

AGENDA

Audit and Governance Committee

Date: **Friday 6 July 2012**

Time: **2.00 pm**

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

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

For any further information please contact:

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Agenda for the Meeting of the Audit and Governance Committee

Membership

Chairman
Vice-Chairman

Councillor J Stone
Councillor JW Millar

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

GUIDANCE ON DECLARING PERSONAL AND PREJUDICIAL INTERESTS AT MEETINGS

What is a personal interest?

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

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

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

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

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

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

What is a prejudicial interest?

You have a prejudicial interest in a matter if;

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

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

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

AGENDA

	Pages
1. APOLOGIES FOR ABSENCE	
To receive apologies for absence.	
2. NAMED SUBSTITUTES (IF ANY)	
To receive any details of Members nominated to attend the meeting in place of a Member of the Committee.	
3. DECLARATIONS OF INTEREST	
To receive any declarations of interest by Members in respect of items on the Agenda.	
4. MINUTES	1 - 6
To approve and sign the Minutes of the meeting held on 11 May 2012.	
5. DRAFT ANNUAL GOVERNANCE STATEMENT	7 - 26
The purpose of this report is to seek approval of the Annual Governance Statement for 2011/12.	
6. ANNUAL INTERNAL AUDIT PLAN	27 - 50
The purpose of this report is to seek approval of the Annual Internal Audit Plan 2012/13.	
7. WORK PROGRAMME 2012/13	51 - 78
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.	
8. ANNUAL AUDIT FEE LETTER AND AUDIT WORK 2011/12	79 - 102
To inform the Committee of the work to be undertaken over coming months for 2011/12 financial year by the Audit Commission. The report also includes the proposed indicative fee.	
9. AUDIT AND GOVERNANCE COMMITTEE UPDATE FROM THE AUDIT COMMISSION	103 - 118
To provide an update on the progress of the Audit Commission delivering their responsibilities as the council's external auditors. It also updates the Committee on the externalisation of the audit practice.	

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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 The Council Chamber, Brockington, 35 Hafod Road, Hereford, HR1 1SH on Friday 11 May 2012 at 2.00 pm

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

Councillors: CNH Attwood, EMK Chave, KS Guthrie, AJ Hempton-Smith, TM James, Brig P Jones CBE and PJ McCaull

In attendance: Councillors A Seldon, Chairman Overview and Scrutiny Committee

104. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor PGH Cutter.

105. NAMED SUBSTITUTES (IF ANY)

There were no named substitutes.

106. DECLARATIONS OF INTEREST

As the Chairman for the Hoopole Audit Committee was addressing the Committee Councillor Hempton-Smith made a personal declaration, as he had a close relative working as a senior manager for Hoopole Ltd.

107. MINUTES

RESOLVED: That the minutes of the meeting held on 9 March 2012 be approved as a correct record and signed by the Chairman subject to the following amendments.

Minute No: 101 – Amendments to the Constitution, Council Procedure Rules/Member Questions, paragraph five – add the word supplementary,the Constitution regarding supplementary questions referred to one supplementary question per Member and not per portfolio area.

Minute No: 102 – Internal Audit Progress 2011/12, paragraph four – to add to the list of partner organisations Hoopole Limited.

Minute No: 103 – the meeting ended at 12.20 pm.

NOTE: The Committee expressed its thanks to Pete Martens from Democratic Services, who had been providing support to the Committee and who would be retiring shortly after completing 30 years in local government.

The Chairman also welcomed Alan Curless to the meeting as Chairman of the Audit Committee for Hoople Ltd., and invited Mr Curless to address the Committee and provide a short insight into Hoople Ltd. Mr Curless made the following points:

- Hoople Ltd came into being in October 2011 with the first audit meeting being held in November of that year.
- Herefordshire Council has a 62% share holding and the company was formed with two non executive directors and two from the PCT – Alan Curless and Dean Taylor.
- Hoople Ltd., intends to be responsive and effective for its customers and make the financial savings that are needed for the organisations they serve.
- It was noted that the key performance indicators initially issued would be revised shortly and the Committee would be advised of the revisions. All inherited policies and procedures are to be revised, and it was expected that this would be completed by June 2012.
- Appointments were now being sought to the executive management team of Hoople Ltd.
- There would now be a significant change for Hoople Ltd., as the PCT, which had been expected to be a long term shareholder, would now not be due to new government legislation that would see the demise of PCTs in 2013.
- There was an expectation that Hoople Ltd., would in the future tender for private sector business. It was noted that there had been expressions of interest by a number of public sector businesses in Hoople Ltd., and its partnership work with the Council.
- The Committee was advised of the savings that had been made in staffing levels and that a report had recently been presented to Cabinet explaining the amount of savings made.
- In response to a question on GP cluster groups and Hoople Ltd., being able to secure a contract with the Herefordshire GP cluster group, the Committee was advised that Hoople Ltd., had not as yet been successful in securing a contract for the provision of commissioning support.

On behalf of the Committee the Chairman thanked Mr Curless for attending the meeting and providing such an in depth update.

108. INTERNAL AUDIT PROGRESS 2011/12

The Head of Audit Services presented his report to update Members on the progress of internal audit. The following points were made in discussion:

- In response to a Member query the Chairman stated on behalf of the Committee that there was a requirement to periodically review all the partner organisations the Council worked with and that this could form part of the Annual Governance Statement. The Committee requested to be advised on the extent of the arrangements, for a list of the directors for the various organisations and to be provided with a brief outline of the governance arrangements in place. The Chief Officer Finance and Commercial stated he would provide a short report for the meeting in July and that the report would form part of the Annual Governance Statement.
- It was noted that Hereford Futures was not listed on page 16 Appendix A to the report when referring to the Places and Communities Directorate.
- The Committee was advised that 22 reviews were currently at the draft stage and the results would be brought to the next meeting.
- The Committee was reminded of the four different ratings and the target for all organisations was adequate.

- In referring to the Agresso system Members were advised that it was not at present performing as the Council would wish. Currently the audit team were looking into how fraud issues could arise and the weaknesses in the system. A detailed report had been compiled and it had been recognised that 16 IT controls needed to be put in place. The Chief Officer Finance and Commercial assured the Committee that the issues would be addressed.
- In answer to a question the Committee was reminded that KPMG provided support and experts to provide additional advice. Substantial work had been done on reviews and any additional issues raised could be referred to the work plan.
- The Committee was advised that the auditors had been asked to provide the lead for the Council on Health and Safety. Specialist advice had been requested to review the system, as some weaknesses had been found.
- It had been recognised there was a need to improve the Council's current business continuity plans and an action plan was being put in place in order to support the long term strategies of the Council.
- Risk management was generally seen to be ok across the Council. Additionally ICT generally was rated as adequate.
- It was noted that Hoople Ltd., had made a lot of progress in a short period of time with sound processes being put in place.
- The Committee noted that a further draft report on Amey Wye Valley had been drafted but had not been finalised as contract negotiations were on going. Members were informed that the Director was aware of the issues. The Chairman of the Overview and Scrutiny Committee, who was in attendance and invited to speak by the Chairman, advised that the new contract proposals were to go before the Overview and Scrutiny Committee before final agreement by Cabinet.
- In referring to item 21 of the report relating to cash and deposits the Committee was informed it was adequate and that there were only minor issues.
- The Committee was informed that two detailed reports on suspected fraud had been issued.
- The Committee was advised that a full audit plan for 2012/13 would be presented at the next meeting of the Committee.
- In response to a question Members were advised that work on adult social care was to be deferred and that frameworki was not an area it was proposed to look at.

RESOLVED: That the report be noted.

109. COMMUNITY GOVERNANCE REVIEWS

The Assistant Director Law, Governance and Resilience presented his report on Community Governance Reviews. The Assistant Director made the following points:

- Community Governance Reviews came into being in 2007, allowed local authorities to carry out reviews of Town and Parish Councils and were different to boundary reviews.
- The review in question was for Ross and both the town and rural parish councils were in support of the review.
- It was proposed and agreed at the March Council meeting that it was appropriate for the Audit and Governance Committee to carry out any community governance reviews the council might require.
- In the case of the Ross review it was suggested that a sub-committee is formed to deal with the review, decide on whom to consult, hold any public meetings,

conduct any referendums and for the Committee to then report its findings to the Council.

- If the Committee agree to form a sub-committee to deal with the review it is suggested the work of the sub-committee commence in the autumn.
- The Committee would also need to decide for the future if it intends to be proactive in this area and look to see if there are any other areas that need to be reviewed or whether to deal with any issues as they arise.

In response the Committee agreed:

- The importance of commencing the review as soon as possible.
- That a sub-committee be formed and consist of five Members representing all political groups, the Assistant Director to be delegated to set this up.
- That meetings should be held in Ross.
- That the sub-committee reports regularly to the Committee and the final decision is to be made by the Committee.

RESOLVED

THAT it be noted that:

- a) the Council has decided to undertake a community governance review of the areas of Ross Town Council and Ross Rural Parish Council in the Autumn of 2013;**
- b) the Audit and Governance Committee be empowered to undertake community governance reviews and to make recommendations to Council on the matter; and**
- c) the Committee considered whether it wished to form a sub-committee to deal with community governance reviews.**

110. CHANGES TO THE STANDARDS REGIME

The Assistant Director Law, Governance and Resilience presented his report on the changes to the standards regime and informed the Committee of the following points:

- To advise the Committee of the proposed set up for future standards matters and if the Committee is comfortable with the proposal, for the Committee to adopt the role of a standards committee as defined under the Localism Act as the Standards Board will be abolished and the current standards committee will finish at the end of June 2012.
- All authorities are to have a code and one has been proposed by the Association of County Secretaries and Solicitors, however, currently there is no secondary legislation in place for a code to be adopted. The new standards regime will apply to parish councils as well, which Herefordshire Council will have to oversee.
- Independent panel members will be required and they will need to be new members and not the independent panel members currently used.
- The Monitoring Officer will be expected to deal with all initial complaints and decide if the complaint needs to be referred to the new standards panel. The Audit and Governance Committee would be the committee that deals with the issues and provides a response, but there would be no sanctions.
- In response to a question the Committee was advised that the Herefordshire Association of Local Councils (HALC) would provide advice on the appropriate Town and or Parish Councillors that are to serve on the standards panel.

RESOLVED: That the Committee noted the latest developments regarding the new standards regime and development of a new code of conduct and the potential role that is envisaged for them.

111. FUTURE MEETINGS

RESOLVED: That the 7 August meeting be cancelled, that the meeting proposed for 25 September be revised to 21 September with a training event the week before and that the dates of 9 October, 12 November and 5 December be approved.

The meeting ended at 4.15 pm

CHAIRMAN

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	6 JULY 2012
TITLE OF REPORT:	DRAFT ANNUAL GOVERNANCE STATEMENT
PORTFOLIO AREA:	CORPORATE SERVICES

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

The purpose of this report is to seek approval of the Annual Governance Statement for 2011/12.

Key Decision

This is not a Key Decision.

Recommendation

THAT:

- (a) **the draft Annual Governance Statement 2011/12 attached as Appendix 1 to this report be reviewed; and**
- (b) **the draft Annual Governance Statement 2011/12 for inclusion in the Statement of Accounts for 2011/12 be approved.**

Key Points Summary

- The draft Annual Governance Statement 2011/12 is set out in Appendix 1.
- The Annual Governance Statement 2011/12 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.
4. The Annual Governance Statement has been reviewed by the Council's Leadership Team. Prior to sign off by the Leadership Team senior managers reviewed the statement and where appropriate provided relevant comments.

Key Considerations

5. 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.
6. Actions on significant internal control issues identified in the Annual Governance Statement for 2010/11 were reported to the Audit and Governance Committee as part of the Interim Assurance Reports in 2011/12.
7. The Audit and Governance Code authorises the Audit and Governance Committee to review and approve the Council's Annual Governance Statement.
8. Whilst the Annual Statement by its nature is only signed off once a year, the process of review is continuous. As a result the reports presented to each meeting of the Audit & Governance Committee are used to inform the Annual Governance Statement.
9. The Annual Governance Statement is signed by the Leader of the Council, the Chief Executive, the Chief Officer: Finance & Commercial and the Assistant Director (Law, Governance & Resilience).

