

# AGENDA

## Audit and Governance Committee

Date: **Friday 5 July 2013**

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Time: **10.00 am**

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

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

For any further information please contact:

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

## **Membership**

**Chairman**

**Councillor J Stone**

**Vice-Chairman**

**Councillor P Rone**

**Councillor CNH Attwood**

**Councillor EMK Chave**

**Councillor PGH Cutter**

**Councillor AJ Hempton-Smith**

**Councillor TM James**

**Councillor Brig P Jones CBE**

**Councillor PJ McCaull**

**Councillor NP Nenadich**

## AGENDA

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1.	<p><b>APOLOGIES FOR ABSENCE</b></p> <p>To receive apologies for absence.</p>	5 - 8
2.	<p><b>NAMED SUBSTITUTES (IF ANY)</b></p> <p>To receive details any details of Members nominated to attend the meeting in place of a Member of the Committee.</p>	
3.	<p><b>DECLARATIONS OF INTEREST</b></p> <p>To receive any declarations of interest by Members in respect of items on the agenda.</p>	
4.	<p><b>MINUTES</b></p> <p>To approve and sign the Minutes of the meeting held on 13 May 2013.</p>	9 - 18
5.	<p><b>ANNUAL ASSURANCE REPORT 2012/13</b></p> <p>To consider a summary provided for Herefordshire Council, of the internal audit work undertaken in 2012/13, and the overall internal audit opinion based on this work.</p>	19 - 42
6.	<p><b>INTERNAL AUDIT PROGRESS REPORT 2012/13</b></p> <p>To receive an update on the progress of internal audit work and to bring to the Committee's attention any key internal control issues arising from work recently completed.</p>	43 - 52
7.	<p><b>INTERNAL AUDIT 2012-13 DATA PROTECTION 1998 - FORMAL WRITTEN RESPONSE</b></p> <ul style="list-style-type: none"> <li>• To update Audit and Governance Committee Members formally, on the actions and improvement undertaken, and those proposed to be undertaken, by the Knowledge and Information Service in response to the KPMG internal audit report dated 26th April 2013.</li> <li>• To update the Committee formally on the initial findings of the Information Commissioner's Office consensual data protection audit 30th April – 2nd May 2013.</li> </ul>	53 - 58
8.	<p><b>DRAFT ANNUAL GOVERNANCE STATEMENT 2012/13</b></p> <p>To approve the draft Annual Governance Statement for 2012/2013.</p>	59 - 78
9.	<p><b>APPOINTMENT OF INDEPENDENT PERSONS TO THE COUNCIL'S STANDARDS PANEL</b></p> <p>To note the recommendation to appoint two independent persons to the standards panel.</p>	79 - 82



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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 Monday 13 May 2013 at 10.00 am**

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

Councillors: CNH Attwood, AJ Hempton-Smith, TM James and AJW Powers

**In attendance:** Councillors J Hardwick, RJ Phillips, PD Price and A Seldon

**61. APOLOGIES FOR ABSENCE**

Apologies for absence had been received from Councillors EMK Chave, PGH Cutter, Brig. P Jones CBE, and PJ McCaull.

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

In accordance with paragraph 4.1.23 of the Council's Constitution, Councillor AJW Powers attended the meeting as substitute member for Councillor EMK Chave.

**63. DECLARATIONS OF INTEREST**

No declarations of interest were made.

**64. MINUTES**

The minutes of the meeting held on 15 March 2013 were received.

A Member questioned the wording of minute 54 (Named Substitutes), as it was not considered that the nature of Councillor NP Nenadich's attendance had been made clear at the meeting. The Head of Governance said that he would seek clarification on the matter. (Note: it was subsequently clarified that Councillor Nenadich had attended the meeting as the Conservative Group nomination for the vacant position on the Committee; his appointment was confirmed by Council on 24 May 2013).

Referring to minute 58 (Audit Plan 2012/13), a Committee Member asked when the report requested on the commissioning and commercial strategy would be received by the Committee. In response, the Chief Officer: Finance and Commercial advised that a date had not yet been identified but this would be progressed.

Referring to minute 59 (Changes to the Constitution), a Committee Member commented that the recommendation to Council that 'the term of office of Leaders of the Council should be one year, with an option for Leaders to serve consecutive one-year terms up to, and not exceeding a maximum of four years' would be unusual in local government. It was noted that a number of Leaders had served longer in previous years. The Head of Governance advised that a report on the matter would be submitted to Annual Council on 24 May 2013, where the matter could be debated fully.

**RESOLVED:** That, subject to the above amendment, the minutes of the meeting held on 15 March 2013 be approved as a correct record and be signed by the Chairman.

## 65. INTERNAL AUDIT 2012/13, FOOD HYGIENE - FORMAL WRITTEN RESPONSE

Further to minute 56 of 15 March 2013, the Head of Consumer and Business Protection presented his report which updated the Committee on the actions and improvements undertaken by the Environmental Health and Trading Standards Service in response to the KPMG audit report dated 2012 (Ref 104/2012-13), regarding implementation of the Food Standards Agency (FSA) Food Law Code of Practice (England) (April 2012), in relation to undertaking Food Hygiene Inspections.

A summary of progress against the nine key recommendations of the internal audit report was provided. Attention was drawn to paragraph 10.4 of the report, where it was reported that the work plan was risk based and current resourcing issues had led to the decision to accept that the Code of Practice could not be met and, therefore, the service had to target resource accordingly. It was noted that the Regulatory Committee had been informed of this decision and a report outlining the revised Food Hygiene Inspection programme for 2013/14 and the risks associated with not complying with the Code of Practice would be presented to the Regulatory Committee at its next meeting. It was also noted that quarterly reports would be provided to the Regulatory Committee to inform Members of progress against meeting the agreed inspection programme and any deviations from it.

The Head of Consumer and Business Protection anticipated that the majority of the audit recommendations would be addressed by the end of May 2013, albeit the Regulatory Committee would not meet until 25 June 2013, and the Corporate Assurance Grading could be reviewed subsequently.

In response to questions from the Committee, the Head of Consumer and Business Protection advised that:

1. This report had been prepared as a formal written response to the Internal Audit report, not as a result of an FSA audit.
2. It was acknowledged that, whilst inspections had been undertaken by staff, record keeping and monitoring by management had required revision and improvements. It was commented that the service had worked to ISO 9001 standards in previous years but certification had lapsed due to budgetary pressures.
3. Local authorities had statutory obligations under the Code of Practice and the FSA had powers to intervene and take over functions if necessary. It was noted that many local authorities did not achieve full compliance with the code. In view of the resource constraints, with significant further savings required during 2013/14, the service had focussed on higher risk premises, supported by random sampling of lower risk premises.
4. The need to enhance reporting to the Regulatory Committee had been identified by the internal audit report. The Head of Internal Audit said that many services faced resourcing difficulties and it was essential that there was transparency about decision making, with Members properly briefed.

### **RESOLVED: That**

- (a) **The report be noted; and**
- (b) **The actions proposed in order to raise the Corporate Assurance Grading with respect to adherence to the FSA's Food Law Code of Practice (England) (April 2012) be supported and endorsed.**

(Note: During the Annual Fee 2013/14 item, there was a further discussion about matters arising from the Internal Audit 2012/13, Food Hygiene item as summarised below.)

A Committee Member acknowledged that other local authorities had difficulties fulfilling the requirements of the Code of Practice but he was concerned that this Council should not necessarily accept non-compliance as the routine position. The Vice-Chairman noted that the Regulatory Committee was responsible for the use of the Council's regulatory powers and the carrying out of the Council's regulatory duties. He also noted that Internal Audit would review Food Licensing during 2013/14 to ensure that the recommendations had been implemented.

In response to further comments from Committee Members, the Head of Internal Audit said that the report to the Regulatory Committee provided an opportunity to consider performance, debate the issues, and consider different models of working. Councillor A Seldon commented that there might be a role for the General Overview and Scrutiny Committee to consider the scope to combine back office support with other authorities to deliver cost effective regulatory and planning functions.

A Committee Member commented on the importance of food production to the local economy and the need to mitigate potential risks to food quality and safety.

#### **66. ANNUAL FEE 2013/14 FOR HEREFORDSHIRE COUNCIL**

The Committee received the Audit Fee letter for 2013/14 from the Council's appointed external auditor, Grant Thornton.

Mr P Jones, of Grant Thornton, reported that the proposed audit fee for 2013/14 was £164,803, this was at the same level as 2012/13. The composite indicative fee for grant certification in 2013/14 was £8,400, this had been £10,600 in 2012/13. It was noted that the letter summarised the planned outputs and indicative timings.

**RESOLVED: That the Audit Fee Letter be agreed.**

#### **67. INTERNAL AUDIT PROGRESS 2012/13**

The Head of Internal Audit updated the Committee on the progress of internal audit work for 2012/13 and internal control issues arising from work recently completed. The principal points included:

1. To date, ten audit reviews had been finalised and seven reviews were being completed by Audit Services, with draft reports issued in three areas.
2. Two areas had received 'Limited Assurance' opinion, these being Legal Services and Data Protection. The progress with the recommendations in these areas would be assessed as part of the Internal Audit Plan for 2013/14, with the findings presented to a future meeting of the Audit and Governance Committee.
3. The review of the Benefits (Council Tax and Housing) function had been given a 'Substantial Assurance' opinion, with no recommendations made.
4. At the request of the Chief Officer: Finance & Commercial, Audit Services had reviewed the capitalisation of highways expenditure and also reviewed the capital planning process, with draft reports issued in these areas.

