2011/2012.

#### **4. Review of effectiveness**

- 4.1 Herefordshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council, who have responsibility for the development and maintenance of the governance environment: the Chief Internal Auditor reports on the audits conducted throughout the year and also by comments made by the external auditor and other review agencies and inspectorates.
- 4.2 The process of review is continuous and results in the Chief Internal Auditor's assurance reports presented at each meeting of the Audit & Corporate Governance Committee. These reports are used to inform the Annual Governance Statement. The Annual Governance Statement is signed by the Leader of the Council, the Chief Executive, the Chief Officer – Finance and Commercial Services and the Assistant Director – Law, Governance and Resilience.
- 4.3 The main independent sources of assurance on the operation of the corporate governance framework are the Council's Audit Services team, its external auditors, other external review bodies and the Audit and Governance Committee.
- 4.4 The review of effectiveness for the current financial year identified that the following work had been undertaken in 2010/11 in relation to the key aspects of the Council's governance framework outlined in paragraphs 4.5 to 4.70.

##### **(A) Constitution**

- 4.5 At its meeting on 13 November 2009, the Council tasked the Monitoring Officer (Assistant Director – Law, Governance and Resilience) to undertake further work on the constitution under the direction of the Constitutional Review Working Group (CRWG). During 2010/11, the Council continued with Phases 2 and 3 of its Constitutional review.
- 4.6 In May 2010, a number of changes were proposed and agreed to clarify existing arrangements and to respond to legislation. These included the designation of the Deputy Chief Executive and Director of Corporate Services be designated as statutory Scrutiny Officer, the creation of position of Vice Chairman to the Standards Committee and that the Council receive formal reports from the Standards Committee at all its meetings.

- 4.7 The Council approved changes to its Contracts Procedure Rules following review by a team including members of Procurement and Legal Services, with Councillor M Cooper as the Lead Member on behalf of the CRWG and the Chief Officer – Finance and Commercial Services as the Lead Director. The new Constitution was formally approved following the completion of Phase 2 in July 2010 and took account of a wide range of comments made by Members during the process.
- 4.8 As part of Phase 3 of the Constitutional Review in November 2010, the Council approved a revised set of Financial Procedure Rules and new arrangements for the discharge of Regulatory functions. These changes ensure that all appropriate regulatory functions are the responsibility of the Cabinet or Cabinet member are within the remit of the Regulatory Committee, that the delegations authorising officers to discharge those functions are clear and that there are safeguards providing for review and appeal.
- 4.9 In November 2010, the Council also considered its response to the Local Government and Public Involvement in Health Act 2007 to come into effect from May 2011. The Act requires the Council to consider new forms of executive arrangements. Following consultation and consideration of various options, the Council agreed to adopt Leader and Cabinet executive governance model with effect from the 3<sup>rd</sup> day after its elections on 5 May 2011.
- 4.10 One decision made by Cabinet was called in during 2010/11 as follows:
- (a) Discontinuation of Dilwyn Church Primary School
- 4.11 Cabinet responded formally to the comments made by the Children’s Services Scrutiny Committee.
- 4.12 On 4 March 2011, the Annual Report of the Overview and Scrutiny Committee was presented to Council. The report summarised the work undertaken by the six Scrutiny Committees in 2010/11.

**(B) Corporate Objectives and Priorities**

- 4.15 At their meetings, respectively on 28 January 2010 and 5 February 2010, the PCT Board and Council approved the high level vision, themes, strategic objectives and long term outcomes for the Joint Corporate Plan 2010-13.
- 4.16 The completion of the detailed information in the plan, namely performance measures, targets, key projects and milestones, was undertaken by the Chief Executive with the HPS Leadership Team. This was approved by Cabinet on 30 June 2011.
- 4.17 The Plan provides the starting point for performance monitoring reporting and management across the Council during 2010/11.

**(C) Medium Term Financial Strategy**

- 4.18 The Medium Term Financial Strategy was developed in line with the Council’s approved financial procedures. There was an integrated approach to corporate, service and financial planning processes. It is a joint plan with Herefordshire PCT.
- 4.19 The updated Medium Term Financial Management Strategy for 2010 / 13 was presented to Cabinet on 21 January 2011. Cabinet recommended to Council the recommendations for updating.
- 4.20 In their Annual Audit Letter dated November 2010 the Audit Commission noted that “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”.