Financial Implications

10. There are no financial Implications.

Legal Implications

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

Risk Management

12. 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 2011/12

Draft Annual Governance Statement 2011/12

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 2011/12 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:

SOLACE/CIPFA Guidance - Principle 1	Focusing on the purpose of the authority, on outcomes for the community and creating and implementing a vision for the local area.
Council – Principle 1	Provide the best possible service to the people of Herefordshire.
SOLACE/CIPFA Guidance - Principle 2	Members and officers working together to achieve a common purpose with clearly defined functions and roles.
Council – principle 2	Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness.
SOLACE/CIPFA Guidance - Principle 3	Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
Council – Principle 3	Require high standards of conduct.
SOLACE/CIPFA Guidance - Principle 4	Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
Council – Principle 4	Take sound decisions on the basis of good information.

SOLACE/CIPFA Guidance - Principle 5	Developing the capacity and the capability of members and officers to be effective.
Council – Principle 2	Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness.
SOLACE/CIPFA Guidance - Principle 6	Engaging with local people and other stakeholders to ensure robust public accountability.
Council – 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 April 2011 the Council along with NHS Herefordshire and Wyre Valley NHS Trust set up a Joint Venture (JV) Company to deliver shared services to all partners. The Company, called Hoople Ltd, was formally established on 1 October 2012, and has made year good progress in implementing the structures required to ensure sound governance and robust internal control – it has a Board and other committees in place. Hoople Ltd provides a range of services for its owners including ICT, financial services, HR and training. The Council has made substantial savings, in excess of £500k, through transferring services to Hoople Ltd.

The Council also continues to work on its 'Rising to the Challenge' programme which aims to transform the way in which services are delivered. 'Rising to the Challenge' consists of five work streams, each of which has a Executive lead sponsor, including Customer Focus, Communities First, Streamlining the Business, Better Services and People and Performance. Each work stream consists of a number of projects. The programme has been successful to date and allowed the Council to make savings of over £7m.

3.6 The Council has a Joint Risk Management and Assurance Policy and Joint Risk Management Assurance Guidance which was approved by Cabinet in September 2011.

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 Audit and Governance Committee's Terms of Reference have been enlarged to provide for regular review of the Constitution. This provides a regular forum for improvement.

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 A regular programme of member training has been delivered and induction for new members. A half day session on member/ officer relations was particularly well attended.

3.13 The work on ethics and standards as been dominated by the preparations for the new standards regime under the Localism Act 2011. County, parish and independent members of Standards Committee have produced a draft code and draft system for determining complaints under that code. At the year end, we were awaiting secondary legislation from government

3.14 There are Codes of Conduct for Members and Officers.

3.15 Complaints cases have continued to be determined locally, and we have dealt with 55 complaints between March 2011 and May 2012. Out of these:

25 required no further action;

1 was referred to the Monitoring Officer for training of a councillor;

2 were referred to the Monitoring Officer for written guidance to councillors;

5 were referred to the Monitoring Officer for investigation;

3 were withdrawn;

1 is awaiting assessment; and

18 were referred to Standards for England for investigation.

Out of these 18: Standards for England investigated eight and decided that no further action should be taken on them. It did not investigate six and decided that no further action should be taken on those, and it referred four back to the original assessment subcommittee for further consideration in view of Standards for England's impending closure. The assessment sub-committee subsequently decided to take no further action on those four.

Of the 55 complaints, 37 were made about parish/town councillors; and 18 were about Herefordshire Councillors.

- 3.16 Just over a third of all allegations related to members bringing their office into disrepute (Paragraph 5 of the Code of Conduct). Bullying, or failing to treat others with respect, accounted for another third. There were also a significant number of allegations about aspects of members failing to declare interests (Paragraphs 8-12 of the Code), and members using their positions to secure an advantage for themselves (Paragraph 6 of the Code). We also received a number of complaints about disclosing confidential information (Paragraph 4 of the Code).
- 3.17 Of the 37 complaints against parish or town councillors, 30 related to members of the same council. 18 of those required no further action, 18 were referred to Standards for England and one was withdrawn. Of the remaining seven parish/town council complaints, five required no further action, one was referred for training and one was referred for investigation.
- 3.18 In respect of Herefordshire Councillors, no action was required in 10 cases, two cases were referred to the Monitoring Officer for other action, such as training or written guidance, four were referred for investigation and two were withdrawn.
- 3.19 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.
- 3.20 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.
- 3.21 A register of members' interests is maintained and updated on a regular basis.
- 3.22 An updated Anti-fraud and Anti-corruption Policy is in place.
- 3.23 A Whistle-blowing Policy is in place and forms part of the Council's Constitution. This was reviewed in December 2011
- 3.24 There is a formal Monitoring Officer Statement in relation to the use of the Monitoring Officers powers.

- 3.25 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

- 3.26 There is an overview and scrutiny function that encourages constructive challenge.
- 3.27 The Council has an Audit and Governance Committee, which is independent of the executive and scrutiny functions.
- 3.28 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.
- 3.29 Decisions made by Cabinet and Committees are based upon written reports as presented.
- 3.30 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

- 3.31 All meetings are held in public unless there are legal reasons for confidentiality.
- 3.32 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.
- 3.33 All Committee agendas, reports and minutes are publicly available on the Council's website other than for confidentiality reasons.
- 3.34 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.
- 3.35 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.
- 3.36 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.

- 3.37 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.
- 3.38 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., which was well received. Another example, was in 2011 when a new school's closure notification system was implemented whereby rather than phoning the council to ascertain information about school's closures, parent's and carer's can now subscribe to an email/ text notification system. When the local school manager updates the system regarding closures those people who subscribe to the service get an automatic notification.
- 3.39 In line with legislation, the council publishes all information relating to expenditure of over £500 on the website. As required by the Localism Act the council has agreed and also publishes a pay policy statement, which details the remuneration of senior officers.

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 4.76.

(A) Constitution

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.

- 4.5 The Audit and Governance Committee's Terms of Reference have been enlarged to provide for regular review of the Constitution. This provides a regular forum for improvement.
- 4.6 One decision made by Cabinet was called in during 2011/12 as follows:
 - (a) concerning a new sustainable model of business for the delivery of the Music Service
- 4.7 On 25 May 2012, the Annual Report of the Overview and Scrutiny Committee was presented to Council. The report summarised the work undertaken by the five Scrutiny Committees in 2011/12.

(B) Corporate Objectives and Priorities

- 4.8 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. On 14 June 2012 Cabinet received a report on 'Understanding Herefordshire' (the integrated evidence base and needs assessment); in light of this Cabinet have agreed that a review of the Corporate Plan be undertaken and the recommendations of Cabinet regarding a refreshed Corporate Plan are scheduled for Council consideration in November.
- 4.9 The Joint Corporate Plan is supported by an annually refreshed delivery plan; the most recent iteration of the delivery plan, including measures and projects, was approved by Cabinet on 5 April 2012.
- 4.10 The Plan provides the starting point for performance monitoring reporting and management across the Council, which is supplemented by a range of organisational performance indicators.

(C) Medium Term Financial Strategy

- 4.11 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.
- 4.12 The updated Medium Term Financial Management Strategy for 2011/14 was presented to Cabinet on 19 January 2012. Cabinet recommended to Council the recommendations for updating.
- 4.13 In their Annual Audit Letter dated November 2011 the Audit Commission noted that "The Council did well to comply with the requirements of International Financial Reporting Standards (IFRS), adopted for the first time

in the 2010 CIPFA Code of Accounting Practice (the Code). The Code introduced numerous new requirements, the most significant of which related to accounting for leases, property, plant and equipment, grants and contributions. The project to implement IFRS was very well managed and included regular progress reports to the Audit & Governance Committee”.

(D) Code of Governance

- 4.14 The Audit & Corporate Governance Committee approved the Annual Governance Statement for 2010/11 at its August 2011 meeting.
- 4.15 The Audit and Governance Committee considered the Audit Commission’s Annual Governance Report at their September 2011 meeting. The Audit Commission made five recommendations which were accepted by the Council.

(E) Financial management arrangements

- 4.16 The Audit Commission’s Annual Audit and Inspection Letter dated November 2011 highlighted the Council has generally good financial management arrangements. In particular the Council had well established medium term financial planning and budgeting to support the delivery of corporate and community plans.
- 4.17 The Council had an overspend of £238,000 in 2011/12; this was funded from the general fund .
- 4.18 The Council established Hoople Ltd in October 2011. Since this date a number of the Council’s financial management processes have been undertaken by Hoople on behalf of the Council such as the production of monthly budgetary control statements which are distributed to officers within the Council. Hoople also input into the Council’s medium term financial planning process through the production of cash flow forecasts. The Council obtains assurance on how effectively financial management controls within Hoople have been applied in a number of ways. This includes Audit Services completing internal audit reviews of key systems which are then reported to the Council’s management and the Audit and Governance Committee.

For 2011/12 there is a new requirement for the Council to declare whether it conforms with the financial management arrangements prescribed in the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government* (2010) and set out in the Application Note to *Delivering Good Governance in Local Government: Framework*.

It is a matter for an individual council to assess whether it wishes to confirm with the recommended financial management arrangements in the CIPFA statement. The council has taken the view that it broadly complies with most key aspects. However, it has decided not to follow CIPFA’s statement about the position in the organisation of the lead financial role in the authority but has taken steps to allow access of the S151 role to both the Chief Executive and Leadership Team.

(F) Performance management arrangements

- 4.19 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.
- 4.20 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 2011/12. The performance reports detail performance against the key priorities, performance measures and commitments as included in the Joint Corporate Plan. In addition, as part of the report, each directorate now provides a commentary highlighting other performance related issues that were not part of the original Joint Corporate Plan, including those of partners.
- 4.21 The framework is being updated for 2012-13 to better illustrate the performance of our strategic partners in enabling the Council to deliver against its agreed priorities.
- 4.22 The end of year Integrated Corporate Performance Report was presented to Cabinet on 14th June 2012. 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, 56.8% are showing improvement (50.7% in 2010-11).
 - Achievement of targets: where either end of year or latest data is available 64% have achieved or exceeded target.
 - Delivery of projects: the majority of projects either have been delivered to schedule or are on target.

(G) Risk management arrangements

- 4.23 Since April 2011, the Council has developed its approach to risk management to ensure that processes are consistent across the organisation at a Directorate level. A single framework has been adopted for the documentation of strategic and operational risks, based upon an Excel spread sheet model. The approach includes reporting the strategic risks which arise from Directorates through to the HPS Leadership Team, with overall Directorate risks reported to the Resilience Group
- 4.24 The role of the Resilience Group is to develop and implement a consistent approach to risk management across HPS, promoting a risk management culture. In addition, its role includes reviewing significant new and emerging risks and monitoring the effectiveness of risk escalation to the Leadership Team.
- 4.25 The Council approved its Risk Management and Assurance Policy and Guidance in September 2011; it reflects good practice principles and as a consequence the design of the process is considered effective.. The Policy includes the roles and responsibilities of Officers and Groups across the

Council, and documents the process for risk identification, control, reporting and monitoring. Director's and Managers are responsible under the Risk Management Policy to manage risks assigned to them, ensuring effective risk management processes are in place. This includes the reporting of significant risks and those risks where there is inadequate control to the relevant Committee or Board.

- 4.26 The formal arrangements which have been developed are at a Directorate and Division level. Service areas and teams have been encouraged to discuss risk management and develop risk management arrangements; however, there is not prescriptive format for the recording of risks at this level, as is in the case of Division and Directorate level.

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

- 4.27 The Council has anti fraud and corruption and Whistle-blowing policies which were last updated in October 2011. These 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. There were 2 whistleblowing incidents recorded for 2011/12.