The Chairman welcomed the snapshot of the status of the audit reviews provided at Appendix 1 to the report.

Referring to the audit review of Data Protection, the Vice-Chairman questioned when the Committee could be provided with assurance about data security. The Head of Internal

Audit said that it would take time to develop processes in some key areas and re-iterated that the function would be subject to further assessment in 2013/14. It was noted that the Committee could request commentary back from the service area regarding the actions being taken to address the audit findings.

A Committee Member commented on the potential impact of welfare reform on the Benefits function. The Head of Internal Audit advised that Benefits was viewed as a fundamental system and controls would be further reviewed during 2013/14.

A Committee Member expressed concern about data security, particularly in view of the increasing alignment of databases. The Chairman suggested that the action plan in respect of Data Protection be received at the next Committee meeting.

In response to a question a from Committee Member about Industrial Lets, the Head of Internal Audit confirmed that funds were being recovered in respect of previously unbilled rental charges.

In response to another question, the Head of Internal Audit said that the audit review of IT Access Controls was to be issued to management shortly but so far he had not been made aware of any significant issues by the auditor, although work on this audit was on-going so he was not yet able to indicate what the final outcome would be.

Referring to point 4. above, the Chief Officer: Finance & Commercial explained that the issue with the capitalisation of highways expenditure related to the split between revenue and capital elements of repairs on the road network.

**RESOLVED: That**

- (a) The report be noted; and**
- (b) The action plan for the Council's Data Protection function be presented to the next meeting of the Committee.**

**68. PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND INTERNAL AUDIT CHARTER**

The Committee received a report which outlined the new Public Sector Internal Audit Standards (PSIAS) and sought approval for a new Internal Audit Charter.

The Head of Internal Audit presented the report, the key points included:

- i. The PSIAS replaced the Code of Practice for Internal Audit in Local Government in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- ii. The PSIAS had been adopted as a single set of standards to provide continuity across the public sector in the UK. In addition, CIPFA had published a Local Government Application Note to provide sector-specific interpretations and additional guidance on the PSIAS.
- iii. As a development of previous standards and practice, the revised standards did not require any fundamental review of, or changes to, the policies and procedures governing the Council's internal audit work.
- iv. The PSIAS enshrined a Code of Ethics, covering the four main areas of integrity, objectivity, confidentiality and competency.

- v. The existing model of KPMG managing the internal audit team (employed by Hoople Ltd) would continue; the team had been briefed on the new standards and ethical requirements.
- vi. The standards were structured under 'attribute standards' and 'performance standards', with further 'implementation standards' applicable to assurance or consulting work.
- vii. The principal differences between the CIPFA Code and the new PSIAS included: the requirement for an Internal Audit Charter; some differences in terminology; and the requirement for a quality assurance and improvement programme.
- viii. In terms of the application of terminology within the Council, it was noted that: 'senior management' was interpreted to mean one or more of the Council's Leadership Team, Chief Executive and Chief Officer: Finance & Commercial; and the role of 'the board' would be fulfilled by the Audit and Governance Committee.

The Chairman welcomed the report and, referring to the Internal Audit Charter, noted that the section on the role of Internal Audit provided a helpful summary of key functions.

**RESOLVED: That report be noted and the Internal Audit Charter be approved.**

#### **69. INTERNAL AUDIT PLAN 2013/14**

The Head of Internal Audit presented the draft Annual Internal Audit Plan for 2013/14, the principal points are summarised below:

1. Planning for 2013/14 had been brought forward, with the draft audit plan submitted for consideration two months earlier than the previous year.
2. The audit plan was a risk based plan that took account of the Council's risks, key issues and objectives, including the Medium Term Financial Plan.
3. The proposed programme of audit work had been informed by discussions with senior management across the Council and through assessment by the Internal Audit Service. The programme and resource allocation would need to remain flexible and responsive to accommodate any emerging issues during the year.
4. Discussions had been held with the Chief Officer: Finance & Commercial and the management of Hoople over possible changes to the Internal Audit arrangements to reflect the distinct organisational status of Hoople; this could lead to the removal of certain audits from the Council's audit plan, with the work instead being performed as part of Hoople's own internal audit arrangements.
5. For those functions that had received less than 'adequate assurance' grading during 2012/13, Internal Audit would undertake follow up reviews during 2013/14 to assess the Council's progress in implementing the audit recommendations.

In response to a question from the Chairman, the Head of Internal Audit confirmed that discussions were on-going in respect of paragraph 4. above and that any consequential amendments to the audit plan would be submitted to the Committee for approval. If no change was agreed, however, the Internal Audit Plan as presented to the Committee would be delivered.

A Committee Member commented that the public and the press had concerns about transparency, particularly in relation to organisations like Hoople, and changes to audit arrangements would be perceived negatively.

Another Committee Member noted that it would be unusual for a local authority to undertake audits in relation to day-to-day activities of an entirely separate company.

Furthermore, it was felt that the Council should not spend part of the audit fee on monitoring and micro-managing Hoople's operational environment.

A Committee Member questioned whether Hoople, as a sole provider which had not yet been tested in the market, should necessarily be considered in the same way as a stand-alone entity.

The Head of Internal Audit said that the audit model should reflect the situation on the ground in terms of the client side (Council) and contractor side (Hoople), irrespective of any shareholding position. In response to concerns expressed by some Committee Members, the Head of Internal Audit said that any revised audit arrangements should enhance transparency, as Hoople would need to provide explicit assurance to the Council about the operation of controls for the relevant areas.

Councillor PD Price, who was a Council appointed non-executive director on the Board of Directors of Hoople, commented on:

- i. the background to the formation of Hoople, including the intention to retain as many jobs in Herefordshire as possible and the potential for additional partners in the future;
- ii. the financial challenges facing the public sector and the need to scale services accordingly;
- iii. the Service Level Agreements between the Council and Hoople, he emphasised that it was for Hoople to determine its own working practices;
- iv. the Board of Directors included independent non-executive directors and it had its own Audit Committee;
- v. the Managing Director was prepared to provide the Committee with the assurances it required;
- vi. the need for a mature and transparent relationship, rather than debates through the media.

A Committee Member said that nobody wanted to see duplication in the process of auditing but the authority should not underestimate public anxieties about Hoople and other companies and it had to ensure that public money was spent in the most transparent way.

The Chief Officer: Finance & Commercial said that it was essential that the auditing model was appropriate and different ways of working would be tested.

**RESOLVED: That the Annual Internal Audit Plan 2013/14 be approved.**

## **70. CONSULTATION ON THE REVIEW OF THE COMPLAINTS AND FEEDBACK POLICY AND PROCEDURE**

The Head of Communications and Engagement reported that the Council had a 'Policy and Procedure for Making Experiences Count' and Cabinet would review the document at its meeting on 13 June 2013; the existing policy was attached as Appendix A to the report. In accordance with the Constitution (paragraph 5.10.5.2 d refers), the Audit and Governance Committee was being consulted on the review and observations were sought from Members.

The Head of Communications and Engagement made the following points:

1. The existing policy had been shared with NHS Herefordshire and consequently required some updating.



2. A small team, the Customer Insight Unit, managed the process and, supported by a specialist software module, was able to monitor and report on aspects of how complaints were handled.
3. The team provided a single point of contact with complainants and co-ordinated responses from across the authority.
4. There was a single-stage procedure for most areas of the Council; for children's services, a three-stage complaints procedure was operated, as proscribed in law.
5. It was clarified that the statement in the report that '(for 2012/13), 60% of complaints were responded to within the timescales set out in the policy...' referred to final response letters and that 100% had been acknowledged in accordance with the policy.
6. With reference to Appendix B to the report (Annual CIU Report – 2012/13), it was reported that the authority had good statistical data but, at this stage, could not necessarily demonstrate how the procedure improved services or how satisfied complainants were with the process.

Committee Members made comments and asked questions, in response the Head of Communications and Engagement advised:

- i. The customer relationship management software had been introduced recently, therefore 2012/13 was the first full year of data and this would provide the baseline going forward.
- ii. By volume, most complaints were about public realm functions, such as highways maintenance, but these could be relatively straightforward. Whereas fewer complaints were received about adult social care but these were often complex and difficult to resolve.
- iii. The importance of proper category assignment was noted. It was reported that the data for Hoople did not all relate to Hoople itself, it also included services delivered by Hoople on behalf of the Council.

A Committee Member noted the potential value of the statistical data for complaints and compliments in each service area and suggested that this could be compiled into a single, summary sheet for wider circulation.

Another Committee Member questioned how the service obtained feedback from complainants. The Head of Communications and Engagement said that forms had been sent out after the resolution of a complaint but very few were returned, therefore this practice was suspended during the previous year. However, it was acknowledged that the reasons for low levels of response should be reviewed.

In response to further questions, the Head of Communications and Engagement clarified that the existing policy had been drafted to cover NHS Herefordshire but, since April 2013, the main interaction with health was with Wye Valley NHS Trust in respect of adult social care; there was no statutory requirement for the Customer Insight Unit but it seemed logical and convenient that a single team, with the necessary skills and expertise, co-ordinate responses on behalf of the authority; and there had not been any adverse findings by the Local Government Ombudsman since the policy had been introduced.