**(D) Code of Governance**

- 4.21 On 21 October 2008, Council reviewed and approved the revised Code of Governance. Both the Audit and Corporate Governance Committee and the Standards Committee took part in the consultation process.
- 4.22 The Audit & Corporate Governance Committee approved the Annual Governance Statement for 2009/10 at its June 2010 meeting. Actions taken on the significant internal control issues identified in the year were reported to the Audit and Governance Committee during the year.
- 4.23 The three Interim Assurance Reports by the Chief Internal Auditor informed the Audit and Corporate Governance Committee of progress on key issues identified in 2009/10.
- 4.24 The significant internal control issues identified in the Annual Governance Statement for 2009/10 area are being addressed, with the current status outlined in the current Chief Internal Auditor’s Annual Assurance report. All issues have been addressed with the exception of the embedding of risk management.
- 4.25 The Audit and Governance Committee considered the Audit Commission’s Annual Governance Report at their September 2010 meeting. The Audit Commission made two medium priority recommendations which were accepted by the Chief Officer – Finance and Commercial Services.
- 4.26 The Code of Governance forms has been updated as part of the review of the Constitution.

**(E) Financial management arrangements**

- 4.27 The Audit Commission’s Annual Audit and Inspection Letter dated November 2010 highlighted that the Council has good budget monitoring and internal financial reporting arrangements. It commented that 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.
- 4.28 The Council delivered services within budget for 2010/11.

**(F) Performance management arrangements**

- 4.29 The Council has a joint performance improvement framework which underpins the Joint Corporate Plan. The performance improvement framework encompasses the Council’s arrangements for preparing directorate and service plans in support of corporate priorities.
- 4.30 The arrangements for monitoring performance within directorates and reporting progress to members is established and culminated in quarterly Integrated Corporate Performance Reports to Cabinet in 2010/11. The performance reports details performance against key priorities, targets and commitments. Each Integrated Corporate Performance Report is subject to rigorous challenge by the Overview and Scrutiny Committee and key issues referred to the relevant scrutiny committee for further consideration.

- 4.31 The end of year Integrated Corporate Performance Report was presented to Cabinet on 30<sup>th</sup> June 2011. In summary the report states that:
- Direction of travel: For those indicators where data has been reported that can be compared with the same period last year, 50.7% are showing improvement (50% in 2009-10).
  - Achievement of targets: where either end of year or latest data is available 47.2% have achieved or exceeded target.
  - Delivery of projects: the majority of projects either have been delivered to schedule or are on target.
- 4.32 Each directorate has a designated Performance Improvement Manager who works alongside the directorate management team and senior managers to ensure performance management is embedded into directorate and service activities. All directorates also have access to Performance Plus which gives senior managers ‘live’ performance information.
- 4.33 The Audit Commission’s Use of Resources Report, dated November 2010, highlights that the way the Council monitors and manages its performance has improved.

**(G) Risk management arrangements**

- 4.34 The Audit Commission’s Annual Audit and Inspection dated November 2010 stated that the Council has made progress in strengthening its risk management framework and in embedding risk management at directorate and business process levels. This was reinforced further in a review by Audit Services in March 2011 which saw the Corporate Risk Management system being given a **satisfactory** audit opinion. Audit Services last issued a report on this system in July 2009 which gave a **marginal** audit opinion.
- 4.35 Notwithstanding the ‘satisfactory’ opinion, further assurance measures are in the process of being introduced to ensure that all risks are being captured and monitored, as part of a dynamic process, at service level and escalated, as appropriate. Audit services concluded, during their review, that the effective identification and control of risks could be bettered if both ‘top/down’ and ‘bottom/up’ approaches are adopted and believe that this would also lead to an embedded risk culture at all levels.
- 4.36 The Cabinet Member – Corporate and Education has responsibility for Risk Management, with the Deputy Chief Executive and Director of Corporate Services responsible for risk management at officer level. The Deputy Chief Executive commissioned a risk consultant to undertake a review of the Council and NHS (PCT) existing risk management methodology and links between risk management, governance, assurance and reporting and make recommendations for improved effectiveness.
- 4.37 The risk consultant concluded that whilst the Council had in place policies, processes, procedures, directorate risk registers and a corporate risk register, there was a need to embed risk management. There was also a need to make risk management a dynamic tool to assist the Council in its decision making processes and to be fully able to provide assurance to the Cabinet.
- 4.38 Improvements. Accordingly, to ensure a dynamic and ‘whole systems’ approach to risk management, the Resilience Team was formed in April 2011; the team was an amalgamation of emergency planning, business continuity, health and safety and corporate risk functions. This acknowledged that effective identification and assessment of risk, which could obstruct seriously HPS’s performance of its functions, underpins all of the Resilience Teams business processes.
- 4.39 Although the review carried out by the risk consultant, in November 2010, identified proposals to provide refresher training to senior managers and also to review ‘team’ risk registers for non-compliance, audit services felt that that review did not emphasise the