- 4.28 The Council suffered a suspected fraud in February 2012 whereby a false invoice was paid. This matter is with the Police and the Council has been informed that the monies will be repaid. In response to the fraud, the Council has:

- prepared a case file (through Internal Audit) which has been given to the Police to assist them;
- under the direction of the Chief Officer – Finance and Commercial reviewed the circumstance of the fraud and sought to close down weaknesses that allowed the fraud to be committed; and
- undertaken further work to assess whether there have been further fraudulent payments – no issues were found.

(I) Project management arrangements

- 4.29 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.

- 4.30 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.

(J) Community engagement

- 4.31 The Community Engagement Framework is about developing a dialogue between public agencies and the local communities - listening, talking and

working together, so that people are involved in addressing the issues that impact on their lives and feel they are able to influence service providers and vice versa.

- 4.32 Implementing the Framework is happening in tandem with the Locality Strategy. To take this forward, as well as ensuring more effective co-ordination in those areas on which HPS needs to engage with citizens, HPS and its partners are also supporting mechanisms and facilitating opportunities for communities to be proactively engaged in issues which matter to them. The latter includes existing mechanisms such as parish plans, together with new opportunities provided through locality working.

(K) Data Quality

- 4.33 Although the Council recognises the importance of data quality and had a data quality action plan aimed at improving the quality of arrangements in place, the organisational changes during 2011 meant that no plan was put in place for 2011/12.
- 4.34 The essential elements of the previous 2010 quality action plan were completed and 'signed off' by Cabinet on 22 July 2010 accepting that 7 tasks remained amber rated. This was an improved position when compared to the prior year when some tasks were rated as 'red'. The existing DQ action plan is now almost 2 years out-of-date. Therefore the People, Policy, and Partnerships division of Corporate Services will be reviewing the legacy data quality action plan in 2012/13 in order to create a new DQ plan.
- 4.35 The need to maintain and improve data quality remains critically important and the review and resulting 2012/13 action plan will be reported through the new Information Management & Technology (IM&T) governance arrangements. The actions agreed will then be monitored through the integrated corporate performance report to Cabinet & the Overview and Scrutiny Committee rather than by separate reports.
- 4.36 There is a Data Quality Policy previously agreed by Cabinet in May 2008 and updated in July 2010. This is due for review in May 2013.

(L) Independent review

- 4.37 The Audit and Governance Committee met six times during the year. The Committee received reports from officers, Audit Services and the Audit Commission in a number of areas including internal control, external audit and governance.
- 4.38 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.

- 4.39 *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 2011/12.*
- 4.40 The Audit & Corporate Governance Committee receives interim and annual reports on internal audit activity and approves the annual audit plan and Audit Strategy.
- 4.41 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.
- 4.42 Ombudsman responsibility passed this year to the CIU
- 4.43 Audit Services have completed their work on the Council's financial and other key systems. The majority of systems were graded as either Substantial or Adequate. Six areas were graded as providing "Limited Assurance", these were General Ledger, Accounts Payable, Agresso IT controls, Health and Safety and Business Continuity.

(M) External Inspections - Audit Commission Annual Audit and Inspection Letter (November 2011)

- 4.44 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 ensure that more effective measures are put in place to address the main risk of adult social care over spending.
- 4.45 The Audit Commission also noted the Council has put in good governance arrangements to deliver anticipated savings. However, these processes could be improved, through clearer reporting to Cabinet.

Information Technology Security Techniques (ISO 27001)

- 4.46 The external assessor SGS completed their 2011/12 audit in December 2011, and concluded after a further visit in March 2012 that Herefordshire Council ICT Services has maintained its information security management system in line with the requirements of the standard.
- 4.47 The Council's ISO27001 certification was continued.

(N) Assurances by Key Managers

- 4.48 *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.*

4.49 *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*

5. Significant Governance issues 2011/12

There were three significant internal control issues identified in the Annual Governance Statement for 2010/11. The progress made on these issues are set out below:

- *the Council continue to embed Risk Management, improve the control framework within the Council's key systems and develop the control environment in relation to Hoople.* - All of these areas have been progressed by the Council. Improvements have been made to the Risk Management framework within the Council, such as ensuring that risk is considered by the Council's senior management team through discussion and analysis at the Resilience Group, although further improvements are required to ensure that risk management practices are consistently implemented across the Council.
- The Council have also developed the control framework in relation to Hoople. Audit Services stated within their report in relation to Hoople that the organisation has made good progress in implementing the structures required to ensure sound governance and robust internal control, although further work is required so that these processes are embedded within the Company. The Council have managed to ensure that controls within some of its key systems are consistently implemented.
- However, Audit Services have identified that significant improvements are required in key areas, such as Health and Safety and Business Continuity. This has been raised as a Significant Control Issue for 2011/12

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 Audit Services completed reviews of the Council's financial management functions undertaken on their behalf by Hoople. They concluded that further significant work was required to ensure controls are effectively implemented within the Accounts Payable and General Ledger functions. (Chief Officer – Finance and Commercial Services).

- 5.3 The Council also need to develop IT controls within its Agresso system to ensure that any data held is protected and secure. (Chief Officer – Finance and Commercial Services).
- 5.4 Two areas within the Council’s corporate function also require further development. Key controls within its Health and Safety and Business Continuity functions need to be established to ensure that these functions can effectively meet their objectives. (Assistant Director – Law, Governance and Resilience).
- 5.5 The Council has experienced significant overspends in relation to Adult and Social Care – it has a detailed project plan to address financial management issues and has set up a Project team to address a number of control issues.

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:

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	6 JULY 2012
TITLE OF REPORT:	ANNUAL INTERNAL AUDIT PLAN 2012/13
PORTFOLIO AREA:	CORPORATE SERVICES

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

The purpose of this report is to seek approval of the Annual Internal Audit Plan 2012/13.

Key Decision

This is not a key decision.

Recommendation

THAT: the Annual Internal Audit Plan 2012/13 be reviewed and approved.

Key Points Summary

- The draft Annual Internal Audit Plan 2012/13 is set out in Appendix 1.
- The draft Annual Internal Audit Plan 2012/13 has been reviewed and agreed by the Council's Leadership Team.
- The work programme is covered elsewhere here on the agenda.

Alternative Options

1. There are not 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.

Further information on the subject of this report is available from
Saverio DellaRocca –Head of Audit Services on (01432) 260426

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 Leadership Team, 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.
6. It is important that the plan demonstrates how the council complies with relevant standards for provision of its internal audit function. The report meets statutory requirements.
7. The plan has been compiled through discussion with the Chief Officer: Finance & Commercial and the Leadership Team.
8. It is estimated that the Internal Audit Plan will require 750 – 850 days of audit input. The performance against the plan is kept under review by the Chief Officer: Finance & Commercial and there is regular reporting to the Audit & Governance Committee.

Financial Implications

9. There are no financial Implications.

Legal Implications

10. 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.
11. 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

12. 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 2012/13



cutting through complexity™

Herefordshire Council

**Strategic Internal Audit Plan
2011/12 – 2014/15 and Annual
Internal Audit Plan
2012/13**

**PUBLIC SECTOR AUDIT
INTERNAL AUDIT**

Content

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in connection with this
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This Report has been prepared on the basis set out in our Contract, and should be read in conjunction with the Contract. This Report is for the benefit of Herefordshire Council ("the Council") and the other parties that we have agreed in writing to treat as addressees of the Contract (together with the Beneficiaries), and has been released to the Beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Contract. This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this Report or a copy (under the Freedom of Information Act 2000 or otherwise) and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Beneficiaries.

Section One

Executive Summary

This draft audit plan outlines the proposed internal audit input for 2012/13. It has been prepared with reference to previous audit issues, prior year internal audit activity, risks and developments within Herefordshire Council (“the Council”) and topical issues in the sector.

The plan also sets out how we will comply with the relevant standards for provision of your internal audit function. It provides a risk based analysis of the Council’s operations as a basis for our work and summarises the performance metrics we will use.

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 (*Section two*);
- How Internal Audit’s work will identify and address significant local and national issues and risks (*Section four*);
- How the service will be provided (*Section five*); and
- The resources and skills required to deliver the strategy(*Section five*).

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 which is being updated.

1.3 Key issues and Risks

The Council is facing a number of significant issues over the next financial year, both financially and operationally, these include:

- Delivering key projects such as “Rising to the Challenge” - This programme seeks to deliver, amongst other objectives, improved performance at a reduced cost through different ways of working. The framework over this programme has recently been further developed and the Council needs to ensure that these revised processes successfully deliver the aims of the project;
- Continuing to embed working arrangements with Hoople - This has been Hoople’s first year of operation and it has defined its role and set out its relationship with the Council. The next key step for the Council and for Hoople is to embed working arrangements as Hoople starts to develop the services it could provide to other organisations;
- Ensuring the continued effectiveness of its routine control and governance processes such as its risk management, performance and financial management functions within the current period of change;
- Continuing to implement the roll out of the Agresso financial management system so that it not only delivers robust day to day functionality, but it can also be used to drive efficiencies in how the Council, through Hoople, delivers financial services;
- Ensuring that the Adult and Social Care function can successfully implement new ways of working in relation to the issues raised over its financial management;
- Continuing to ensure that it can obtain maximum benefit from its major contracts, such as the contract which it has in place with AMEY; and
- Responding effectively to counter fraudulent activity - the Council needs to ensure that both its processes and procedures to highlight and deal with fraud are adequate and effective, in addition to creating an anti-fraud culture where instances of fraud are not tolerated..

Section One

Executive Summary – (continued)

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 HPSLT members, 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.

The Internal Audit Plan includes reviews of key financial, operational and corporate systems. We believe that a total of 750 – 850 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 four.

1.5 Resources

The Audit Service is being led by KPMG, with Sav Della Rocca as the Council's Head of Internal Audit and Mukhtar Khangura as the Internal Audit Manager. The service is to be provided using a combination of resources from Hoople and resources from KPMG. 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 six. This process ensures that our work is of a high standard and delivers a quality internal audit service to the Council.

Section Two

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 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.

2.1 Core Role of Internal Audit

The core role of 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 times 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.

2.2 Independence of Audit Services

KPMG have been engaged by the Council to lead the Internal Audit function for the Council. Sav, as Head of Internal 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 Head of Internal Audit is responsible for the day to day management of the Audit Services Team.

Section Three

Developing the Plan

Our proposed work for the year has involved completing a number of actions to ensure that the plan meets the needs of the Council and provides an effective and efficient assurance service.

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 HPSLT 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 Adult and Social Care, AMEY and Legal Services. The precise coverage of these reviews will be addressed through further discussions with relevant officers.

Section Three

Developing the Plan – *(continued)*

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/links to wider projects

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 and the Care Quality Commission. Where possible we will seek to place reliance on such work and reduce internal audit coverage appropriately. For example, separate support has been commissioned in relation to the PFI Waste contract with Worcestershire so there is no planned audit work in this area.

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.

Section Four

Key Issues and Coverage

Our detailed programme of work sets out how we propose to provide assurance over the key risks you face. It might be necessary to update this Internal Audit Plan during the year, should the Council's risk profile change and different risks emerge that would benefit from internal audit input. We will ensure that both management and the Audit and Governance Committee are kept up to date with all work that we perform.

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 £9.3m cost savings outlined for 2012/13;
- 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
- Failure to further progress with Hoople and deliver the £413k savings the Council anticipates.

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.