**RESOLVED: That the observations of the Audit and Governance Committee be forwarded to Cabinet to inform its review of the policy and procedure.**

## 71. COMMERCIAL CONFIDENTIALITY

The Head of Governance introduced a report which provided the Committee with an overview of the concept of commercial confidentiality and its impact on relationships between Herefordshire Council and external agencies; this sought to address issues raised at the General Overview and Scrutiny Committee on 14 January 2013 (minute 27, 'Hereford Futures Governance Update', refers).

A Committee Member emphasised the need for clarity and integrity when dealing with external partners or agencies. Referring to the Risk Management section of the 'Freedom of Information and Arm's Length Companies' report submitted to the General Overview and Scrutiny Committee on 4 March 2013, it was noted that 'There is a presumption of disclosure under the Act, so any 'borderline' decisions should come down in favour of making information public.' It was felt that agreements and contracts needed to reflect the presumption in favour of transparency from the outset. Support was expressed for the comments of Margaret Hodge MP, Chair of the Public Accounts Committee in the House of Commons, that "Too much is hidden behind commercial confidentiality and I think that has now become an excuse for hiding data and information that we need to assure Parliament and the public that there is value for money" (BBC Radio 4, File on 4, 'Public, Private and Profitable', 23 October 2012). The Committee Member said that it was likely that more key public services would be delivered by private companies in the future and it was vital that tax payers had the opportunity to follow public money. He added that Councillors should not be satisfied with purely technical answers from such bodies.

The Head of Governance explained that, within the Constitution (Part 2 - Articles, 2.13.3.1, Confidential Information), Councillors had '... a right to any information which they need in order to fulfil their functions as Councillors but may need to demonstrate that they have a need to know that information ...'. In terms of confidential information, key factors to be considered included who held and who owned the information, and whether the information was likely to prejudice commercial interests if disclosed. Nevertheless, confidential information could be disclosed with the co-operation and consent of the party to whom the obligation of confidentiality was owed.

The Scrutiny Officer said that public / private relationships were an emerging issue and, until properly tested, authorities needed to consider the risks of unilateral disclosure bearing in mind the potential level of damages if found to be in breach of confidence. The Monitoring Officer added that there was a strong public interest in openness but this did not override all other considerations.

A Committee Member commented that unnecessary disclosure of information could undermine negotiations with other parties.

In response to a question, the Head of Governance advised that the Freedom of Information Act only applied to companies that were wholly owned by a single public authority currently but it was anticipated that the Act would be extended to cover other public ownership arrangements in the near future. Noting that it was difficult for members of the public to obtain information at present, a Committee Member said that greater transparency would enhance public perceptions of such bodies.

A Committee Member felt that, to ensure proper scrutiny and accountability of organisations that were spending public money and delivering elements of Council policy and projects, openness should be the normal position; he added that genuinely sensitive information could be redacted as appropriate.

The Chairman thanked attendees for their interesting contributions.



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

**72. DATE OF NEXT MEETING**

Friday 5 July 2013 at 10.00am.

The meeting ended at 12.20 pm

**CHAIRMAN**



<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>5 JULY 2013</b>
<b>TITLE OF REPORT:</b>	<b>ANNUAL ASSURANCE REPORT 2012/13</b>
<b>PORTFOLIO AREA:</b>	<b>CORPORATE AND ASSETS</b>

**CLASSIFICATION:** Open

## Wards Affected

County-wide

## Purpose

The purpose of this report is to provide Herefordshire Council with a summary of the internal audit work undertaken in 2012/13 and to provide an overall internal audit opinion based on this work.

## Key Decision

This is not a Key Decision.

## Recommendation

**THAT: subject to any comments the Audit and Governance Committee wishes to make, the report be noted.**

## Key Points Summary

- In the opinion of Internal Audit the Council has adequate and effective risk management, control and governance processes to manage the achievement of its objectives, except for those areas highlighted as limited.
- Four areas have received substantial assurance including key areas such as Treasury Management and Housing Benefit.
- Most prior year recommendations have been progressed, although there are some areas requiring further action.
- The Council can demonstrate it undertakes appropriate and timely action to improve control in areas requiring improvement.

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Further information on the subject of this report is available from Darren Gilbert – Head of Internal Audit on (01432) 260425

## **Alternative Options**

- 1 This report is for information therefore alternative options are not applicable.

## **Reasons for Recommendations**

- 2 To ensure compliance with good practice as set out in the Public Sector Internal Audit Standards (PSIAS).

## **Introduction and Background**

- 3 The annual report is required to ensure that the Committee is informed of the internal audit work undertaken in 2012/13.
- 4 The report also provides the Council's Section 151 Officer (The Chief Officer – Finance and Commercial Services) with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control processes.

## **Key Considerations**

5. Sufficient internal audit work has been carried out to enable the Head of Internal Audit to draw a reasonable conclusion about the adequacy and effectiveness of the Council's risk management, control and governance processes.
6. In the opinion of the Head of Internal Audit the Council has adequate and effective risk management, control and governance processes to manage the achievement of its objectives, except for those areas highlighted as limited. This is the same outcome as last year, although it should be noted that there are fewer areas covered by this exception this year and in particular the controls governing key financial and IT systems have shown an improvement.
7. The audits have been conducted in accordance with the relevant internal audit standards. As reported previously to the Committee, CIPFA's Code of Practice for Internal Audit in local government in the United Kingdom represented the applicable professional standards during 2012/13. From April 2013 this has been superseded by PSIAS. These frameworks require all local authorities to base the opinion on:
  - All audits undertaken during the year;
  - Any significant recommendations not accepted by management and the consequent risks;
  - The effects of any significant changes in the Council's objectives or systems;
  - Matters arising from previous reports to the Audit and Governance Committee; and
  - Any limitations which may have been placed on the scope of the internal audit.
8. In 2012/13, 21 audit reviews have been either completed or are in draft. There are currently eight reviews being completed by Audit Services, with draft reports issued in another four areas. Within our final reports we raised seven priority one recommendations, 29 priority two and 17 priority three recommendations.
9. The Annual Internal Audit Report sets out further detail on the areas above. It also sets out how the internal audit service has complied with the PSIAS.
10. The report notes that the Council has faced a number of challenges in 2012/13. These range from the impact of the government's deficit reduction programme to local issues such as those affecting Adult Social Care.

## **Financial Implications**

11. There are no financial Implications.

## **Legal Implications**

10. There are no Legal Implications.

## **Risk Management**

11. There is a risk that the level of work required to give an opinion on the Council's systems of Internal Control is not achieved. The plan is monitored on a regular basis in order to mitigate this risk. The Chief Officer - Finance & Commercial receives monthly reports on progress.
12. It is important that the Council's governance, risk management and control processes provide assurance so that no major weaknesses can be exploited. The most that can be provided to a council's section 151 officer is reasonable assurance.

## **Appendices**

### **Appendix 1- Annual Internal Audit Report and Opinion - 2012/13**





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Herefordshire Council

**Annual Internal Audit Report  
2012/13**

# Contents

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<b>The contacts in Internal Audit in connection with this report are:</b>	
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<b>Mukhtar Khangura</b> Internal Audit Manager KPMG LLP (UK) Tel: 07876 217128 <a href="mailto:mukhtar.khangura@kpmg.co.uk">mukhtar.khangura@kpmg.co.uk</a>	<b>Opinion</b> 4
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	<b>Distribution</b>
	To (for information):
	David Powell – Chief Officer Finance and Commercial
	Audit and Governance Committee



# 1. Introduction

This report sets out Internal Audit's opinion on Herefordshire Council's risk management, internal control and governance processes.

## Introduction

The purpose of this report is to provide Herefordshire Council (the Council) with an overall internal audit opinion and commentary on internal audit activity and matters arising from the completion of the 2012/13 Annual Internal Audit Plan.

Internal audit within the public sector is governed by the *Public Sector Internal Audit Standards* (PSIAS), on which CIPFA has published a *Local Government Application Note* which provides guidance on the application of the PSIAS to local authorities.

Within the standards, the Chief Audit Executive (referred to as the Head of Internal Audit within the Council) must deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion (*Section Two*);
- a summary of the work that supports the opinion (*Section Four*); and
- a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme (*Section Five*).

Additionally and in accordance with *Local Government Application Note* the Annual Report must also detail the following:

- the disclosure of any qualifications to that opinion, together with the reasons for the qualification (*Section Two*);
- the disclosure of any impairments (*'in fact or appearance'*) or restriction in scope (*Section Two*);
- a comparison of the work actually undertaken with the work that was planned (*Section Four and Appendix 1*);
- a summary of the performance of the internal audit function against its performance measures and targets (*Section Five*);
- any issues the Chief Audit Executive judges particularly relevant to the preparation of the annual governance statement (*Section Two*); and
- progress against any improvement plans resulting from an external assessment (*Section Five*).

# 1. Introduction (*cont.*)

## The roles and responsibilities of Internal Audit and Management.

### Role of Management and Internal Audit

Under the Accounts & Audit Regulations 2011, the Council has a duty to ensure that its financial management is adequate and effective, that there is a sound system of internal control and robust risk management arrangements are in place.