importance of risk management within the 'service' and 'team' functions below the Directorates, or reinforce the risk culture at that level. To that end, the HPS Risk Management & Assurance Policy and Guidance has been rewritten and is undergoing consultation prior to being presented for approval to the Audit and Governance Committee. This policy and guidance document is applicable across the partnership and is mindful that it is essential, when faced with ongoing change, transformation and loss of corporate 'memory', to maintain effective risk management processes that stretch across organisational boundaries. Once approved, training will be provided at all staff levels. In the meantime, the Resilience Team Manager is providing clarification on the process at management team meetings.

4.40 The Resilience Group is chaired by the Deputy Chief Executive and Director of Corporate Services, with empowered representation from each directorate and division. The Group represents the interests and views of all departments in developing and maintaining a corporate approach to risk management issues; develops, on behalf of the HPS LT, the strategic approach for the implementation of the HPS Risk Management & Assurance Policy and Guidance; undertakes joint discussion and consideration of risk, including corporate risk to HPS strategic objectives; where appropriate, makes recommendations to senior management, including the HPS LT and Cabinet; and, provides a forum where all members can raise issues, concerns and share information and best practice relating to all aspects of risk, for consideration and action as appropriate. The establishment of the Resilience Group is an indication of the organisation's commitment to risk management, business continuity and health and safety.

4.41 Herefordshire Multi-Agency Risk Management. There have been some significant developments on the management of risk with partner agencies, aligned to the new structure of the Herefordshire Multi-Agency Tactical Group; Chaired by Superintendent Hill, West Mercia Police and Vice Chaired by Erica Hermon, Resilience Team Manager. Herefordshire-wide risks, that require a multi-agency response, are being compiled and shared with partner agencies, reinforcing and signalling that a strong local multi-agency partnership exists to protect our public and provide local determination, prioritisation and direction. The Herefordshire Multi-Agency Silver Group will then match capacity with demand/expectation for risk mitigation, reflecting the risk priorities and the close integration of the Group's delivery functions.

#### **(H) Anti-Fraud, anti-corruption and whistle-blowing arrangements**

4.42 The Council has an anti fraud and corruption policy which was last updated in March 2010. There is also a Whistle-blowing policy which was last updated in March 2011. All policies are available on the Intranet. Staff induction includes ensuring employees are aware of all relevant policies and procedures. Reminders are issued throughout the year through corporate communication channels. The Audit Commission survey on fraud and corruption - 2010/11 found no cases involving officers or members. There were no whistleblowing incidents recorded for 2010/11.

#### **(I) Project management arrangements**

4.43 The Council has adopted the Prince 2 project management methodology for all major programmes and projects. The key principles of the Prince 2 methodology are applied to the management of less major projects. There is a Corporate Programmes team with project management responsibilities.

4.44 The Joint Corporate Plan 2010-13 contains a large number of projects. The status of projects is monitored through the quarterly Integrated Corporate Performance Report presented to Cabinet and Overview and Scrutiny Committees. The Audit and Governance Committee also received a report on the status of major projects in September 2010.