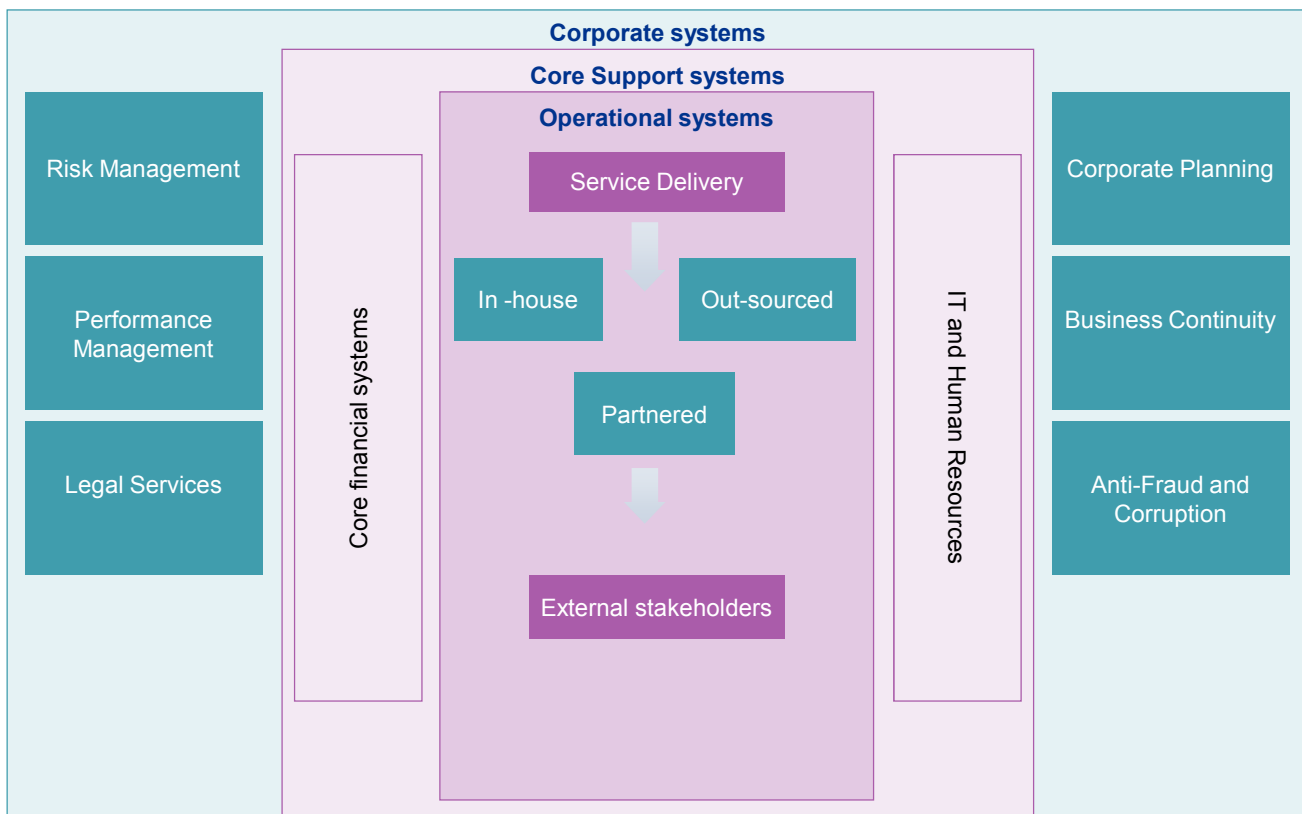
4.2 Councils control environment

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.



Section Four

Key Issues and Coverage – (continued)

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 1. We have set these out below, grouped by Corporate and Directorate systems.

Area	Internal audit work in 2012/13
Corporate systems	<p>These systems cover Financial Systems and Other systems that support the Council's service delivery and provide the Council direction and oversight over its activities. We have provided further detail on these audits below.</p> <p>Financial 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>The work undertaken on these systems will jointly be focused on the Council's systems and processes undertaken on their behalf by Hoople (where applicable).</p> <p>General Ledger</p> <p>This audit will focus on the controls the Council has in place over transactions posted to its General Ledger. This will include assessing controls over journal processing, suspense accounts and its bank accounts.</p> <p>Creditors</p> <p>The Council pays a number of suppliers through its Creditors function. This audit will focus on the controls the Council has in place over how it raises orders and pays invoices relating to these suppliers and we will also follow up work undertaken in response to the alleged fraud identified in 2011/12.</p> <p>Payroll</p> <p>This audit will focus on the controls the Council has in place over payments made to its employees. As part of this audit we will review the Council's controls over employees who are added and removed from the payroll system.</p> <p>Budgetary Control</p> <p>As part of this audit will review the Council's controls over budget monitoring and how effectively they are being applied in practice. This audit will also involve surveying and meeting with budget holders to understand their views on the Council's budget monitoring processes.</p> <p>Treasury Management</p> <p>This audit will involve a review of the controls which ensure that the Council's Treasury Management policy is adhered to and that investment and borrowing transactions are undertaken in accordance with Council policy.</p> <p>Income Collection</p> <p>The Council receives income from a variety of sources, for example, from Car Parking, Planning and Industrial Units. As part of this audit we will review a selection of income streams and assess the controls which the Council has in place which ensure that income received is correctly accounted for.</p> <p>Council Tax and NNDR</p> <p>This audit will focus on the controls which the Council has in place over collecting tax from personal and business premises.</p> <p>Housing Benefit</p> <p>The aim of this audit will be to assess the controls which the Council has in place over Housing Benefit payments. We will assess controls over how entitlement to Housing Benefit is assessed, reviewed and monitored. We will also review controls over how Housing Benefit is reclaimed if it has been overpaid.</p>

Section Four

Key Issues and Coverage – (continued)

4.3 Audit Reviews

Area	Internal audit work in 2012/ 13
Corporate Services - continued	<p>Support systems</p> <p>Health and Safety and Business Continuity</p> <p>These reviews will focus on how effectively the Council has implemented the recommendations which we made following our reviews of these areas in 2011/12. We may also identify in conjunction with management other areas of focus.</p> <p>Asset Register</p> <p>This audit will focus on the controls the Council has in place which ensure that it can account for and identify the assets which it has.</p> <p>Procurement</p> <p>The aim of this review will be to assess the controls the Council has in place which ensure that officers comply with Standing Orders as part of the Procurement process. This audit will involve reviewing a sample of major procurement projects and assessing if they have complied with the Council's procedures.</p> <p>Rising to the Challenge – Follow Up and Project Management</p> <p>As part of our 2011/12 work we reviewed the Council's overall governance arrangements over the Rising to the Challenge project. As part of this review we will follow up the recommendations that we made as part of our audit and also review a sample of projects to assess how they comply with the governance arrangements within this area.</p> <p>Performance Management (Follow Up)</p> <p>This review will focus on how effectively the Council has implemented the recommendations which we made following our reviews of this area in 2011/12.</p> <p>Legal Services</p> <p>We will assess how the Council is implementing new organisational structures within this area in response to a specialist KPMG report in 2011/12.</p> <p>IT Systems</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:</p> <p>ISO 27001</p> <p>Our work in this area will focus on the Council's compliance with ISO27001. This ISO ensures that the Council has key processes and controls in place, for example over how it backs up and maintains its data.</p> <p>IT Access Controls - - Agresso and Other IT systems</p> <p>This review will focus on how effectively the Council has implemented the recommendations which we made following our review of this area in 2011/12. We will also review access controls over the Council's other IT systems including Academy, ISIS and Abacus.</p> <p>Data Protection</p> <p>We will review how the Council complies with its responsibilities under the Data Protection Act 1998.</p> <p>IT Strategy</p> <p>As part of this audit we will review the Council's IT Strategy to ensure that it is fit for purpose, is consistent with recognised best practice and links effectively into the Council's other strategies.</p>

Section Four

Key issues and coverage – (continued)

Area	Internal audit work in 2012/ 13
Corporate Services - continued	<p>Anti-Fraud and Corruption</p> <p>The Council has a duty to ensure that its resources are safeguarded against theft, mis-use 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 a number of areas.</p> <p><i>Raising the profile of Anti-Fraud and Corruption (AFC)</i></p> <p>We will complete a number of actions to raise the profile of AFC within the Council, including developing a newsletter focusing on current issues within this area which will be distributed to all staff, We will also develop a training module that will help employees understand their responsibilities in relation AFC.</p> <p><i>Hot Topics and review of high risk areas</i></p> <p>We will assess how the Council is affected by current issues within the Anti Fraud and Corruption area. For example, we will be reviewing how the Council has implemented the requirements of the Bribery Act 2011. We will also review key areas that could be subject to fraud and assess the effectiveness of the Council's arrangements to counter it. In 2012/13 we will focus on Grants and the Council's pre-employment verification process.</p> <p><i>Anti-Fraud polices and procedures</i></p> <p>We will review the Council Anti-Fraud polices and assess if they are fit for purpose and set out in accordance with best practice.</p> <p><i>Anti-Fraud Survey</i></p> <p>We will also complete the Audit Commission's Anti-Fraud and Corruption Survey.</p>
Hoople	<p>Hoople – Governance – Follow Up</p> <p>This review will focus on how effectively the Council has implemented the recommendations which we made following our review of this area in 2011/12.</p> <p>Hoople – Client Side Management</p> <p>This audit will focus on how the Council develops its relationship with Hoople and establishes monitoring procedures to ensure that Hoople is delivering on its SLA targets.</p>
People Services Directorate	<p>Adult and Social Care</p> <p>This review will focus on two key areas: how the Council is implementing new methods of working in response to a specialist KPMG report on financial management matters and a deep dive into specific areas to test whether changes are working as planned.</p> <p>ASC – Procurement (Follow Up)</p> <p>This review will focus on how effectively the Council is project managing the recommendations which we made following our review of this area in 2011/12 and giving a view as to whether the projects are on track.</p>
Places and Communities Directorate	<p>Public Health – Food Licensing</p> <p>As part of this audit we will review the controls which the Council has in place in relation to how it issues licences to premises in this area and ensures appropriate standards are being maintained.</p> <p>AMEY</p> <p>We will follow up work undertaken in 2011/12 and identify in conjunction with management other areas of focus in relation to contract management and value for money.</p>

Section Four

Key issues and coverage – (continued)

Area	Internal audit work in 2012/13
Schools	Internal Audit was previously required to complete work within this area in relation to the Financial Management Standard in Schools (FMSiS) process. This standard was withdrawn in 2011. In conjunction with the Schools Finance team we have now agreed a new audit process and we will use this approach to undertake audits of Schools as part of our 2012/13 audit plan.
Follow Up	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.
Contingency	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.



Section Five

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 Head of Internal Audit. Sav will be supported by Mukhtar Khangura who will act as the Internal Audit Manager.

Your internal audit team

 Sav DellaRocca <i>Head of Internal Audit</i>	 Mukhtar Khangura <i>Internal Audit Manager</i>
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Other members of the Audit Team

Julie Jones <i>Senior Auditor</i>	Gary Williams <i>IT Auditor</i>	Vicky Roissetter <i>Principal Auditor</i>	Sharon Williams <i>Principal Auditor</i>
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All of the core Audit team members have significant experience of providing internal audit services. Sav and Mukhtar will be supported by four Hoople 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.

Section Six

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 management 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; and
- The review of all audit files and reports by the Manager and Head of Internal Audit as part of the 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; and
- 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.



Section Six

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
Terms of Reference agreed and issued 5 working days prior to start of audit	95%
Draft Report issued 10 working days after the de-brief meeting	95%
Management responses received within 10 working days of issue of draft report	95%
Final report issued within 5 working days of management responses being received	95%
Number of recommendations agreed by management	95%
Client Satisfaction Rate	90%

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

Appendix 1 - Resource allocation for 2011/12 – 2014/15

Our Strategic Internal Audit Plan covering the years 2011/12 to 2013/14 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	12-13
	H/M/L	H/M/L	H/M/L	H/M/L	✓

<p>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.</p>	<p>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:</p>	<p>The third part of our analysis shows the audit coverage.</p>
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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 of 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 the years 2011/12 to 2014/15 based on our risk assessment process above. This analysis shows how we will cover each system on a cyclical basis based on the results of the risk assessment process. 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 Internal Audit.