The primary responsibility for maintaining effective risk, control and governance arrangements rests with management. It is management's responsibility to establish and maintain the systems of internal control so that activities are conducted in an efficient and well-ordered manner. This management responsibility is devolved under Section 151 of the Local Government Act 1972 to the Council's Chief Financial Officer. At the Council this responsibility rests with the Chief Officer – Finance & Commercial Services.

Internal Audit is the independent appraisal function established by management to review the internal control system as a service to the Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

Internal Audit also acts as an aid to management and produces reports as a result of each of the reviews undertaken. It works in partnership with management to find solutions to any issues identified and seeks its agreement to any recommendations for improvement.

## 2. Opinion

This section sets out our opinion and how we have arrived at this based on the work undertaken.

### Formulation of opinion

Our internal audit work was carried out in accordance with the Internal Audit Plan approved by the Audit & Governance Committee on 6 July 2012. The Plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Council's governance, risk management and control processes. Our report provides one element of the evidence that underpins the Annual Governance Statement (AGS) the Council is required to make within its annual financial statements. This is only one aspect of the assurances available to the Council as to the adequacy of its governance, risk management and control processes. Other sources of assurance on which the Council may rely on could include:

- the work of the External Auditors;
- the result of any quality accreditation;
- the outcome of any visits by government agencies;
- other pieces of consultancy or third party work designed to alert the Council to areas of improvement; and
- other external review agencies (i.e. OFSTED).

As the providers of internal audit to the Council, we are required to provide the Section 151 Officer (the Chief Officer – Finance & Commercial Services) with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Section 151 Officer is reasonable assurance that there are no major weaknesses in the Council's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- all audits undertaken during the year;
- any significant recommendations not accepted by management and the consequent risks;
- the effects of any significant changes in the Council's objectives or systems;
- matters arising from previous reports to the Audit & Governance Committee; and
- any limitations which may have been placed on the scope of the internal audit.

We can confirm that there have not been any impairments (in fact or appearance) or restriction in the scope of our work. Additionally, there are not any qualifications to our opinion.

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, control and governance processes.

### Opinion

In our opinion, the Council has adequate and effective risk management, control and governance processes to manage the achievement of its objectives, except for those areas highlighted as limited in Appendix 1. In these areas agreed improvement plans are in place.

## 3. Summary of our work and Significant Control Issues

We concluded that the majority of the Council's systems reviewed were rated as **Substantial or Adequate**. However, a number of areas were also graded as **Limited**.

### Summary of our Work

We have completed the majority of our reviews and special assignments either in draft or in final. In many areas the Council's arrangements are adequate. We have also issued four Limited Assurance opinions during the year which means that the Council needs to improve control environments in these areas. These were its Data Protection, Legal Services, Industrial Lets (income collection) and Food Licensing functions. It is important that the identified improvements are addressed on a timely basis to manage risks.

### Overall view

The Council faced and continues to face a number of challenges that have come together at a single moment in time. These include addressing key issues such as the financial management arrangements in Adult Social Care, managing activities within a significantly reduced funding envelope as a result of government cuts, determining the future of the Highways contract, developing and improving working arrangements with Hoople and driving through efficiency savings in the way in which all services are delivered. This is a significant change agenda on top of delivering business as usual.

At such a time the Council needs to ensure that its governance, risk management and control processes continue to be effective.

Through our work we have seen examples of where the Council, once informed of key weaknesses within these areas, has improved processes to ensure that they are effective. For example, the Council implemented action plans to correct significant control issues which we identified in 2011/12 in some of the Council's key financial and IT functions. These actions were effective and risk management, control and governance in these areas has improved. The key issue for the Council is to ensure that these functions remain well controlled through the significant change processes that it is seeking to implement in 2013/14.

However, in some key areas the effective implementation of key controls is inconsistent. These functions are more on the operational side, such as Data Protection and Legal Services. Therefore, the Council will need to ensure that there is strong central control and oversight of operational areas in 2013/14 so that they continue to meet their objectives and key risks are being managed appropriately.

### Significant Control Issues

The Council is required to include in its Annual Governance Statement (AGS) any significant control issues. While we note that the Council has improved controls over its key financial and IT systems in 2012/13, based on the reviews undertaken we believe the following issues should be included:

- the controls over Data Protection need strengthening to ensure that the risks in relation to inappropriate access and manipulation of data are mitigated;
- the Council needs to develop controls within its Legal Services, Industrial Lets and Food Licensing functions to ensure that they can meet their objectives and manage key risks; and
- the controls within the Adult Social Care function require strengthening to ensure that the system can meet its objectives in terms of the service it delivers and the financial resources being managed.

It should be noted that there is already evidence that controls over the Data Protection function system have been strengthened. Action is also being taken by the Council in respect of the other areas.

## 4. Detailed Findings

This section sets out our progress in completing the reviews set out on the Internal Audit Plan.

### Progress against the Internal Audit Plan

The Internal Audit plan was approved by the Audit & Governance Committee on 6 July 2012.

The following section provides further comment on the status of the reviews within the agreed plan:

- 21 audit reviews have been either completed or are in draft. Appendix 1 sets out the audit opinions we have given to each area audited where these have been finalised at the time of drafting this report. An overall summary of the gradings and the priority of the recommendations made over the year are set out within the graphs on pages seven and eight. We also have provided further information in Appendix 2 of how we grade our audit reports and our audit recommendations.
- Eight reviews are in progress and are currently being completed. In four areas we are following up recommendations where Limited assurance opinions were previously given; these were Health & Safety, Performance Management, Business Continuity and Sustainability. In discussions with management we were informed that they believe good progress has been made in ensuring that controls have been improved in these areas since our original reports were issued in 2012. Our independent assessment of the progress in improving controls in these key areas will be reported to the Audit & Governance Committee.
- Two audits were deferred. Our work in relation to the Council's IT Strategy will now be completed in 2013/14 as the Council is currently reviewing its overall IT requirements. Our work in relation to the schools function was also deferred. This will allow us to review and test how Schools are complying with the new Financial Value Standard which fully came into effect in 2012.
- Our work in relation to Adult Social Care has been incorporated within a KPMG consultancy review which is currently being completed. Additionally, our Anti-Fraud and Corruption work has been completed within the Audit Commission survey return in this area.
- Our work in relation to Procurement within the Places & Communities function was superseded as the function has required additional consultancy support in another area which is currently being provided.

Audit Services has also contributed into a number of other reviews for the Council. We have provided further details on this on Page 9.

## 4. Detailed Findings (cont.)

This section sets out the audit opinions given to each audit area, together with the number and priority of recommendations which we have made.

### Findings from our work

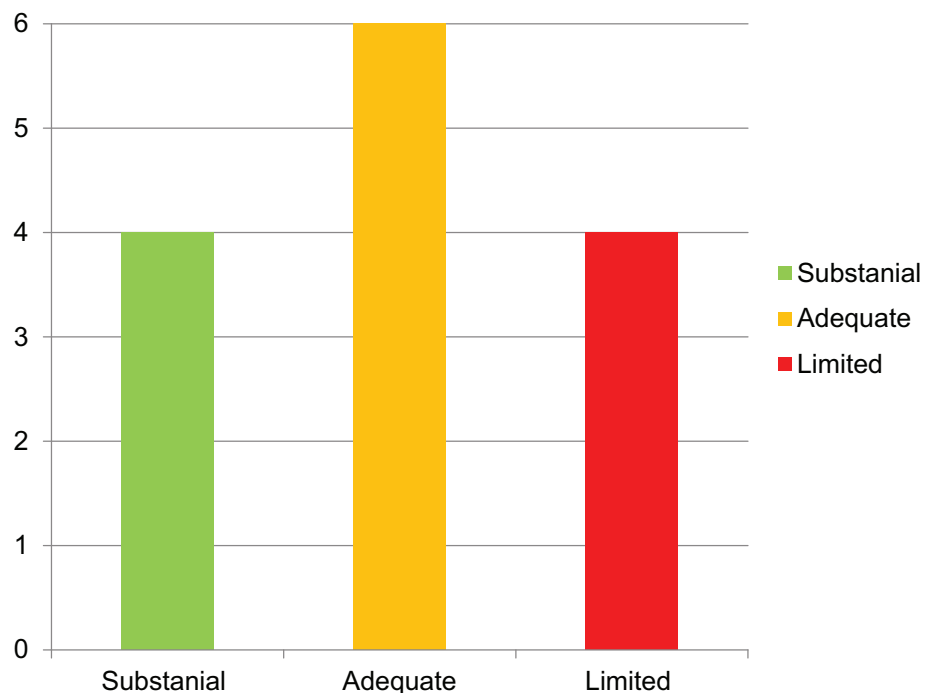
The graphs below show the overall assurance grades we have given for the reports issued and the number and priority of recommendations made in the period.

We have issued a total of 14 final audit reports and made 53 recommendations. Four areas were graded as **Substantial Assurance** which reflects positively on the organisation and its control framework. These include areas such as Treasury Management, NNDR and Council Tax and Housing Benefit. Six areas have been rated as **Adequate Assurance** and this assurance conclusion suggests scope to improve, but not fundamental control weaknesses. These areas included General Ledger, Access Controls to the Academy and IDOX systems, Income collection (Car Parking) and ISO 27001 Modern Records Unit.