## **(J) Community engagement**

- 4.45 During the course of the year a Community Engagement Framework was developed, led by HPS, but working through a Task and Finish Group which included a number of partners across the Local Strategic Partnership. Following an event in the Autumn, a Framework was produced and approved by Cabinet on 17 March 2011, subject to further comments from parish councils. Implementation of the framework, exploring how Herefordshire can best deliver the wide spectrum of community engagement will be progressed in earnest in 2011/12, linked to the newly emerging locality strategy.
- 4.46 Cabinet approved the joint Herefordshire Equality and Human Rights Charter on 21 October 2010 and it was publically launched at a Herefordshire Equality and Human Rights conference November 2010.
- 4.47 The “Reaching the Hearts of Herefordshire” programme continued, placing elected members at the heart of their community. The aim of the programme is to engage all partners, with council staff supporting local ward members to work within their communities has been introduced to support elected members to find ways for public services and communities to work together at a local level. A number of successful outcomes have come from the five wards where this approach was piloted. For instance, a Herefordshire wide loyalty card, Truffle Herefordshire, was launched in November 2010, designed to promote and support local business.
- 4.48 Community led planning continued to be supported across the County, with 56 plans having been published by March 2011. The development of the plans, provides communities opportunities to identify issues which are important for the local area, and to engage with service providers, to work together to find solutions. The process is initiated by the local community and takes an average of 18 months to 2 years to complete to publication stage. Community led planning is being used with initiatives, such as Reaching the Hearts of Herefordshire and participatory budgeting to form a very proactive approach to engagement, with communities being able to influence the delivery of services.
- 4.49 During 2010, the Council, together with its partners, conducted a review of PACT (Partners and Communities Together) meetings, which were held in 12 locations across the county. As a consequence, the implementation of the Community Engagement Framework will look at developing an alternative programme for engaging with local communities and encouraging them to get involved. This will be linked to the Locality Strategy, which was approved by Cabinet on 17 March 2011. The last PACT meetings were held in Autumn 2010. In the meantime, officers continued to engage with communities on important issues.
- 4.50 Consultation and gaining feedback on the development and provision of services has been ongoing. This is done through user groups, surveys and feedback from individuals as well as community representatives. Online consultation takes place using econsult and can be accessed via the “Have your say” link on the home page of the website. The website is also used to provide up to date information on services and initiatives which the Council is leading on. In partnership with the Primary Care Trust, the newsletter “Herefordshire Matters” was published regularly during the year carrying a number of articles addressing specific equality issues.

## **(K) Data Quality**

- 4.51 The Council recognises the importance of data quality and has a data quality action plan aimed at improving the quality of arrangements in place.

- 4.52 The essential elements of the quality action plan have now been completed. The Cabinet ‘signed off’ the plan on 22 July 2010 accepting that 7 tasks remain amber rated. This is an improved position when compared to the prior year when some tasks were rated as ‘red’. Of the outstanding actions, two depend on other organisations.
- 4.53 In its Annual Audit Letter for 2009/10, the Audit Commission commented that 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.
- 4.54 The need to maintain and improve data quality remains. The immediate actions deemed necessary have been identified, These will continue to be monitored but through the integrated corporate performance report to Cabinet & the Overview and Scrutiny Committee rather than by separate reports.
- 4.55 There is a Data Quality Policy previously agreed by Cabinet in May 2008 and updated in July 2010.

**(L) Independent review**

- 4.56 The Audit and Governance Committee met five times during the year. The Audit Commission’s Annual Audit Letter dated November 2010 states that “The Audit and Governance Committees plays a high profile and effective role”.
- 4.57 The Council’s responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2003. The responsibility is delegated to the Chief Officer - Finance and Commercial Services. This Officer also has responsibility for the administration of the Council’s financial affairs as set out in section 151 of the Local Government Act 1972.
- 4.58 The Audit Services Team operates in accordance with best practice, professional standards and guidelines. The Team independently and objectively reviews, on a continual basis, the extent to which reliance can be placed on the internal control environment. This is evidenced by the opinion given on the Council’s overall system of control by the Interim Head of Audit which is satisfactory for 2010/11.
- 4.59 The Audit & Corporate Governance Committee receives interim and annual reports on internal audit activity and approves the annual audit plan and Audit Strategy.
- 4.60 The Audit Commission’s Annual Audit and Inspection Letter dated November 2010 highlighted that they placed reliance on the work of Internal Audit in relation to substantive tests that addressed the risks of mis-statement identified.
- 4.61 A formal review of the Council’s system of internal audit was completed during 2010/11. The review found that Internal Audit was largely compliant with the CIPFA Code of Practice on Internal Audit with minor improvements required. In particular, it was felt that a more strategic focus around the partnership agenda should be achieved and less time spent on fundamental systems and schools.
- 4.62 In November 2010, the Council took the decision, along with its partners, NHSH and HHT, to tender for the provision of audit services as part of its shared service agenda to deliver better outcomes for Herefordshire through the delivery of efficiencies. New arrangements are in place for 2011/12.

- 4.63 The Monitoring Officer will be commenting on the Annual Ombudsman report, which was received by the Council in June 2011.
- 4.64 Following the review of the Council's fundamental systems and other key systems the outcome was that all but one of the systems were graded as either good or satisfactory. Education Transport was given a marginal audit opinion due to the need for improved risk management and income control and procedures. In other key systems, two satisfactory and a good audit opinion was given. Work in relation to Project Management is currently being progressed.