Strategic Internal Audit Plan 2011/12 – 2014/15							
		Linked to Risk Register's	Aggregate	Years			
				2011/12	2012/13	2013/14	2014/15
Core support systems	Payroll		H	✓	✓	✓	✓
	Creditors		M	✓	✓	✓	✓
	Treasury Management	Yes	M	✓	✓	✓	✓
	Income Collection		M	-	✓	-	✓
	Debtors		M	✓	-	✓	-
	Budgetary Control		M	-	✓	-	✓
	NNDR	Yes	M	✓	✓	✓	✓
	General Ledger	Yes	M	✓	✓	✓	✓
	Council Tax	Yes	M	✓	✓	✓	✓
	Housing Benefit		M	✓	✓	✓	✓
	Asset Register	Yes	M	-	✓	-	✓
	Procurement	Yes	M		✓	-	✓

Appendix 1 - Resource allocation for 2011/12 – 2014/15

		Years					
		Link to Risk Register	Aggregate	2011/12	2012/13	2013/14	2014/15
Core support systems	Education Transport	Yes	M	✓	-	✓	-
	Rising to the Challenge – Governance	Yes	M	✓	-	✓	-
	Rising to the Challenge – Project review	Yes	M	-	✓	-	✓
	Health and Safety	Yes	H	✓	-	✓	-
	Health and Safety – Follow Up	Yes	H	-	✓	-	✓
	Sustainability	Yes	M	✓	-	✓	-
	Sustainability – Follow Up	Yes	M	-	✓	-	✓
	Member Allowances	Yes	M	✓	-	-	✓
	Business Continuity	Yes	M	✓	-	✓	-
	Business Continuity – Follow Up	Yes	M	-	✓	-	✓
	Anti-Money Laundering	Yes	M	✓	-	✓	-
	Gifts and Hospitality	Yes	M	✓	-	✓	-
	Agency Payments	Yes	M	✓	-	-	-
	Legal Services	Yes	M	✓	✓	-	✓
Total days for Core Support Systems		-		210 - 240			
IT systems	ISO 27001 Information Security	Yes	M	✓	✓	✓	✓
	Access Controls review - Agresso, Academy, ISIS and Abacus		H	✓	✓	✓	✓
	Data Protection	Yes	M	-	✓	-	✓
	IT Strategy	Yes	M	-	✓	-	✓
	Total days for IT systems		-		100 - 130		
Anti-Fraud systems	Anti-Fraud and Corruption Arrangements	Yes	M	-	✓	-	✓
	Anti-Fraud and Corruption – Procedures Audit		M	✓	✓	✓	-
	Anti-Fraud and Corruption – Hot Topics and Risk Areas		M	✓	✓	✓	✓
	Audit Commission - Anti-Fraud Survey		M	✓	✓	✓	✓
	Total days for Anti-Fraud systems		-		75		
Governance systems	Director Annual Assurance Statements		M	✓	-	✓	-
	Risk Management		M	✓	-	✓	-
	Performance Management	Yes	M	✓	-	✓	-
	Performance Management – Follow Up	Yes	M	-	✓	-	✓
	Performance Plus	Yes	M	✓	-	✓	-
	Benefits Realisation	Yes	M	✓	-	✓	-
	Total days for Governance systems		-		20		

Appendix 1 - Resource allocation for 2011/12 – 2014/15

System		Link to Risk Register	Aggregate	Years			
				2011/12	2012/13	2013/14	2014/15
Operational systems – Directorate	Hoople – Client Side Management	Yes	M	-	✓	-	✓
	Hoople – Governance	Yes	M	✓	-	✓	-
	Hoople – Governance (Follow Up)	Yes	M	-	✓	-	✓
	Adult and Social Care – Financial Management and Follow Up	Yes	M	-	✓	-	✓
	Adult and Social Care - Procurement	Yes	M	✓	-	✓	-
	Adult and Social Care – Procurement (Follow Up)	Yes	M	-	✓	-	-
	Places and Communities - Public Health – Food Licensing	Yes	H	-	✓	-	✓
	Places and Communities - PFI Project Management	Yes	M	-	-	✓	-
	Places and Communities - ABG Grant Review		M	✓	-	-	-
	Places and Communities - Planning	Yes	M	✓	-	✓	-
	Places and Communities - AMEY	Yes	M	✓	✓	-	✓
	Places and Communities - Taxi Licensing	Yes	M	✓	-	✓	-
	Total days for Operational systems	-		155 – 165			
	Schools		M	✓	✓	✓	✓
Total Days for Schools	-		30				
Contingency (days)			60 - 90				
MGT	Follow up (days)	-	25				
	Contract management and Audit and Governance Committee attendance (days)		75				
	Total		750 - 850				

We have given a range of days to be used for each functional area for every Internal Audit year. This allows Internal Audit to flexibly prioritise the audit resource allocated to each audit review based on its risk profile, current key issues within that area and in accordance with the scope agreed with management.

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

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
Red <i>(Priority 1)</i>	A significant weakness in the system or process which is putting the Council at serious risk of not achieving its strategic aims and objectives. In particular: significant adverse impact on reputation ; 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 immediate attention .
Amber <i>(Priority 2)</i>	A potentially significant or medium level weakness in the system or process which could 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, if not addressed .
Green <i>(Priority 3)</i>	Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving the Council's strategic aims and objectives. These are generally issues of good practice that we consider would achieve better outcomes.

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	6 JULY 2012
TITLE OF REPORT:	WORK PROGRAMME 2012/13
PORTFOLIO AREA:	CORPORATE SERVICES

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: the work programme for 2012/13 be approved.

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, however, 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 meets its terms of reference.

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. 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 The draft work programme has been the subject of consultation with the Leadership Team.

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 – Internal Audit Plan work programme 2012/13 (page 14 onwards)



cutting through complexity™

Herefordshire Council

**Strategic Internal Audit Plan
2011/12 – 2014/15 and Annual
Internal Audit Plan
2012/13**

**PUBLIC SECTOR AUDIT
INTERNAL AUDIT**

Content

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This Report has been prepared on the basis set out in our Contract, and should be read in conjunction with the Contract. This Report is for the benefit of Herefordshire Council ("the Council") and the other parties that we have agreed in writing to treat as addressees of the Contract (together with the Beneficiaries), and has been released to the Beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Contract. This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this Report or a copy (under the Freedom of Information Act 2000 or otherwise) and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Beneficiaries.

Section One

Executive Summary

This draft audit plan outlines the proposed internal audit input for 2012/13. It has been prepared with reference to previous audit issues, prior year internal audit activity, risks and developments within Herefordshire Council (“the Council”) and topical issues in the sector.

The plan also sets out how we will comply with the relevant standards for provision of your internal audit function. It provides a risk based analysis of the Council’s operations as a basis for our work and summarises the performance metrics we will use.

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 (*Section two*);
- How Internal Audit’s work will identify and address significant local and national issues and risks (*Section four*);
- How the service will be provided (*Section five*); and
- The resources and skills required to deliver the strategy(*Section five*).

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 which is being updated.

1.3 Key issues and Risks

The Council is facing a number of significant issues over the next financial year, both financially and operationally, these include:

- Delivering key projects such as “Rising to the Challenge” - This programme seeks to deliver, amongst other objectives, improved performance at a reduced cost through different ways of working. The framework over this programme has recently been further developed and the Council needs to ensure that these revised processes successfully deliver the aims of the project;
- Continuing to embed working arrangements with Hoople - This has been Hoople’s first year of operation and it has defined its role and set out its relationship with the Council. The next key step for the Council and for Hoople is to embed working arrangements as Hoople starts to develop the services it could provide to other organisations;
- Ensuring the continued effectiveness of its routine control and governance processes such as its risk management, performance and financial management functions within the current period of change;
- Continuing to implement the roll out of the Agresso financial management system so that it not only delivers robust day to day functionality, but it can also be used to drive efficiencies in how the Council, through Hoople, delivers financial services;
- Ensuring that the Adult and Social Care function can successfully implement new ways of working in relation to the issues raised over its financial management;
- Continuing to ensure that it can obtain maximum benefit from its major contracts, such as the contract which it has in place with AMEY; and
- Responding effectively to counter fraudulent activity - the Council needs to ensure that both its processes and procedures to highlight and deal with fraud are adequate and effective, in addition to creating an anti-fraud culture where instances of fraud are not tolerated..

Section One

Executive Summary – (continued)

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 HPSLT members, 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.

The Internal Audit Plan includes reviews of key financial, operational and corporate systems. We believe that a total of 750 – 850 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 four.

1.5 Resources

The Audit Service is being led by KPMG, with Sav Della Rocca as the Council's Head of Internal Audit and Mukhtar Khangura as the Internal Audit Manager. The service is to be provided using a combination of resources from Hoople and resources from KPMG. 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 six. This process ensures that our work is of a high standard and delivers a quality internal audit service to the Council.

Section Two

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 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.

2.1 Core Role of Internal Audit

The core role of 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 times 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.

2.2 Independence of Audit Services

KPMG have been engaged by the Council to lead the Internal Audit function for the Council. Sav, as Head of Internal 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 Head of Internal Audit is responsible for the day to day management of the Audit Services Team.

Section Three

Developing the Plan

Our proposed work for the year has involved completing a number of actions to ensure that the plan meets the needs of the Council and provides an effective and efficient assurance service.

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 HPSLT 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 Adult and Social Care, AMEY and Legal Services. The precise coverage of these reviews will be addressed through further discussions with relevant officers.

Section Three

Developing the Plan – *(continued)*

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/links to wider projects

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 and the Care Quality Commission. Where possible we will seek to place reliance on such work and reduce internal audit coverage appropriately. For example, separate support has been commissioned in relation to the PFI Waste contract with Worcestershire so there is no planned audit work in this area.

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.

Section Four

Key Issues and Coverage

Our detailed programme of work sets out how we propose to provide assurance over the key risks you face. It might be necessary to update this Internal Audit Plan during the year, should the Council’s risk profile change and different risks emerge that would benefit from internal audit input. We will ensure that both management and the Audit and Governance Committee are kept up to date with all work that we perform.

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 £9.3m cost savings outlined for 2012/13;
- 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
- Failure to further progress with Hoople and deliver the £413k savings the Council anticipates.

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.

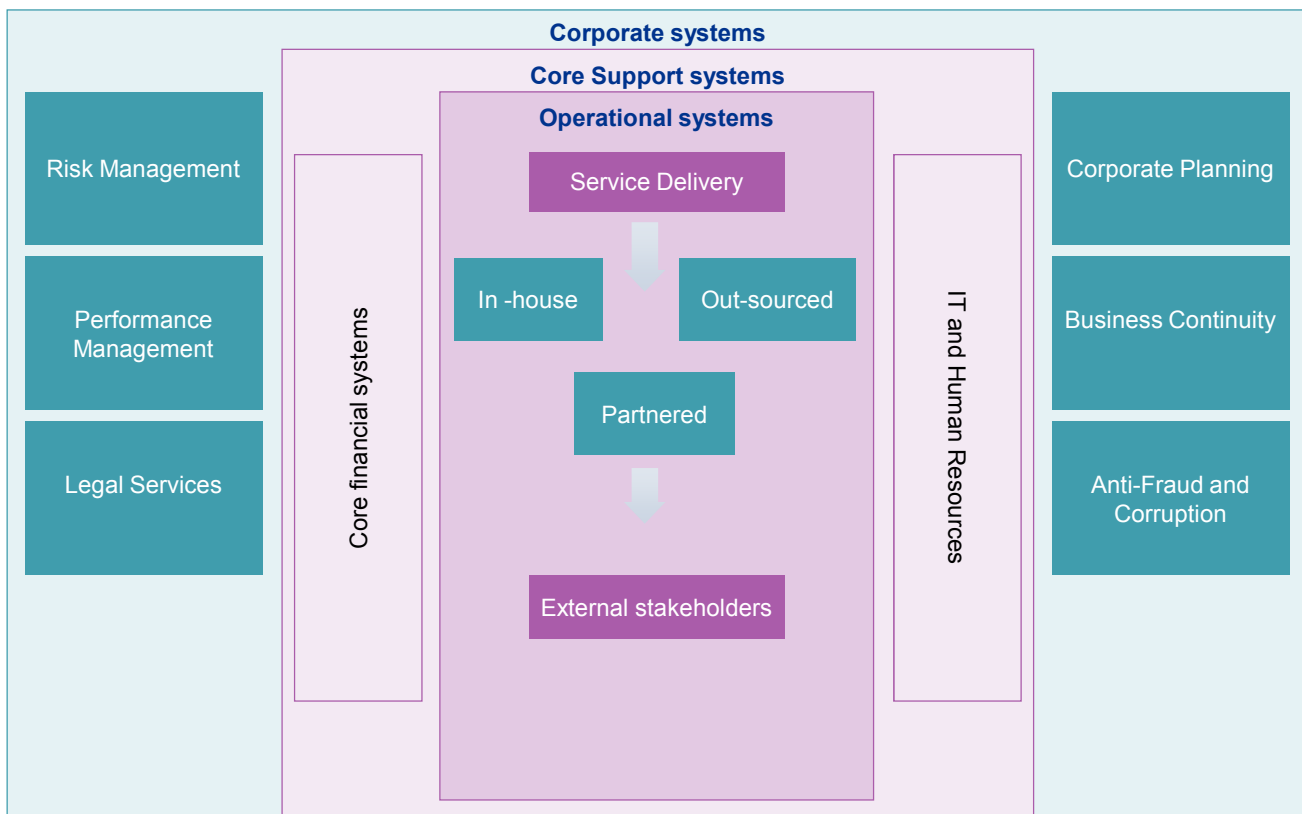
4.2 Councils control environment

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.