Four areas were rated as **Limited Assurance** indicating that the control framework is weak within that area and significant improvements are required to ensure that key risks are being mitigated. These were Data Protection, Legal Services, Industrial Lets (income protection) and Food Licensing.

The Council has recognised that significant improvements are required to these systems and has put in place action plans to resolve the issues which Internal Audit has highlighted.

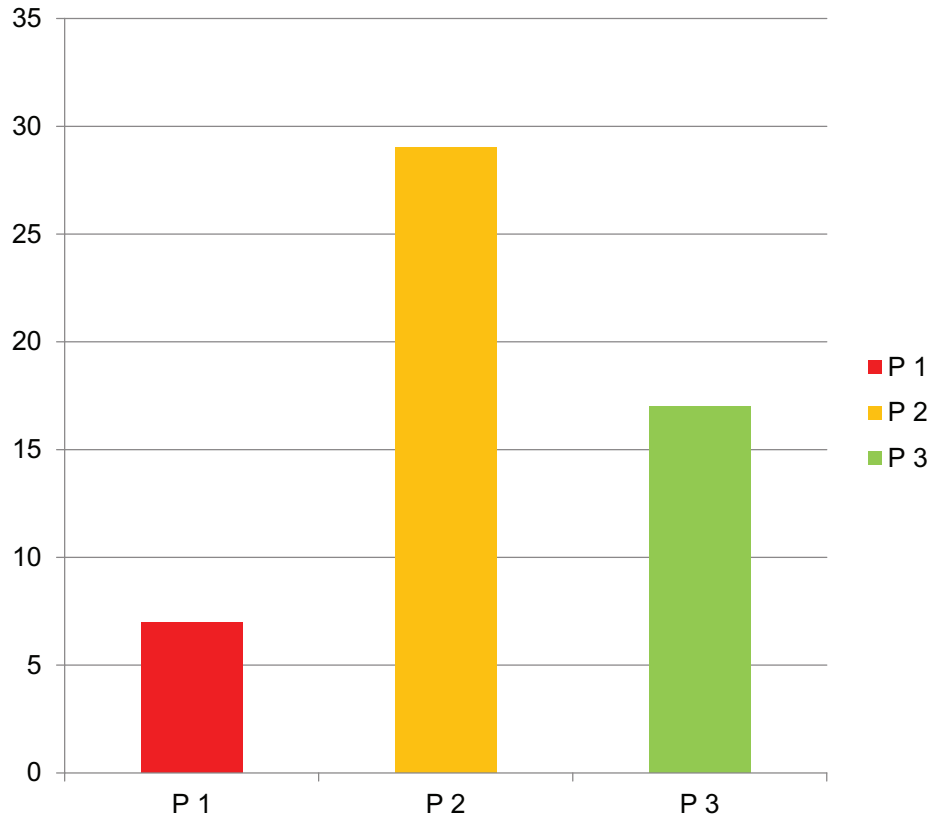
Graph setting out a summary of Audit Opinions during the year



## 4. Detailed Findings (cont.)

This section sets out the number and priority of recommendations which we made.

Graph setting out the number and priority of audit recommendations made during the year



We raised seven priority one recommendations, 29 priority two and 17 priority three recommendations in 2012/13.

## 4. Detailed Findings (cont.)

This section details further work which we completed in addition to the reviews set out within the Annual Internal Audit Plan.

### Other work completed - Assistance and Guidance

Internal Audit has provided assistance and guidance to Chief Officers, Directors and Members in the following areas:

- Capitalisation of highways expenditure - This review was requested by the Chief Officer, Finance & Commercial Services. This review assessed how the Council accounts for this type of expenditure and ensures compliance with the CIPFA Code of Practice on Local Authority Accounting.
- Capital programming – At the request of the Chief Officer, Finance & Commercial Services, we reviewed the Council's capital planning process which identifies and agrees capital expenditure schemes.
- Integrated Community Equipment Store (ICES) - Audit Services was requested by the Chief Officer, Finance and Commercial Services to review and assess internal controls within the ICES. This function is funded through Section 75 of the National Health Service Act 2006 and provides equipment to aid independent living.
- Adult Social Care function - The Council has worked together with KPMG in reviewing key aspects of this function. This work has involved reviewing aspects of the function's IT systems, such as the link between the Frameworki system and the Council's Agresso financial system, in addition to how it procures Care Services.
- Audit Services has also completed work in other areas as requested by the Chief Officer, Finance and Commercial Services and other officers within the Council. For example, we have reviewed the process by which the Council is seeking to make payments to its partners as part of the Borders Broadband project. In addition, we are reviewing the processes and controls which the Council have put in place to manage the delivery of the Social Fund. The Council has recently taken on the responsibility for the management of the fund within the County from the Department of Work and Pensions.
- Audit Services along with KPMG is also completing work in other areas, such as the Direct Payments process within Adult and Social Care, reviewing the use of mobile phones within the Council and assisting in the external validation of ISO 27001 which the Council has in place.



## 4. Detailed Findings (cont.)

This section sets out the results of our follow up work on recommendations made in 2012/13.

### Follow up of prior year recommendations

As part of our work we followed up on our work completed in 2011/12.

This was through reviewing areas that were graded as providing the lowest level of assurance in the previous year. This was to assess the progress the Council had made in improving the control environment within that function. As part of this work we are in the process of reviewing the Health and Safety, Business Continuity, Performance Management and Sustainability functions. In discussions with management we were informed that they believe good progress has been made in ensuring that controls have been improved in these areas since the original report was issued. Our independent assessment of the progress in improving controls in these key areas will be reported to the Audit & Governance Committee.

A second element of our work involved reviewing priority one recommendations made within audit reports issued in 2011/12 to assess if they had been effectively implemented. This was through Internal Audit reviewing the same function as part of the Internal Audit Plan 2012/13. The table below details the findings from this assessment

Area	Priority 1 rec's made	Implemented	Partly Implemented	Not implemented
General Ledger	2	-	2	-
Agresso - Access Controls	6	2	3	1
Creditors	3	1	1	1

We noted that the Council has made some progress in implementing prior year priority one recommendations.

However, we reiterate the importance of ensuring that priority one recommendations are implemented on a timely basis.

## 5. The Internal Audit function

This section sets out how we have performed against our Key Performance Indicators and with reference to the Public Sector Internal Audit Standards.

We have also set out feedback which we have received from Directors and Managers.

### Performance of Internal Audit

There are a number of ways Internal Audit measures its performance. These include assessing performance against a set of Key Performance Indicators (KPIs), reviewing compliance with the Public Sector Internal Audit Standards (PSIAS) and feedback from management through regular meetings and surveys.

### Key Performance Indicators

This section sets out how the Internal Audit function has performed against its Key Performance Indicators (KPIs).

Performance Measure	Target	Actual	Comment
TOR issued and agreed at least 5 days before start of audit	95%	100%	-
Draft report issued 10 days or less after debrief	95%	69%	See Note 1 below
Management responses received within 10 working days of draft issued	95%	38%	See Note 2 below
Final report issued within 5 days after management responses	95%	100%	-
Number of recommendations agreed by management	95%	100%	-
Client Satisfaction Rate (based on number of survey responses received)	90%	100%	See Note 3 below

#### Note 1

We were unable to meet this target in four instances. In each case this was due to further information received from management after the de-brief date. This necessitated further on-site work to be completed which delayed the issuing of the draft report.

#### Note 2

This indicator relates to management replying to draft reports on a timely basis. In a number of instances management did not forward their responses to our draft reports within the required timescales. In not doing so, we were unable to ensure findings were submitted to the Audit & Governance Committee on a timely basis. Additionally, we were unable to ensure if management acknowledged the control weaknesses that had been identified within our reports and that they had implemented processes to prevent key risks materialising. We have been in discussions with senior management at the Council on how the process of finalising draft reports can be improved and we are aiming to see an improvement in this indicator over the forthcoming year.

#### Note 3

Historically, there has been a very low level of response to the Audit Feedback surveys issued to Managers. This has again been the case for 2012/13. However, in the limited number of surveys returned the feedback has been very positive. Additionally, through informal e-mail feedback, management have stated that they have valued the input Internal Audit has provided in improving their processes and controls. In 2013/14 we will re-assess again how we can gain more feedback from Managers and report the results to future Committee meetings.

## 5. The Internal Audit function (cont.)

This section sets out our level of compliance with the Public Sector Internal Audit Standards (PSIAS).

### PSIAS Compliance

The PSIAS alongside the CIPFA Local Government Application Note sets out how the Internal Audit service should be provided within a local authority. These standards come into force in April 2013.

On an annual basis compliance against the standards should be assessed and reported to management and Members. As part of our report we have assessed the function and the work performed in 2012/13 against these standards. We acknowledge that full compliance with the standards may not be possible as they were only recently issued, however we have used this assessment as an opportunity to understand how the function can develop and to work towards full compliance in 2013/14.

The following table sets out the key standards within the code, if the Internal Audit function is complying with the standard, fully or partially and any comments flowing from the assessment.