**(M) External Inspections**

**Audit Commission Annual Audit and Inspection Letter (December 2010)**

- 4.65 The Audit Commission in their Annual Audit Letter stated that the Council is managing and using its money, time and people to deliver value for money. The Letter notes that further work is required to assess how the PFI project can deliver value for money.
- 4.66 The Audit Commission also noted 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. The Letter also stated that Council should review if the Joint Venture Company (JVC) remained the right model and to gauge whether its contribution to the JVC is securing value for money.

*Ofsted*

- 4.67 In June 2010 Ofsted undertook the first annual inspection of contact, referral and assessment arrangements for children's safeguarding in Herefordshire. This inspection highlighted significant weaknesses in the referral and assessment service resulting in one area for priority action. Prompt and effective remedial action was taken to ensure safety of all children referred for a service and work to substantially and sustainably improve this particular service is ongoing.
- 4.68 Ofsted undertook a full announced inspection of safeguarding and looked after children's services across the partnership during September 2010. The overall judgments were, for safeguarding – overall effectiveness and capacity to improve both adequate; for looked after children – overall effectiveness and capacity to improve both good.
- 4.69 Ofsted has published its annual rating of children's services in Herefordshire as adequate overall.

*Information Technology Security Techniques (ISO 27001)*

- 4.70 The external assessor SGS completed their last 2010-11 audit in September 2010, and concluded that Herefordshire Council ICT Services and Modern Records Unit (MRU) has maintained its information security management system in line with the requirements of the standard.
- 4.71 During Quarter 1 and Quarter 2, ICT Services fell behind with implementing audit findings and agreeing new audit recommendations which in turn caused a delay in new audits being carried out. By Quarter 3 this issue had been resolved with the ICT Director's assistance; the monitoring of outstanding actions showed a marked improvement, and the internal audits were completed.
- 4.72 The Council's ISO27001 certification was continued.

*Environmental Management System (ISO 14001)*

- 4.73 The external assessor SGS completed their last 2010-11 audit in December 2010 and concluded that Herefordshire Council has maintained its environmental management system in line with the requirements of the standard. Three minor nonconformities were raised, whilst the major non-conformity (that was raised at the previous surveillance visit) was verified by the external auditors as closed out.

The monitoring of outstanding audit actions showed a marked improvement, and it was noted that a larger proportion of planned internal audits had been carried out (by the sustainability team and service area representatives) compared to the previous year.

**(N) Assurances by Key Managers**

- 4.74 Written assurances have been received from key managers. These assurances highlight areas of concern and confirm that:

- (a) action is being taken on recommendations from audit reviews;
- (b) council money is being banked promptly and that reconciliations to the Council's corporate finance systems are up to date;
- (c) gifts and hospitality have been declared in line with Council policy;
- (d) effective controls are operational in each service area.

- 4.75 Written assurances have also been received from directors and heads of service, giving assurance that there are no incidents of suspected fraud or corruption within their service area.

- 4.76 The Audit & Corporate Governance Committee has been advised of the implications of the result of the review of the effectiveness of the governance framework. The Committee will monitor progress with plans to address the areas identified for improvement in order to ensure that systems are continually improved.

**5. Significant Governance issues**

- 5.1 The significant governance issues identified as a result of the annual review of the Council's governance arrangement are as follows:

5.2 The need to continue to embed Risk Management (Deputy Chief Executive)

5.3 Ensure that improvements are made to key systems given a marginal audit opinion (Chief Officer – Finance and Commercial Services).

5.4 Continue to embed the control environment in relation to the Shared Services Partnership (Deputy Chief Executive and Director of Corporate Services).

Cllr John Jarvis  
Leader of the Council

Signed:  
Date:

Chris Bull  
Chief Executive & Head of Paid Services

Signed:  
Date:

David Powell  
Chief Officer – Finance and Commercial Services & Section 151 Officer

Signed:  
Date:

Chris Chapman  
Assistant Director – Law, Governance and Resilience  
and Monitoring Officer

Signed:  
Date:



<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>23 AUGUST 2011</b>
<b>TITLE OF REPORT:</b>	<b>MONITORING OFFICER REPORT 2010-11</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To inform the Committee about the matters within the responsibility of the Monitoring Officer and the Council's performance for 2010-11 with regard to the complaints to the Ombudsman and the standards framework.