Section Four

Key Issues and Coverage – (continued)

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 1. We have set these out below, grouped by Corporate and Directorate systems.

Area	Internal audit work in 2012/13
Corporate systems	<p>These systems cover Financial Systems and Other systems that support the Council's service delivery and provide the Council direction and oversight over its activities. We have provided further detail on these audits below.</p> <p>Financial 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>The work undertaken on these systems will jointly be focused on the Council's systems and processes undertaken on their behalf by Hoople (where applicable).</p> <p>General Ledger</p> <p>This audit will focus on the controls the Council has in place over transactions posted to its General Ledger. This will include assessing controls over journal processing, suspense accounts and its bank accounts.</p> <p>Creditors</p> <p>The Council pays a number of suppliers through its Creditors function. This audit will focus on the controls the Council has in place over how it raises orders and pays invoices relating to these suppliers and we will also follow up work undertaken in response to the alleged fraud identified in 2011/12.</p> <p>Payroll</p> <p>This audit will focus on the controls the Council has in place over payments made to its employees. As part of this audit we will review the Council's controls over employees who are added and removed from the payroll system.</p> <p>Budgetary Control</p> <p>As part of this audit will review the Council's controls over budget monitoring and how effectively they are being applied in practice. This audit will also involve surveying and meeting with budget holders to understand their views on the Council's budget monitoring processes.</p> <p>Treasury Management</p> <p>This audit will involve a review of the controls which ensure that the Council's Treasury Management policy is adhered to and that investment and borrowing transactions are undertaken in accordance with Council policy.</p> <p>Income Collection</p> <p>The Council receives income from a variety of sources, for example, from Car Parking, Planning and Industrial Units. As part of this audit we will review a selection of income streams and assess the controls which the Council has in place which ensure that income received is correctly accounted for.</p> <p>Council Tax and NNDR</p> <p>This audit will focus on the controls which the Council has in place over collecting tax from personal and business premises.</p> <p>Housing Benefit</p> <p>The aim of this audit will be to assess the controls which the Council has in place over Housing Benefit payments. We will assess controls over how entitlement to Housing Benefit is assessed, reviewed and monitored. We will also review controls over how Housing Benefit is reclaimed if it has been overpaid.</p>

Section Four

Key Issues and Coverage – (continued)

4.3 Audit Reviews

Area	Internal audit work in 2012/ 13
Corporate Services - continued	<p>Support systems</p> <p>Health and Safety and Business Continuity</p> <p>These reviews will focus on how effectively the Council has implemented the recommendations which we made following our reviews of these areas in 2011/12. We may also identify in conjunction with management other areas of focus.</p> <p>Asset Register</p> <p>This audit will focus on the controls the Council has in place which ensure that it can account for and identify the assets which it has.</p> <p>Procurement</p> <p>The aim of this review will be to assess the controls the Council has in place which ensure that officers comply with Standing Orders as part of the Procurement process. This audit will involve reviewing a sample of major procurement projects and assessing if they have complied with the Council's procedures.</p> <p>Rising to the Challenge – Follow Up and Project Management</p> <p>As part of our 2011/12 work we reviewed the Council's overall governance arrangements over the Rising to the Challenge project. As part of this review we will follow up the recommendations that we made as part of our audit and also review a sample of projects to assess how they comply with the governance arrangements within this area.</p> <p>Performance Management (Follow Up)</p> <p>This review will focus on how effectively the Council has implemented the recommendations which we made following our reviews of this area in 2011/12.</p> <p>Legal Services</p> <p>We will assess how the Council is implementing new organisational structures within this area in response to a specialist KPMG report in 2011/12.</p> <p>IT Systems</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:</p> <p>ISO 27001</p> <p>Our work in this area will focus on the Council's compliance with ISO27001. This ISO ensures that the Council has key processes and controls in place, for example over how it backs up and maintains its data.</p> <p>IT Access Controls - - Agresso and Other IT systems</p> <p>This review will focus on how effectively the Council has implemented the recommendations which we made following our review of this area in 2011/12. We will also review access controls over the Council's other IT systems including Academy, ISIS and Abacus.</p> <p>Data Protection</p> <p>We will review how the Council complies with its responsibilities under the Data Protection Act 1998.</p> <p>IT Strategy</p> <p>As part of this audit we will review the Council's IT Strategy to ensure that it is fit for purpose, is consistent with recognised best practice and links effectively into the Council's other strategies.</p>

Section Four

Key issues and coverage – (continued)

Area	Internal audit work in 2012/ 13
Corporate Services - continued	<p>Anti-Fraud and Corruption</p> <p>The Council has a duty to ensure that its resources are safeguarded against theft, mis-use 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 a number of areas.</p> <p><i>Raising the profile of Anti-Fraud and Corruption (AFC)</i></p> <p>We will complete a number of actions to raise the profile of AFC within the Council, including developing a newsletter focusing on current issues within this area which will be distributed to all staff, We will also develop a training module that will help employees understand their responsibilities in relation AFC.</p> <p><i>Hot Topics and review of high risk areas</i></p> <p>We will assess how the Council is affected by current issues within the Anti Fraud and Corruption area. For example, we will be reviewing how the Council has implemented the requirements of the Bribery Act 2011. We will also review key areas that could be subject to fraud and assess the effectiveness of the Council's arrangements to counter it. In 2012/13 we will focus on Grants and the Council's pre-employment verification process.</p> <p><i>Anti-Fraud polices and procedures</i></p> <p>We will review the Council Anti-Fraud polices and assess if they are fit for purpose and set out in accordance with best practice.</p> <p><i>Anti-Fraud Survey</i></p> <p>We will also complete the Audit Commission's Anti-Fraud and Corruption Survey.</p>
Hoople	<p>Hoople – Governance – Follow Up</p> <p>This review will focus on how effectively the Council has implemented the recommendations which we made following our review of this area in 2011/12.</p> <p>Hoople – Client Side Management</p> <p>This audit will focus on how the Council develops its relationship with Hoople and establishes monitoring procedures to ensure that Hoople is delivering on its SLA targets.</p>
People Services Directorate	<p>Adult and Social Care</p> <p>This review will focus on two key areas: how the Council is implementing new methods of working in response to a specialist KPMG report on financial management matters and a deep dive into specific areas to test whether changes are working as planned.</p> <p>ASC – Procurement (Follow Up)</p> <p>This review will focus on how effectively the Council is project managing the recommendations which we made following our review of this area in 2011/12 and giving a view as to whether the projects are on track.</p>
Places and Communities Directorate	<p>Public Health – Food Licensing</p> <p>As part of this audit we will review the controls which the Council has in place in relation to how it issues licences to premises in this area and ensures appropriate standards are being maintained.</p> <p>AMEY</p> <p>We will follow up work undertaken in 2011/12 and identify in conjunction with management other areas of focus in relation to contract management and value for money.</p>

Section Four

Key issues and coverage – (continued)

Area	Internal audit work in 2012/13
Schools	Internal Audit was previously required to complete work within this area in relation to the Financial Management Standard in Schools (FMSiS) process. This standard was withdrawn in 2011. In conjunction with the Schools Finance team we have now agreed a new audit process and we will use this approach to undertake audits of Schools as part of our 2012/13 audit plan.
Follow Up	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.
Contingency	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.



Section Five

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 Head of Internal Audit. Sav will be supported by Mukhtar Khangura who will act as the Internal Audit Manager.

Your internal audit team

 Sav DellaRocca <i>Head of Internal Audit</i>	 Mukhtar Khangura <i>Internal Audit Manager</i>
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Other members of the Audit Team

Julie Jones <i>Senior Auditor</i>	Gary Williams <i>IT Auditor</i>	Vicky Roissetter <i>Principal Auditor</i>	Sharon Williams <i>Principal Auditor</i>
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All of the core Audit team members have significant experience of providing internal audit services. Sav and Mukhtar will be supported by four Hoople 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.

Section Six

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 management 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; and
- The review of all audit files and reports by the Manager and Head of Internal Audit as part of the 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; and
- 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.



Section Six

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
Terms of Reference agreed and issued 5 working days prior to start of audit	95%
Draft Report issued 10 working days after the de-brief meeting	95%
Management responses received within 10 working days of issue of draft report	95%
Final report issued within 5 working days of management responses being received	95%
Number of recommendations agreed by management	95%
Client Satisfaction Rate	90%

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

Appendix 1 - Resource allocation for 2011/12 – 2014/15

Our Strategic Internal Audit Plan covering the years 2011/12 to 2013/14 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	12-13
	H/M/L	H/M/L	H/M/L	H/M/L	✓

<p>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.</p>	<p>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:</p>	<p>The third part of our analysis shows the audit coverage.</p>
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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 of 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 the years 2011/12 to 2014/15 based on our risk assessment process above. This analysis shows how we will cover each system on a cyclical basis based on the results of the risk assessment process. 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 Internal Audit.

Strategic Internal Audit Plan 2011/12 – 2014/15							
		Linked to Risk Register's	Aggregate	Years			
				2011/12	2012/13	2013/14	2014/15
Core support systems	Payroll		H	✓	✓	✓	✓
	Creditors		M	✓	✓	✓	✓
	Treasury Management	Yes	M	✓	✓	✓	✓
	Income Collection		M	-	✓	-	✓
	Debtors		M	✓	-	✓	-
	Budgetary Control		M	-	✓	-	✓
	NNDR	Yes	M	✓	✓	✓	✓
	General Ledger	Yes	M	✓	✓	✓	✓
	Council Tax	Yes	M	✓	✓	✓	✓
	Housing Benefit		M	✓	✓	✓	✓
	Asset Register	Yes	M	-	✓	-	✓
	Procurement	Yes	M		✓	-	✓

Appendix 1 - Resource allocation for 2011/12 – 2014/15

		Years					
		Link to Risk Register	Aggregate	2011/12	2012/13	2013/14	2014/15
Core support systems	Education Transport	Yes	M	✓	-	✓	-
	Rising to the Challenge – Governance	Yes	M	✓	-	✓	
	Rising to the Challenge – Project review	Yes	M	-	✓	-	✓
	Health and Safety	Yes	H	✓	-	✓	-
	Health and Safety – Follow Up	Yes	H	-	✓	-	✓
	Sustainability	Yes	M	✓	-	✓	-
	Sustainability – Follow Up	Yes	M	-	✓	-	✓
	Member Allowances	Yes	M	✓	-	-	✓
	Business Continuity	Yes	M	✓	-	✓	-
	Business Continuity – Follow Up	Yes	M	-	✓	-	✓
	Anti-Money Laundering	Yes	M	✓	-	✓	-
	Gifts and Hospitality	Yes	M	✓	-	✓	-
	Agency Payments	Yes	M	✓	-	-	-
	Legal Services	Yes	M	✓	✓	-	✓
Total days for Core Support Systems		-		210 - 240			
IT systems	ISO 27001 Information Security	Yes	M	✓	✓	✓	✓
	Access Controls review - Agresso, Academy, ISIS and Abacus		H	✓	✓	✓	✓
	Data Protection	Yes	M	-	✓	-	✓
	IT Strategy	Yes	M	-	✓	-	✓
	Total days for IT systems		-		100 - 130		
Anti-Fraud systems	Anti-Fraud and Corruption Arrangements	Yes	M	-	✓	-	✓
	Anti-Fraud and Corruption – Procedures Audit		M	✓	✓	✓	-
	Anti-Fraud and Corruption – Hot Topics and Risk Areas		M	✓	✓	✓	✓
	Audit Commission - Anti-Fraud Survey		M	✓	✓	✓	✓
	Total days for Anti-Fraud systems		-		75		
Governance systems	Director Annual Assurance Statements		M	✓	-	✓	-
	Risk Management		M	✓	-	✓	-
	Performance Management	Yes	M	✓	-	✓	-
	Performance Management – Follow Up	Yes	M	-	✓	-	✓
	Performance Plus	Yes	M	✓	-	✓	-
	Benefits Realisation	Yes	M	✓	-	✓	-
	Total days for Governance systems		-		20		