Standard	Compliance achieved (Full/ Partial /None)	Comments
Definition of Internal Auditing	Full	-
Code of Ethics	Full	-
Attribute Standards	Partial  New Requirement	<p><i>Attribute Standard 1230 - Continuing Professional Development</i></p> <ul style="list-style-type: none"> <li>Staff competences - Job descriptions detailing skills and competencies for the Internal Audit Team require updating following their transfer to Hoople. Once completed this will allow the Head of Internal Audit to assess individual auditors against these criteria. This will be completed by Hoople in July 2013.</li> </ul> <p><i>Attribute Standard 1300 - Quality Assurance and Improvement Programme (QAIP)</i></p> <ul style="list-style-type: none"> <li>The Standards require a QAIP to be developed, monitored and reported both to management and the Audit &amp; Governance Committee. This is a new Standard and wasn't a requirement of previous internal audit standards. The Programme is designed to assess conformance with the Standards and also to assess the efficiency and effectiveness of the internal audit function and identify areas for improvement. We will be developing a QAIP in 2013 and report to management and Members how the efficiency and effectiveness of the function maybe further developed and our conformance with the Standards</li> </ul> <p><i>cont overleaf.</i></p>

## 5. The Internal Audit function (cont.)

This section sets out our level of compliance with the Public Sector Internal Audit Standards (PSIAS).

Standard	Compliance achieved (Full/ Partial /None)	Comments
Attribute Standards	New Requirement	<ul style="list-style-type: none"> <li>• <i>Attribute Standards 1312 – External Assessments</i></li> </ul> <p>This is a new Standard and was not a requirement of previous internal audit standards.</p> <p>This Standard requires an external body or person to complete an assessment of the internal audit function against the PSIAS once every five years. It also states that the format of the external assessment must be discussed and agreed prior to its commencement with Members.</p> <p>Currently, the procedures which underpin this requirement are not yet sufficiently developed to make it clear what is required in the context of an outsourced Internal Audit arrangement, such as the one in place at the Council. Additionally, the requirement states that this external assessment should occur once every five years.</p> <p>Given these two issues we will over the forthcoming year assess the applicability of this standard to the Internal Audit function at the Council. We will discuss and agree our findings with the Audit &amp; Governance Committee.</p>
Performance Standards	Full	-

We confirmed that in the majority of areas, the Internal Audit Service is complying with the requirements of the new PSIAS. Where there are new requirements we are putting in processes to ensure full compliance or assessing the significance and impact of the issue and its relevance to the Council.

## 5. The Internal Audit function (cont.)

This section sets out how our work was delivered with reference to the number of audit days agreed within the Annual Internal Audit Plan.

### Audit Resource

In 2012/13 audit days were delivered through a combination of Council staff and input from KPMG. For the first 3 months of the year Council staff completed work on the previous year and other ad-hoc work. In the Annual Internal Audit Plan 2012/13 which we presented to the Audit & Governance Committee on 6 July 2012 we envisaged inputting a total of 850 days in order to complete the Internal Audit Plan.

We are currently completing the plan and it will be delivered within the number of days originally reported. However, a total of 145 days will be moved from 2012/13 into the 2013/14 Internal Audit year to complete the remainder of the audit work for this year. This was agreed as part of the 2013/14 Annual Internal Audit Plan.

# Appendix 1 – Work completed

This appendix sets out the work which we completed during the year, the audit opinions given to each audit area, together with the number and priority of recommendations which we made.

Review	Grading	Recommendations			Status
		P1	P2	P3	
Payroll					Draft report issued
Creditors					Draft report issued
Treasury Management	Substantial	-	-	-	Completed
Income Collection – Car Parking	Adequate	-	1	1	Completed
Income Collection – Bereavement Services	Adequate	-	2	1	Completed
Income Collection – Industrial Lets	Limited	1	2	-	Completed
Debtors	Substantial	-	-	4	Completed
Budgetary Control					In progress
NNDR and Council Tax	Substantial			2	Completed
General Ledger	Adequate	-	1	4	Completed
Benefits (Council Tax and Housing)	Substantial	-	-	-	Completed
Asset Register					In progress
Procurement					In progress
Rising to the Challenge – Project Review					Completed - Audit Services has input into the Council's Rising to the Challenge Closure Report rather than complete an audit of this area.
Health and Safety – Follow Up					In progress
Sustainability – Follow Up					In progress
Business Continuity – Follow Up					In progress

# Appendix 1 – Work completed (cont.)

This appendix sets out the work which we completed during the year, the audit opinions given to each audit area, together with the number and priority of recommendations which we made.

Review	Grading	Recommendations			Status
		P1	P2	P3	
Legal Services	Limited	2	7	-	Completed
ISO 27001 Modern Records Unit	Adequate		4	-	Completed
ISO 27001 ICT Services	Adequate	-	4	-	Completed
Access Controls – Academy and IDOX	Adequate	-	2	1	Completed
Access Controls review - Agresso – Follow Up					Draft Report issued
Data Protection	Limited	3	2	-	Completed
IT Strategy					In discussions with management we have agreed to defer this audit to 2013/14 as the Council is currently reviewing its overall IT requirements.
Anti-Fraud and Corruption Arrangements					This work will involve joint KPMG and Council workshops which are currently being arranged.
Anti-Fraud and Corruption – Procedures Audit					These audits have been incorporated within the work required to complete the Audit Commission's Anti-Fraud and Corruption survey.
Anti-Fraud and Corruption – Hot Topics and Risk Areas					
Audit Commission - Anti-Fraud Survey					Completed.

# Appendix 1 – Work completed (cont.)

This appendix sets out the work which we completed during the year, the audit opinions given to each audit area, together with the number and priority of recommendations which we made.

Review	Grading	Recommendations			Status
		P1	P2	P3	
Performance Management – Follow Up					In progress
Hoople – Client Side Management					Completed - We have reviewed (where appropriate) the Council's contract management arrangements with Hoople as part of the audits we have completed.
Hoople – Governance/ Performance Management					Draft report issued
Adult and Social Care – Financial Management and Follow Up					The reviews of these areas have been incorporated within a KPMG consultancy review which is currently being completed.
Adult and Social Care – Procurement (Follow Up)					
Places and Communities - Public Health – Food Licensing	Limited	1	4	4	Completed
Places and Communities – Procurement					The need for this audit has been superseded by the Council needing additional consultancy support in this area which is currently being provided.
Financial Management - Schools					Audit deferred until 2013/14. This will allow us to review and test how Schools are complying with the new Financial Value Standard which fully came into effect in 2012.



# Appendix 2 - Audit Grades and Opinions

We rate overall reports and individual recommendations based on a set grading system.




## Report Grading

The table below summarises the definitions we apply to the report grading system we use.

Grade	Explanation
<b>Substantial</b>	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).
<b>Adequate</b>	One or more priority two recommendations (i.e. 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).
<b>Limited</b>	One or more priority one recommendations, <b>or</b> a high number of medium priority recommendations that taken cumulatively suggest a weak control environment (i.e. the weakness or weaknesses identified have a significant impact preventing achievement of strategic aims and/or objectives; or result in an significant exposure to reputation or other strategic risks).
<b>No</b>	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).

## Recommendation Grading

Following each review, we raise performance improvement observations. The priority of these can be defined as follows:

Priority	Explanation
	<b>Priority One</b> - A significant weakness in the system or process which is putting the organisation 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 organisation's strategic risks will occur. Any recommendations in this category would require immediate attention.
	<b>Priority Two</b> - A potentially significant or medium level weakness in the system or process which could put the organisation at risk of not achieving its strategic aims and objectives. In particular, having the potential for adverse impact on the organisation's reputation or for raising the likelihood of the organisation's strategic risks occurring.
	<b>Priority Three</b> - Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving the organisation's strategic aims and objectives. These are generally issues of good practice that we consider would achieve better outcomes.



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<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>5 JULY 2013</b>
<b>TITLE OF REPORT:</b>	<b>INTERNAL AUDIT PROGRESS 2012/13</b>
<b>PORTFOLIO AREA:</b>	<b>CORPORATE AND ASSETS</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

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

### **Recommendation**

**THAT:** subject to any comments the Audit and Governance Committee wishes to make, the report be noted.

### **Key Points Summary**

- Audit Services has finalised a number of audits, these are: General Ledger, Debtors, Legal Services, Benefits (Council Tax and Housing), Public Health – Food Licensing, reviews of Income Collection Procedures (over three separate Council functions), Treasury Management and Data Protection.
- There are a number of audits being completed. Draft reports have been issued in connection with Payroll, Creditors, Hoople (Governance and Performance Management). Additionally, Audit Services is on site and completing audits of Procurement, Budgetary Control and Follow Up's on a number of different corporate functions, such as Health and Safety.
- Audit Services is continuing to provide support, guidance and information in a number of areas to Council Officers in respect of specific reviews. We have provided further information on these areas at points 9 to 13.

### **Alternative Options**

1. This report is for information and therefore alternative options are not applicable.

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Further information on the subject of this report is available from  
Darren Gilbert – Head of Audit Services on (01432) 260425

## **Reasons for Recommendations**

2. To ensure compliance with good practice as set out in the Public Sector Internal Audit Standards (PSIAS).

## **Introduction and Background**

3. The purpose of this report is to ensure that the Committee is informed of the status of internal audit work and any key internal control issues identified from work completed in the last quarter.