### **Background**

This report forms the regular report from the Monitoring Officer to the Audit and Governance Committee

### **Recommendation**

**It is recommended that the Committee:**

- 1. Notes the content of this report and provides comments and feedback to the Monitoring Officer**

### **Key Points Summary**

- The Monitoring Officer's activities in the period from June 2010 to date have focused on:
  - A Constitutional review programme – now in Phase 3
  - Holding all-Council and all-parish elections in May 2011 and delivering a new member training programme
  - Ensuring that Law Governance and Resilience support good governance and high standards of conduct and probity as well as fulfilling the day to day functions
  - Supporting the Shared Services project with emphasis on governance and developing the organisational model and heads of terms
  - Dealing with all Monitoring Officer activities with emphasis on the Standards framework

- Dealing with Ombudsman complaints until October 2010 and ensuring the orderly transition of cases to the Customer Insight Team
- The Monitoring Officer has made no formal statutory report to Council on any actual or intended unlawful activities since September 2010
- The Monitoring Officer has dealt with one investigation during the period

These activities are complimented by and are in addition to the day to day core support and other functions of the Law Governance and Resilience teams.

## Alternative Options

- 1 There are no alternative options. This report is for information only.

## Reasons for Recommendations

- 2 The Monitoring Officer is required to report on his activities as set out in this report and the Audit and Governance Committee should note the report and provide comments and feedback

## Introduction and Background

- 3 The Committee is aware that the role of the Monitoring Officers is a statutory office whose duties are set out in the Local Government and Housing Act 1989 and the Local Government Act 2000.

The main responsibilities of the Monitoring Officer are to ensure that the Council, its elected Councillors and its staff act with probity and that all the Council's activities are in accordance with the law and the Council's constitution. The Monitoring Officer has responsibility for ensuring that the Council avoids maladministration and that it responds appropriately to the Local Government Ombudsman in that regard. The Monitoring Officer is also responsible for supporting the local Standards Committee and for administering the local standards framework. The Monitoring Officer's responsibilities dovetail with those of the other statutory officers; the Head of Paid Service (Chief Executive) and s.151 Finance Officer (Director of Resources).

## Key Considerations

- 4 The interim Assistant Chief Executive – Legal and Democratic Services started working with the Council in June 2009 and continued in that role until December 2010, when the current postholder took up his appointment. Their activities since the last Monitoring Officer report in September 2010 are described hereafter.
5. The review of the Council's Constitution in consultation with a constitutional review working group was concluded. However, it is recognised that this represents an on-going body of work for which a formally constituted member committee might be the appropriate vehicle. Discussions are taking place currently to determine how this might be achieved. The following constitutional changes have been made in the current municipal year:
  - a. a new scheme of members allowances
  - b. a revised scheme of delegation for officers

- c. revised Overview and Scrutiny Committee arrangements with all main committee and several task and finish groups headed by Vice Chairs drawn from that committee
6. Following elections for all seats on both this Council (and all parishes) held in May, a programme of training and induction for members of this Council is being rolled out.
  7. The Law and Governance service area has been enlarged to include Resilience. This covers emergency planning, risk management, health and safety, contingency planning and related disciplines.
  8. Proposals for a whole scale restructure of the Law Governance and Resilience functions are currently being developed as part of the Councils Organisational Design exercise. A Head of Legal Services to manage the new shared legal service is currently being recruited and this is the first year of operation of the new legal trading model, serving not only the Council but also partner organisations across Herefordshire Public Services.
  9. The publication of the Localism Bill heralds the end of the current regime under which member conduct is governed by the Standards Committee and Standards for England. The Bill should receive the Royal Assent before the end of 2011. Consideration is currently being given as to whether a voluntary code of conduct should be introduced thereafter.
  10. The Monitoring Officer has continued to support the work of the Standards Committee. A summary of the work of that committee in the year 2010/11 is as follows:
    - 48 complaints were dealt with between April 2010 and March 2011. Out of these:
      - 29 required no further action;
      - 10 were referred to the Monitoring Officer for training;
      - 6 were referred to the Monitoring Officer for written guidance; and
      - 3 were referred to the Monitoring Officer for investigation.
    - Of the 48 complaints, 35 were made about parish/town councillors; and 13 were about Herefordshire Councillors
    - 39 of the allegations were about bullying, failing to treat others with respect, or breaching the Equality Act 2006 (Paragraph 3 of the Code of Conduct). 11 allegations related to members bringing their office into disrepute (Paragraph 5 of the Code) and or using their positions to secure an advantage for themselves (Paragraph 6 of the Code).
    - Of the 35 complaints against parish or town councillors, 28 related to members of the same council. The Monitoring Officer undertook training with members for 14 of those complaints; 16 required no further action. Of the remaining 5 parish/town council complaints, 4 were referred for training, and 1 was incorporated into an on-going investigation.
    - In respect of Herefordshire Councillors, of the 13 complaints, 6 were about the same Councillor. No action was required in 6 cases, 4 cases were referred to the Monitoring Officer for other action, such as training or written guidance, and 3 were referred for investigation.