Appendix 1 - Resource allocation for 2011/12 – 2014/15

System		Link to Risk Register	Aggregate	Years			
				2011/12	2012/13	2013/14	2014/15
Operational systems – Directorate	Hoople – Client Side Management	Yes	M	-	✓	-	✓
	Hoople – Governance	Yes	M	✓	-	✓	-
	Hoople – Governance (Follow Up)	Yes	M	-	✓	-	✓
	Adult and Social Care – Financial Management and Follow Up	Yes	M	-	✓	-	✓
	Adult and Social Care - Procurement	Yes	M	✓	-	✓	-
	Adult and Social Care – Procurement (Follow Up)	Yes	M	-	✓	-	-
	Places and Communities - Public Health – Food Licensing	Yes	H	-	✓	-	✓
	Places and Communities - PFI Project Management	Yes	M	-	-	✓	-
	Places and Communities - ABG Grant Review		M	✓	-	-	-
	Places and Communities - Planning	Yes	M	✓	-	✓	-
	Places and Communities - AMEY	Yes	M	✓	✓	-	✓
	Places and Communities - Taxi Licensing	Yes	M	✓	-	✓	-
	Total days for Operational systems	-		155 – 165			
	Schools		M	✓	✓	✓	✓
Total Days for Schools	-		30				
Contingency (days)			60 - 90				
MGT	Follow up (days)	-	25				
	Contract management and Audit and Governance Committee attendance (days)		75				
	Total		750 - 850				

We have given a range of days to be used for each functional area for every Internal Audit year. This allows Internal Audit to flexibly prioritise the audit resource allocated to each audit review based on its risk profile, current key issues within that area and in accordance with the scope agreed with management.

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

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
Red <i>(Priority 1)</i>	A significant weakness in the system or process which is putting the Council at serious risk of not achieving its strategic aims and objectives. In particular: significant adverse impact on reputation ; 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 immediate attention .
Amber <i>(Priority 2)</i>	A potentially significant or medium level weakness in the system or process which could 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, if not addressed .
Green <i>(Priority 3)</i>	Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving the Council's strategic aims and objectives. These are generally issues of good practice that we consider would achieve better outcomes.

Section 12 - Audit and Governance Code

5.12.1 Composition

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

5.12.2 Purpose

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

5.12.3 Key Terms

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

5.12.4 Scope of the Audit & Governance Committee

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

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

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

5.12.5 Terms of Reference

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

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

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

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

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

- 5.12.5.4 **Satisfy themselves that the Council's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it by:**
- a Reviewing and approving the annual governance statement framework annually.
 - b Receiving and commenting upon the Chief Internal Auditor's annual report on the Council's risk environment.
- 5.12.5.5 **Approve internal audit's strategy and plan and oversee performance by:**
- a Reviewing and approving the internal audit strategy, internal audit charter and annual internal audit plan once a year, commenting on the adequacy of internal audit resources to ensure key systems are examined in line with the assessed level of risk. Exceptionally, the Committee may identify specific lines of enquiry for internal audit work in line with paragraph 5.12.5.12 (f).
 - b Reviewing performance against the internal audit plan through the interim and final audit assurance reports prepared by the Chief Internal Auditor for each of the Committee's meetings.
 - c Noting the external auditor's opinion on the quality and effectiveness of the internal audit function.
 - d Commenting on the scope for further improvement in internal audit performance and / or cost effectiveness where it is appropriate to do so.
- 5.12.5.6 **Review summary internal audit reports and the main issues arising, and seek assurance action is taken where necessary by:**
- a Noting the Chief Internal Auditor's summary of key findings for audit reviews that have resulted in an unsound or unsatisfactory audit opinion being issued which will be included in his / her interim audit assurance reports and commenting on the management response to those issues as appropriate.
 - b The Chief Internal Auditor providing the Chairman of the Audit and Governance Committee with a copy of audit review reports with an unsound, unsatisfactory or marginal audit opinion.
 - c The Chief Internal Auditor providing the Chairman of the Audit and Governance Committee with written confirmation of audit review reports with a satisfactory or good audit opinion.
- 5.12.5.7 **Receive the annual report of the Head of Internal Audit by:**
- a Reviewing the Chief Internal Auditor's annual report to support the Annual Governance Statement.
 - b Reviewing the interim and final audit assurance reports prepared for the Committee by the Chief Internal Auditor.
 - c Receiving assurance on the opinion given on the overall adequacy and effectiveness of the Council's control environment.

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

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

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

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

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	6 JULY 2012
TITLE OF REPORT:	ANNUAL AUDIT FEE LETTER AND AUDIT WORK 2011/12
PORTFOLIO AREA:	CORPORATE SERVICES

CLASSIFICATION: Open

Wards Affected

County-wide.

Purpose

To inform the Committee of the work to be undertaken over coming months for 2011/12 financial year by the Audit Commission. The report also includes the proposed indicative fee.

Key Decision

This is not a Key Decision.

Recommendations

THAT:

- (a) **the content of the Audit Commission's Annual Audit Plan be noted; and**
- (b) **the planned outputs be noted.**

Key Points Summary

1. The proposed audit fee for 2011/12 is £274,672. This is a reduction of £15,000 on the 2010/11 fee.
2. The Audit Plan lists key milestones and deadlines leading to the District Auditor being able to complete required work prior to issuing an audit opinion and value for money conclusion

Alternative Options

2. There are no alternative options.

Further information on the subject of this report is available from
David Powell, Chief Officer (Finance and Commercial Services) on (01432) 383519

Reasons for Recommendations

3. The Audit Commission is the Council's appointed external auditor. The annual fee letter is an opportunity for the Audit and Governance Committee to be informed of the planned outputs and proposed fee.

Key Considerations

4. The Annual Audit Fee letter details the amount to be paid to the Audit Commission (£274,672). This is a decrease on the actual fees of £290,000 for 2010/11. The reason for the reduction is outlined in the letter and is from a combination of factors. Any fee amendments will be discussed with the Council's Chief Officer (Finance and Commercial Services) and a report would then go to the Audit and Governance Committee.
5. The Audit fee covers work on the audit of financial statements, value for money conclusion and Whole of Government accounts aspects.
6. The Audit Commission indicates that given the timescale of the financial challenge faced by local government it will review the robustness of Herefordshire's medium term financial plan. The value for money of any variations to the waste disposal contract along with a review of progress on benefits realisation from the transformation programme will also be reviewed.
7. The letter lists the planned outputs and their indicative dates.

Financial Implications

8. The fee reflected in the Audit Plan is included in the Council's budget.

Legal Implications

9. There are no legal implications.

Risk Management

10. The effective management of risk is through the delivery of internal processes that address the risks associated with areas such as final accounts delivery.
11. Appendix 2 of the attached report indicates the basis of the fee. Certain assumptions are included such as "Hoople" providing appropriate access. This is mitigated by the oversight of the Hoople contract by the Chief Officer: Finance & Commercial.

Consultees

None

Appendices

Appendix 1 – Audit Plan

Background Papers

None identified.

Audit plan

Herefordshire Council

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Council to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the Council's financial performance;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the Council's information system activities and controls.

Identification of specific and significant risks

I have considered the additional risks that are relevant to the audit of the Council's 2011-12 accounting statements and have set these out below.

Table 1: Specific and significant risks

Risk	Audit response
<p>The Council implemented an integrated general, purchase, sales, payroll and capital ledger system in 2011-12. Internal Audit were requested by the Chief Financial Officer (Section 151 Officer) to review the management of this major project and the IT control environment for the system after a suspected fraud by an officer involved in the project was promptly identified by the Finance team. They identified weaknesses in the arrangements, including insufficient monitoring of the activities of officers granted "super-user" privileges. These weaknesses make it all the more important that service area budget monitoring controls operate effectively.</p>	<ul style="list-style-type: none"> ■ Identify controls and carry out tests of detail on the migration of closing balances and financial information from the old ledger to the new ledger, placing reliance where appropriate on relevant internal audit work. ■ Identify, document, walk-through and evaluate the IT and management controls in place ■ Compliance test key controls to establish their operating effectiveness placing reliance, where appropriate, on relevant internal audit work. ■ Substantively test the balance sheet using larger sample sizes to reflect the high risk of IT control environment. ■ We will seek to obtain and test positive assurance statements from cost centre managers confirming that there are no suspicious or unexplained revenue transactions.
<p>First time reliance on a service organisation (HOOPL) for the initiation, processing, recording and reporting of financial transactions</p>	<ul style="list-style-type: none"> ■ Identify, evaluate and test the design and implementation of client-side controls over management and financial accounts prepared by HOOPL. e.g. oversight of reconciliations, other key boundary controls, accounts closedown and preparation of financial statements.

Risk

Audit response

- Tests of detail, including pre-statement sample checking of items of account produced by the service organisation to source documentation
- Identify and review the proposed accounting treatment of the Council's interest in HOOPLE and establish whether the Council will need to prepare group accounts
- Identify the agreement reached with HOOPLE over pension fund deficit funding
- Review the terms of agreements to identify any potential residual assets or liabilities that might need to be recognised.

Other risks associated with the transfer of staff and functions to HOOPLE (Accounting for the Council's financial interest in HOOPLE, the Local Government Pension Scheme deficit and potential residual liabilities)

The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Council will need to identify their heritage assets and identify their cost or value to account for them correctly. Assets are likely to include museum and archive collections, the valuation of which will involve significant judgement.

■ I will evaluate the management controls in place to recognise and value heritage assets. I will also undertake testing to check that the Council has accounted for heritage assets in accordance with FRS 30 and the Code.

In most local authorities schools are managed through a variety of governance arrangements. This affects the way that they are accounted for. A number of the Council's schools have changed to Academies or Foundation schools in 2001-12 and one school financed by PFI has applied to change status in the year. The Council could materially misstate its Property, Plant and Equipment assets if it incorrectly includes or omits schools in its balance sheet.

■ I will identify the finance team's arrangements for identifying schools that have changed their status and will test the accounting treatment of a sample of schools held on the balance sheet and a sample of schools not recognised on the balance sheet against the IAS 16 recognition criteria.