## **Key Considerations**

### **Summary of progress against the audit plan**

4. The Internal Audit plan was approved by the Audit and Governance Committee on 6 July 2012. We have set out the number and type of audit reviews to be completed in Appendix 1.
5. Internal Audit Services is progressing with the Internal Audit Plan. To date, 21 audit reviews have been either completed or are in draft. There are currently eight reviews being completed by Audit Services, with draft reports issued in another four areas.

### **Audit Reviews completed**

6. Our review of the General Ledger was given an “Adequate” assurance opinion. While we noted that the control framework over the function had improved (this area was given a “Limited” opinion in 2011/12), further work was required to improve controls over journals and holding accounts. Our review of the Debtors function was given a “Substantial Assurance” opinion. We found a number of good controls operating within the function and made four low priority recommendations following our review.

### **Audit and Other reviews in progress**

7. There are currently a number of reviews being completed by Audit Services. Work on these is progressing well with draft reports issued in areas such as Payroll and Aggresso – Access Controls. There are also a number of audits where on-site work is currently being completed, these include, follow up reviews over the Health and Safety, Business Continuity, Sustainability and Performance Management functions.
8. We will report any significant issues arising from these reviews to future meetings of the Audit and Governance Committee.

### **Other Audit Input**

9. Audit Services has reviewed the system by which the Council capitalises highways expenditure. This audit was requested by the Chief Officer, Finance and Commercial Services. This review assessed how the Council accounts for this type of expenditure and ensures compliance with the CIPFA Code of Practice on Local Authority Accounting. Related to this review, we have also reviewed the Council’s capital planning process which identifies and agrees capital expenditure schemes. We have issued draft reports to the Chief Officer, Finance and Commercial Services in these areas.

10. Audit Services was also requested by the Chief Officer, Finance and Commercial Services to review and assess internal controls within the Integrated Community Equipment Store (ICES). This function is funded through Section 75 of the National Health Service Act 2006 and provides medical equipment to aid independent living. We have issued a draft report to the Chief Officer, Finance and Commercial Services in this area.
11. The Council has worked together with KPMG in reviewing key aspects of its Adult Social Care function. This work has involved reviewing aspects of the function's IT systems, such as the link between Framework I and the Council's Agresso financial system, in addition to how it procures Care Services. We have issued a draft report to the Chief Officer, Finance and Commercial Services in this area.
12. Audit Services has also completed work in other areas as requested by the Chief Officer, Finance and Commercial Services and other officers within the Council. For example, we have reviewed the process by which the Council is seeking to make payments to its partners as part of the Borders Broadband project.
13. Audit Services along with KPMG is also completing work in other areas, such as the Direct Payments process within Adult Social Care, reviewing the use of mobile phones within the Council and assisting in the external validation of ISO 27001 which the Council has in place.

## **Community Impact**

14. This report does not impact on this area.

## **Equality and Human Rights**

15. This report does not impact on this area.

## **Financial Implications**

16. There are no Financial Implications.

## **Legal Implications**

17. There are no Legal Implications.

## **Risk Management**

18. There is a risk that the level of work required to give an opinion on the Council's systems of Internal Control is not achieved.

## **Consultees**

19. The HSLT and the Chief Officer, Finance and Commercial were consulted in the drafting of this report.

## **Appendices**

**Appendix 1 – Status of Audit Plan 2012/13**

**Appendix 2 – Audit Opinions – Definition of Assurance Grading**

**Appendix 3 – Rating of Recommendations**

## Background Papers

20. None

### Appendix 1 – Status of Audit Plan 2012/13 – July 2013

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

Audit Review	Status	Audit Opinion	Recommendations		
			P1	P2	P3
<b>Core Support Systems</b>					
Payroll	Draft report issued	-	-		
Creditors	Draft report issued	-	-		
Treasury Management	Completed	Substantial	-		
Income Collection – Car Parking	Completed	Adequate	-	1	1
Income Collection – Bereavement Services	Completed	Adequate	-	2	1
Income Collection – Industrial Lets	Completed	Limited	1	2	-
Debtors	Completed	Substantial	-	-	4
Budgetary Control	In progress	-	-		
NNDR and Council Tax	Completed	Substantial	-	-	2
General Ledger	Completed	Adequate		1	4
Benefits (Council Tax and Housing)	Completed	Substantial	-		
Asset Register	In progress	-	-		
Procurement	In progress	-	-		
Rising to the Challenge – Project Review	Completed - As this project has now been completed we have input into the Council's Rising to the Challenge Closure Report.	n/a	-		
Health and Safety – Follow Up	In progress	-	-		

Audit Review	Status	Audit Opinion	Recommendations		
			P1	P2	P3
Sustainability – Follow Up	In progress	-			
Business Continuity – Follow Up	In progress	-			
Legal Services	Complete	Limited	2	7	-
<b>IT Systems</b>					
ISO 27001 ICT Services	Complete	Adequate		4	
ISO 27001 Modern Records Unit	Complete	Adequate	-	4	-
Access Controls – Academy and IDOX	Complete	Adequate	-	2	1
Access Controls review - Agresso, Academy, ISIS and Abacus	Draft report issued	-			
Data Protection	Complete	Limited	3	2	-
IT Strategy	Audit deferred as the Council is currently reviewing its overall IT requirements.	-			
<b>Anti-Fraud Systems</b>					
Anti-Fraud and Corruption Arrangements	In progress - This work will involve joint KPMG and Council workshops. The aim of the workshops will be to enhance staff understanding of this area	-			
Anti-Fraud and Corruption – Procedures Audit	These audits have been incorporated within the Audit Commission's Anti-Fraud and Corruption survey.	n/a			
Anti-Fraud and Corruption – Hot Topics and Risk Areas		n/a			
Audit Commission - Anti-Fraud Survey	Completed	n/a			



Audit Review	Status	Audit Opinion	Recommendations		
			P1	P2	P3
<b>Governance Systems</b>					
Performance Management – Follow Up	In progress	-	-		
<b>Operational Systems – Directorates</b>					
Hoople – Client Side Management	Completed - We have reviewed (where appropriate) the Council's contract management arrangements with Hoople as part of the audits we have completed.	n/a	-		
Hoople – Governance/ Performance Management	Draft Report issued	-	-		
Adult Social Care – Financial Management and Follow Up	The reviews of these areas have been incorporated within a KPMG consultancy review which is currently being completed.	n/a	-		
Adult Social Care – Procurement (Follow Up)		n/a	-		
Places and Communities - Public Health – Food Licensing	Completed	Limited	1	4	4
Places and Communities – Procurement	In discussions with management the need for this audit has been superseded by the Council needing additional consultancy support in this area which is currently being provided.		-		

**Schools**

Financial Management

In discussions with management we have agreed to defer the audit of this area and complete the work as part of the Internal Audit Plan for 2013/14. This will allow us to review and test how Schools are complying with the new Financial Value Standard which fully came into effect in 2013/14.

n/a

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## Appendix 2 – Audit Opinions – Definition of Assurance Grading

Conclusion	Definition
<b>No assurance</b>	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).
<b>Limited assurance</b>	One or more priority one recommendations, <b>or</b> a high number of medium priority recommendations that taken cumulatively suggest a weak control environment (i.e. the weakness or weaknesses identified have a significant impact preventing achievement of strategic aims and/or objectives; or result in a significant exposure to reputation or other strategic risks).
<b>Adequate assurance</b>	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).
<b>Substantial assurance</b>	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 3 – Rating of Recommendations

At the last Audit and Governance Committee Members requested further clarification on how audit recommendations are graded. We detail below how we assess the importance of recommendations which we make. Within the table we also set out how we can apply these priorities to recommendations we could make in a particular audit. This example is a review of Health and Safety.

Priority	Definition	Health and Safety Example Audit
<b>Red</b> <i>(Priority 1)</i>	A <b>significant</b> weakness in the system or process which is putting the Council at <b>serious risk</b> of not achieving its <b>strategic</b> aims and objectives. In particular: significant adverse impact on <b>reputation</b> ; non-compliance with key statutory requirements; or substantially raising the likelihood that any of the Council's strategic risks will occur. Any recommendations in this category would require <b>immediate attention</b> .	Issues that result in non-compliance with Health and Safety Legislation, i.e. No Health and Safety Policy in place.
<b>Amber</b> <i>(Priority 2)</i>	A <b>potentially significant</b> or <b>medium level</b> weakness in the system or process which <b>could</b> put the Council at risk of not achieving its strategic aims and objectives. In particular, having the potential for adverse impact on the Council's reputation or for raising the likelihood of the Council's strategic risks occurring, <b>if not addressed</b> .	Issues that may result in non-compliance with Health and Safety legislation if not corrected or improved, i.e. Health and Safety Policy in place, however, incomplete in one or two sections.
<b>Green</b> <i>(Priority 3)</i>	Recommendations which could <b>improve</b> the efficiency and/or effectiveness of the system or process but which are <b>not vital</b> to achieving the Council's strategic aims and objectives. These are generally issues of <b>good practice</b> that we consider would achieve better outcomes.	Issues that are best practice, ie Health and Safety Policy in place, however, could be subject to minor improvement, such as listing new job titles for staff.