## **Review Sub-Committee**

- In cases when the Assessment Sub-Committee decides that no further action is required, complainants are entitled to ask for a review of the complaint, which is looked at by an entirely different panel of members. The Review Sub-Committee dealt with 7 cases during the period, re-examined each case from scratch, but in no instance reversed the decision of the Assessment Sub-Committee.

### **Consideration Sub-Committee**

- The Consideration Sub-Committee looks at investigation reports, and can either decide to hold a hearing, or in cases where the Investigating Officer has not found a breach of the Code, to accept the report and take no further action. The Sub-Committee dealt with 9 cases during the period, and decided that action was required by the Monitoring Officer in respect of 5 of these. The Sub-Committee decided that there had been no breach of the Code in 4 cases, and these are now closed.

### **Hearing Sub-Committee**

- One hearing has been held during the period and a breach of the Code was found and sanctions were imposed on the parish councillor concerned.

11. The Monitoring Officer passed the responsibility for ombudsman cases to the Assistant Director, Customer Services and Communications in October 2010 and he will attend the meeting to address the committee. The Ombudsman's annual report is appended to this report (Appendix A). There were no reports of maladministration, with or without injustice, and there were 8 local settlements.

## **Community Impact**

12. Compliance with its legal obligations, effective governance and high standards of conduct impact on the council's relationship with and its ability to lead the communities of Herefordshire. In addition, the Monitoring Officer has responsibility (working with Herefordshire Association of Local Councils) for standards in Parish Councils and for the operation of the standards framework and Code of Conduct for parish councillors. Parish Councils are also important to the communities they serve. The activities of the Monitoring Officer have the potential to have a positive impact on communities.

## **Financial Implications**

13. There is no separate funding for Monitoring Officer activities. The Law and Governance team support the Monitoring Officer in fulfilling his functions and have made a significant contribution to the activities set out in this report and ensuring legal compliance and good governance across the Council (and its wider HPS partnership).

## **Legal Implications**

14. The proper discharge of the Monitoring Officer functions is critical to ensuring that the Council is acting lawfully and that the legal implications of its activities are fully understood and acted upon appropriately.

## **Risk Management**

15. The Resilience Team Manager reports to the Monitoring officer and is responsible for ensuring

effective risk management systems and processes are in place across the Council, that those systems and processes are being complied with and that risk registers and risk management reporting and monitoring is taking place at all levels as required with significant corporate and strategic risks being escalated to senior management and elected members as appropriate.

## **Consultees**

16. None

## **Appendices**

17. Appendix A - Ombudsman Annual Review 2010-11

## **Background Papers**

- None identified.



24 June 2011

*By email*

Mr C Bull  
Chief Executive  
Herefordshire Council

Dear Mr Bull

### **Annual Review Letter**

I am writing with our annual summary of statistics on the complaints made to me about your authority for the year ending 31 March 2011. I hope the information set out in the enclosed tables will be useful to you.

The statistics include the number of enquiries and complaints received by our Advice Team, the number that the Advice Team forwarded to my office and decisions made on complaints about your council. Not all complaints are decided in the same year that they are received. This means that the number of complaints received and the number decided will be different.

The statistics also show the time taken by your authority to respond to written enquiries and the average response times by type of authority.

### ***Communicating decisions***

We want our work to be transparent and our decisions to be clear and comprehensible. During the past year we changed the way we communicate our decisions and reasons. We now provide a stand-alone statement of reasons for every decision we make to both the citizen who has complained and to the council. These statements replace our former practice of communicating decisions by letter to citizens that are copied to councils. We hope this change has been beneficial and welcome comments on this or any other aspect of our work.