Risk	Audit response
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<p>Whole of Government accounts (WGA) – the Council’s draft WGA submissions in previous years have contained significant errors that required correction. HOOPLE will be preparing the WGA submission for the first time in 2011-12.</p>	<ul style="list-style-type: none"> ■ Identify and test management controls over the WGA data submission prepared by HOOPLE ■ Carry out a programme of tests of detail of the data in the WGA pack.
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Testing strategy

My audit involves:

- documenting, evaluating and testing the operation of key controls;
- placing reliance on the work of your internal auditors, the PCT’s external auditors and the Worcestershire Pension Fund auditor
- placing reliance on the work of experts (the Council’s valuer and consulting actuary)
- placing reliance on an auditor’s expert (for property valuation trend data and evaluation of the methods and assumptions used by the Council’s actuary)
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: Proposed work

	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Ten fundamental financial systems work	Reliance on relevant internal audit work		Grants, precepts, supporting people expenditure, payments to independent care homes

	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Final visit	Oversight of closedown	HPCT external auditor for HPCT hosted pooled budgets Worcestershire Pension fund auditor for assurance for data provided to the actuary	Actuary to the Worcestershire Pension Fund and our own consulting actuary The Council's valuer and our own consulting valuer	All material accounts balances and amounts

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Council's arrangements is based on two criteria, specified by the Commission. These relate to the Council's arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

Table 3: Significant risks

Risk	Audit response	Separate audit output?
The significant reduction in grants from central government in 2011-12 and 2012-13 is presenting all councils with a huge challenge to respond to. There is a risk that the savings and assumptions set out in the Council's new Medium Term	Review the robustness of the savings assumptions built into the Council's medium term financial plan and how these are being monitored.	No - Feedback to be provided in the Annual Audit Letter

Risk	Audit response	Separate audit output?
<p>Financial Plan, including the transformation programme savings, are not sufficiently robust to deliver a balanced medium term position.</p>		
<p>Continued overspending in Adult Social Care will make it increasingly difficult to balance the Council's financial position.</p>	<p>Review the Council's approach to addressing the overspending in Adult Social Care and the delivery of planned savings</p>	<p>No - Feedback to be provided in the Annual Audit Letter</p>
<p>The Council and its partner are considering varying the existing waste PFI scheme to include the provision of a waste to energy plant in Hartlebury. The Council will need to be able to demonstrate that changes to the current waste disposal arrangements deliver value for money.</p>	<p>Review the Council's assessment of whether changes to the Council's waste disposal arrangements deliver value for money</p>	<p>No - Feedback to be provided in the Annual Audit Letter</p>

Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: Proposed timetable and planned outputs

Activity	Date	Output
Opinion: controls and early substantive testing	February/March 2012	Interim audit letter to management if new risks are identified
Opinion: receipt of accounts and supporting working papers	June 2012	None
Opinion: substantive testing	July-August 2012	Final accounts memorandum to management
Value for money:	February 2012	VFM conclusion September 2012
Present Annual Governance Report at the Audit Committee	28 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	28 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: Audit team

Name	Contact details	Responsibilities
Elizabeth Cave District Auditor	l-cave@audit-commission.gov.uk 0844 798 7552	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Terry Tobin Audit Manager	t-tobin@audit-commission.gov.uk 0844 798 7562	Manages and co-ordinates the different elements of the audit work.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

A member of the audit team declared that his spouse was employed occasionally by the Council in a role unrelated to the audit. I considered that this threat was of an acceptably low level. I have ensured that this member of the audit team does not carry out work directly relating to his spouse's area of work or payroll.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £274,672, as set out in my letter of 27 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £274,672 which represents a 5.4% reduction on the £290,330 actual fee for 2010/11. The Audit Commission has paid a rebate of £21,974 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £252,698.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Chief Officer, Finance and Commercial Services and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have not identified any actions that you need to take.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed £000s	2010/11 actual £000s	Variance £000s
Audit	£275	£290	-£15
Certification of claims and returns	£20	£41	-£21
Inspection	£0	£38	-£38
Non-audit work	£0	£0	£0
Total	£295	£369	-£74

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.
	The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11;
- Complete and accurate data migration to newly implemented financial systems and key controls operate effectively in those systems;
- HOOPLE provides us with access to financial systems and responds promptly to information requests
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes their agreed programme of financial system audits in time for us to place reliance on it.
- The Council provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
 - other information requested within agreed timescales;
 - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Council Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

100

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Council and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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



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June 2012

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	6 JULY 2012
TITLE OF REPORT:	AUDIT & GOVERNANCE COMMITTEE UPDATE FROM THE AUDIT COMMISSION
PORTFOLIO AREA:	CORPORATE SERVICES

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To provide an update on the progress of the Audit Commission delivering their responsibilities as the council's external auditors. It also updates the Committee on the externalisation of the audit practice.

Key Decision

This is not a key decision

Recommendation

THAT: the report be noted.

Alternative Options

1. There are no alternative options.

Introduction and Background

2. The Audit Commission is the Council's external auditor. The report provides information on the progress to date developing the audit plan. It also covers the outcome of the externalisation of the Audit Commission's Audit Service.

Key Considerations

3. The report outlines a number of identified key risks that shape the Audit Plan covered elsewhere in the agenda. The risks mainly cover the significant changes to the council's approach to the provision of support services including new systems.
4. As in previous years there has been good communication between the council and the Audit Commission around the final accounts timetable. Council officers attended a training session the Audit Commission provided on this year's technical changes.

Further information on the subject of this report is available from
David Powell, Chief Officer: Finance & Commercial on 01432 383519

5. The report outlined three areas that will inform the statutory Value for Money conclusion as being:
 - a. The impact of a significant reduction in government grants on the medium term financial plan;
 - b. The council's ability to demonstrate that any change to the current waste disposal arrangements to provide a waste to energy plan in Hartlebury delivers value for money; and
 - c. That continued overspending in Adult Social care will make it increasingly difficult to balance the council's financial position.
6. Independent quality monitoring of audits indicated that Herefordshire's audit received the highest rating as a result of the detailed review.
7. The Audit Commission recently announced the outcome of the procurement exercise to outsource work currently undertaken by the Audit Practice for 2012/13 to 2016/17. The Audit Commission will remain as a small residuary body until the end of the contracts but from 2012/13 Grant Thornton have been awarded the West Midlands contract and will become the Council's external auditors.
8. The update also includes other matters of interest including the annual fraud and corruption survey process as well as capital finance system changes. The council has completed the annual survey and implications of the change to capital regulations.
9. The council has also conformed to the new pay policy requirements outlined in the document.

Financial Implications

10. There are no financial implications.

Legal Implications

11. There are no legal implications.

Risk Management

12. The changeover to new auditors may raise risk levels but the intention is for current staff up to the level of District Auditor to remain involved with Herefordshire's audit.

Appendices

None

Audit and Governance Committee update

Herefordshire Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

1 The purpose of this paper is to provide the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.

2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit and Governance Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.

3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.

4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Elizabeth Cave

District Auditor

May 2012

Progress report

Financial statements

5 My audit plan is to be presented to the July Audit and Governance Committee. The key risks identified are:

- The first time reliance on a service organisation (HOOPLE) for the initiation, processing, recording and reporting of financial transactions;
- Other risks associated with the transfer of staff and functions to HOOPLE (Accounting for the Council's financial interest in HOOPLE, the Local Government Pension Scheme deficit and potential residual liabilities)
- The Council implemented an integrated general, purchase, sales, payroll and capital ledger system in 2011-12 ;
- Whole of government accounts;
- Transfer of schools to academy status ;and
- The need to identify heritage assets and identify their cost or value to account for them correctly.

6 My team has completed their interim visit. This involved updating our assessment of the Council's control environment and also reviewing the controls operating around the Council's key financial systems. We also reviewed Internal Audit as part of that work. We have also brought forward as much of the work typically carried out by auditors after the financial statements have arrived as possible. We are grateful for the very good co-operation we received from Officers during the visit,

7 Dates were agreed with Officers in January for the key stages of the final accounts visit. We have also provided officers with a copy of our suggested working paper requirements. Officers attended a training session we ran to brief them on the key technical accounting issues for this year.

VFM conclusion

8 I concluded my risk assessment and this has confirmed the areas to be considered as part of this work. The risks are.

- The impact of a significant reduction in government grants on the medium term financial plan;
- That the Council cannot demonstrate that any change to the current waste disposal arrangements to provide a waste to energy plant in Hartlebury delivers value for money; and

- That continued overspending in Adult Social Care will make it increasingly difficult to balance the Council's financial position.
- 9 This work is substantially complete and we will present the results to the September Committee.

Other issues

10 The Audit Commission carries out a programme of independent quality monitoring of all its audits. At least every three years, each District Auditor has one of her audits selected for a detailed review by auditors from either another region or firm. This is then scored on a scale of 1-4. I am pleased to report that the 2010/11 Herefordshire Council audit was assessed as achieving the very highest rating of 4.

Government response to consultation on the future of local public audit

11 In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011 the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

12 The Audit Commission has recently announced the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17 (see 'update on the externalisation of the Audit Practice' below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

13 Thereafter, the government proposes that a new local public audit regime will apply, the key features of which are as follows.

- Local government bodies will appoint their own auditor on the advice of an independent audit appointment panel, with a maximum of two terms of five years permissible.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.
- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

14 The government response provides little detail on the audit arrangements for local health bodies. The Department of Health is working through the implications of Monitor's changing role and the proposed establishment of Clinical Commissioning Groups, and will specify the detailed arrangements for the audit of local health bodies, under the new framework, in due course.

15 The government is holding further discussions with audited bodies and audit firms to develop its proposals. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

Update on the externalisation of the Audit Practice

16 The Audit Commission’s Managing Director, Audit Policy wrote to audited bodies on 6 March 2012 on the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice and on the process for making auditor appointments for 2012/13 and subsequent years.

17 The key points are as follows.

- Contracts will be let from 2012/13 on a five-year basis to the following firms.

Firm	Contract areas
DA Partnership	North East & North Yorkshire
Ernst and Young	Eastern South East
Grant Thornton	North West West Midlands London (South), Surrey & Kent South West
KPMG	Humberside & Yorkshire East Midlands London (North)

- The Commission has been able to secure very competitive prices that will save local public bodies over £30 million a year for a minimum of five years. The savings secured will be passed back to audited bodies through significant reductions in scales of audit fees. The Commission published the final scales of audit fees for 2012/13 in April 2012.
- The Commission Board confirmed the ‘interim’ auditor appointments for the first five months of 2012/13 on 22 March 2012.
- The Commission wrote to all audited bodies on 23 April 2012 to set out its proposals for ‘permanent’ auditor appointments for 2012/13 and subsequent years. Where a body is currently audited by an auditor from the Audit Practice, the Commission will propose as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate.

- To support the consultation process, the Commission arranged a series of introductory meetings in each contract area between 30 April 2012 and 16 May 2012. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits.

18 The Commission is working with auditors to ensure a smooth transfer between the Audit Practice and the incoming firm. In particular, the new auditor will be expected to place maximum reliance on the work of the current auditor. Audited bodies can also help by ensuring they plan their 2011/12 accounts closedown effectively to enable auditors to issue their opinion by the statutory deadline for publication of accounts, 30 September 2012.

19 Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

20 Further details are available on the Commission's website. We will continue to keep you updated on developments.

21 Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities – delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

Other matters of interest

Annual fraud and corruption survey 2011/12

22 On 2 April 2012 the Audit Commission issued its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year.

23 The electronic survey was open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012. Herefordshire Council completed the survey promptly.

National Fraud Initiative consultation

24 The Audit Commission has just finished consulting on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI).

25 The NFI, which takes place biannually, has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

26 The work programme will remain unchanged from NFI 2010/11 and, in recognition of the financial pressures that public bodies are facing, the Audit Commission proposes that the scale of fees for mandatory participants will remain the same as for NFI 2010/11. For Herefordshire Council this is £3,650

27 The consultation closed on 23 March 2012 and the final work programme and scales of fees was published in May 2012.

Local government capital finance system

28 In late 2011 the Department for Communities and Local Government (DCLG) issued a consultation document on proposed changes to the Local Government capital finance system.

29 A summary of the consultation responses was published on 8 February 2012 and the Regulations, which come into force on 31 March and 1 April 2012, have been laid before Parliament.

30 DCLG's commentary confirms the intended effects of the amended Regulations are:

- to bring securitisation (the exchange of future revenues for an immediate lump sum payment) within the capital finance framework;

- to relax the rules on bond investments; and
- to clarify the definition of capital expenditure.

Openness and accountability in local pay

31 On 17 February 2012 DCLG published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act.

32 For each financial year, beginning with 2012/13, the Council will be required to prepare a pay policy statement that must articulate its policies on the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees.

33 The statement must be approved by full Council and published on its website.

Contact details

34 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

35 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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