In April 2011 we introduced a new IT system for case management and revised the brief descriptions of our decisions. My next annual letter will use the different decision descriptions that are intended to give a more precise representation of complaint outcomes and also add further transparency to our work.

### ***Extended powers***

During 2010/11 our powers were extended to deal with complaints in two significant areas.

In October 2010 all complaints about injustice connected to adult social care services came under our jurisdiction. The greater use of direct payments and personalised budgets mean that it is particularly important for us to be able to deal with such complaints irrespective of whether a council has arranged the care. The increasing number of people who arrange and pay for their own social care now have the right to an independent and impartial examination of any complaints and concerns they may have about their care provider.

In the six months to April 2011 we received 75 complaints under our new adult social care powers. Between 2009/10 and 2010/11 complaints about care arranged or funded by councils doubled from 657 to 1,351.

The Apprenticeships, Skills, Children & Learning Act 2009 introduced powers for us to deal with complaints about schools by pupils or their parents. This was to be introduced in phases and currently applies in 14 council areas. By the end of 2010/11 we had received 169 complaints about schools in those areas and 183 about schools in other areas where we had no power to investigate. The Education Bill currently before Parliament proposes to rescind our new jurisdiction from July 2012.

Our new powers coincided with the introduction of Treasury controls on expenditure by government departments and sponsored bodies designed to reduce the public spending deficit. This has constrained our ability to inform care service users, pupils and their parents of their new rights.

### ***Assisting councils to improve***

For many years we have made our experience and expertise available to councils by offering training in complaint handling. We regard supporting good complaint handling in councils as an important part of our work. During 2010/11 we surveyed a number of councils that had taken up the training and some that had not. Responses from councils where we had provided training were encouraging:

- 90% said it had helped them to improve their complaint handling
- 68% gave examples of how the knowledge and skills gained from the training had been applied in practice
- 55% said that complaints were resolved at an earlier stage than previously
- almost 50% said that citizens who complained were more satisfied.

These findings will inform how we develop and provide training in the future. For example, the survey identified that councils are interested in short complaint handling modules and e-learning.

Details of training opportunities are on our web site at [www.lgo.org.uk/training-councils/](http://www.lgo.org.uk/training-councils/)

More details of our work over the year will be included in the 2010/11 Annual Report. This will be



published on our website at the same time as the annual review letters for all councils (14 July).

If it would be helpful to your council I should be pleased to arrange for me or a senior manager to meet and explain our work in greater detail.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Martin', with a horizontal line underneath.

Dr Jane Martin  
Local Government Ombudsman

For further information on interpretation of statistics click on this link to go to [www.lgo.org.uk/CouncilsPerformance](http://www.lgo.org.uk/CouncilsPerformance)

## LGO Advice Team

<b>Enquiries and complaints received</b>	Adult Care Services	Benefits & Tax	Corporate & Other Services	Education & Childrens Services	Environmental Services & Public Protection & Regulation	Highways & Transport	Housing	Other	Planning & Development	Total
Formal/informal premature complaints	3	2	0	0	3	2	1	0	0	11
Advice given	1	2	0	3	3	2	0	2	2	15
Forwarded in investigative team (resubmitted)	0	2	0	0	2	1	0	0	5	10
Forwarded to investigative team (new)	0	2	5	3	1	5	1	0	13	30
<b>Total</b>	<b>4</b>	<b>8</b>	<b>5</b>	<b>6</b>	<b>9</b>	<b>10</b>	<b>2</b>	<b>2</b>	<b>20</b>	<b>66</b>

## Investigative Team

<b>Decisions</b>	Reports: maladministration and injustice	Local settlements (no report)	Reports: Maladministration no injustice	Reports: no Maladministration	No Maladministration (no report)	Ombudsman's discretion (no report)	Outside jurisdiction	Total
<b>2010 / 2011</b>	<b>0</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>16</b>	<b>9</b>	<b>8</b>	<b>41</b>

No adult social care decisions were made in the period

Response times	First enquiries	
	No of first Enquiries	Avg no of days to respond
01/04/2010 / 31/03/2011	21	23.3
2009 / 2010	13	30.8
2008 / 2009	14	29.3

74

**Provisional comparative response times 01/04/2010 to 31/03/2011**

Types of authority	<= 28 days %	29 - 35 days %	> = 36 days %
District councils	65	23	12
Unitary authorities	59	28	13
Metropolitan authorities	64	19	17
County councils	66	17	17
London boroughs	64	30	6
National parks authorities	75	25	0