<b>MEETING:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>
<b>MEETING DATE:</b>	<b>5 JULY 2013</b>
<b>TITLE OF REPORT:</b>	<b>INTERNAL AUDIT 2012-13 DATA PROTECTION 1998 – FORMAL WRITTEN RESPONSE</b>
<b>REPORT BY:</b>	<b>KNOWLEDGE AND INFORMATION SERVICES MANAGER</b>

### 1. Classification

Open.

### 2. Key Decision

This is not a key decision.

### 3. Wards Affected

None.

### 4. Purpose

The purpose of this report is to update Members formally on the actions and improvement undertaken, and those proposed to be undertaken, by the Knowledge and Information Service in response to the KPMG internal audit report dated 26<sup>th</sup> April 2013. Also to update Members formally on the initial findings of the Information Commissioner's Office consensual data protection audit 30<sup>th</sup> April – 2nd May 2013.

### 5. Recommendations

**THAT:**

- (a) **Subject to any comments the Audit and Governance Committee wishes to make, the report be noted; and**
- (b) **The Committee supports and endorses the actions proposed in order to address the recommendations of the KPMG internal audit with respect to the Data Protection Act 1998; and**
- (c) **The Committee supports and endorses the actions proposed in order to address the areas of improvement identified in the second draft of the ICO consensual audit with respect to the Data Protection Act 1998.**

### 6. Alternative Options

- 6.1 There are no alternative options.

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Further information on the subject of this Report is available from  
Ellen Pawley, Knowledge and Information Service Manager on Tel 07792 880345

## 7. Reasons for Recommendations

- 7.1 The Audit and Governance Committee should be aware of the improvements made already and to maintain an overview of actions required to raise the corporate assurance level in relation to the implementation of the Data Protection 1998 act within Herefordshire Council, thus protecting the organisation from reputational damage, and statutory intervention and penalties from the Information Commissioners Office (ICO).

## 8. Key Considerations

- 8.1 This report addresses the request from the Audit and Governance Committee for a written response to the initial presentation by KPMG of their audit report findings, following an internal audit on Data Protection compliance undertaken as part of Herefordshire Council's internal audit plan for 2012/13. It also gives context to the findings and remedial action already undertaken or planned, including the initial findings of the external consensual audit on Data Protection undertaken by the Information Commissioners Office (ICO – currently at 2<sup>nd</sup> draft stage). Both reports have provided a rating of Limited Assurance but recognise the quality of the work already undertaken by the newly formed Information Governance team in 2012/13, and the work planned for 2013/14, to deliver the appropriate level of assurance. All IG/IS remedial activity is managed through the Information Security Risk Treatment Plan and reported to the IM&T Board and Steering Groups.
- 8.2 Summary of progress against the recommendations of the internal audit report Data Protection 1998 (Ref 67 /2012-13).
- 8.3 **KPMG Recommendation (1) – Personal data audit (Principles 1 - 2, 4 – 5)**
- 8.4 The Council should carry out personal data audits across its service areas as soon as possible. The results of the audit will assist the Council in compiling accurate Data Protection registration renewals with the ICO in April 2013.
- 8.5 **Actions (1) – 79 team units out of 120 identified have now undergone an information inventory. The initial information asset register has been compiled ready for the next stage of work to map to service functions, information asset owners and administrators for September 2013, with training in place by December 2013 (an activity recommended by the ICO auditors).**
- 8.6 Following September 2013 Information asset owners will be asked to complete a personal data template, including personal financial data, to address both the personal data audit requirements and to assess organisational risk in relation to card data and the PCI:DSS requirements. This will be undertaken in a phased approach to manage the impact on stretched services.
- 8.7 The Information asset register will include the systems where the data is stored, sharing a common reference with the ICT asset register being compiled by Hoople which will also support business continuity management.
- 8.8 In addition to the audits we may also need to amend our data registration entries to cover changes to processing of Electoral Information Register data to meet National Fraud Initiative requests to use the data. Worcestershire have raised this as a risk and we are awaiting the decision from the ICO.
- 8.9 Our Privacy Impact Assessments will be cross referenced with the register in order to verify personal data usage by systems and to tie into the ICT asset register. The templates and guidance are in now in use and published on the intranet.

- 8.10 **KPMG Recommendation (2) – Security breach incidents (Principle 7)**
- 8.11 Council staff should complete annual training on data protection and the safe processing of personally identifiable information. All staff should be made aware of the implications of personal data security breaches.  
Furthermore, all staff should be aware of the internal procedures to identify and report security breaches. Any personal data security breaches should be reported to the senior management team as a matter of urgency.
- 8.12 **Actions (2)** – 80 Data Protection incidents have been logged since June 2012, 3 self-reported to the ICO and 3 further open incidents are likely to be self-reported. The ICO auditors have commented that the level of reporting is encouraging and reflects the high visibility of the new Information Governance Team. They have suggested that we also record near misses.
- 8.13 Changes to the NHS IG toolkit v 11 published in June include the mandatory reporting of Adult Social Care IG incidents assessed at Level 2 through the IG toolkit. We are reviewing our updated incident reporting procedures in the light of this new requirement to include the categorisation guidance as part of our general management of Data Protection incidents. This includes the role of the Council's Caldicott Guardian in the internal reporting of incidents.
- 8.14 Training has not yet been rolled out as there remain outstanding issues with the eLearning platform which Hoople are working to resolve. However all the Information Governance modules are ready to use as soon as those issues are addressed and a go-live date confirmed.
- 8.15 Specialist training was organised on four dates for Social Care teams and a three year training plan for bespoke training to teams to complement the generic mandatory training is being put in place. The teams identified as priorities for the next 12 months are Adult Social Care, Public Health and Child Social Care. In particular support for the section 75 staff coming back into the Council from WVT is required to bring them up to speed with the updated policy suite, guidance and procedures.
- 8.16 The Information Governance team has worked closely with HR to align Information Governance policies and procedures and combine links on the intranet to provide better support to mobile staff e.g. working at home or in the field. In addition IG clauses have been included in the new staff contract.
- 8.17 **Recommendation (3) – Downloading sensitive and confidential data (Principle 7)**
- 8.18
- Device management software should be installed on all terminals at the Council, including laptops, to only allow authorised encrypted memory devices to be used. Device management software selected by the Council should include proactive monitoring controls such as the creation of automated email alerts, should an unauthorised external device be connected to the Council's network.
  - Management should review available restrictions to prevent users from downloading personal and sensitive information when accessing their Council profile on non-authorised Council devices. This includes personal home computers and hand held devices.

All changes to policies, procedures and controls related to downloading sensitive and confidential data should be communicated to all staff in a timely manner.

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Further information on the subject of this Report is available from  
Ellen Pawley, Knowledge and Information Service Manager on Tel 07792 880345

- 8.19 **Actions (3)** – These risks are recorded on the Information Security Risk Treatment Plan which is used to manage and report information risks to the Knowledge and Information Steering Group, the IM&T Steering Group and the IM&T Board.
- 8.20 Switching remote desktop printing on for Members has enabled this for all staff with a compatible desktop. Hoople are looking at a solution to switch this capability off for staff but still enable Members to use this feature. The target date for implementation of this solution is July 2013.
- 8.21 The hardening of servers and mobile devices to prevent non-corporate devices being connected through USB ports is a key requirement that Hoople is investigating on behalf of the Council.
- 8.22 The media devices policy has been replaced by a Removable Media Policy which is compliant with the new Public Sector Network requirements. In addition work is progressing on a Mobile Device strategy supported by a technical options paper from Hoople and user stories from a workshop held on 7<sup>th</sup> June. The draft strategy will be presented to the IM&T Board in July.
- 8.23 **Recommendation (4) – Communication of Data Protection Act issues (Principle 7)**
- 8.24 A Data Protection Liaison should be assigned for each Council directorate. The Data Protection Liaison role should include the following:
- Ensuring the Data Protection Officer was aware of Directorate level working practices relating to personally identifiable data, and any changes which have occurred
  - Communicating security breaches and data subject access requests to the Data Protection Officer.
- 8.25 **Actions (4)** – Since the KPMG audit the Knowledge and Information Steering Group (KISG) directorate Information Governance representation has become more established so that the work of the IG representation supporting People’s Services and level of awareness of the staff was positively noted by the ICO auditors. The IG team are continuing to develop the relationship with management teams and representatives e.g. the Public Health team now have representation on the KISG.
- 8.25 The on-going restructure of Corporate Services is proposing to create an Access to Information unit to replace the Customer Insight Unit by December 2013 which will improve procedures and resilience around the Subject Access Requests and Freedom of Information processes in particular and address overlaps in complaints and data protection breach procedures involving members of the public.
- 8.27 **Recommendation (5) – Data Protection Act consent to process clauses (Principle 1 - 2)**
- 8.28 A review of all personal data collection forms used throughout the Council should be carried out. Any forms which do not comply with the Data Protection Act 1998 should have relevant Data Protection consent clauses inserted.
- 8.29 **Actions (5)** – Forms for collecting personal data are being identified as part of the information inventory of teams. In completing the information asset register, copies of privacy notices and forms used to collect personal data will be required. This activity will be followed through post September 2013 once the information asset owners have been identified as it is their responsibility to ensure these are fit for purpose. The Information Governance team will then seek assurance through appropriate sampling.



- 8.30 **Information Commissioners Office (ICO) draft findings**
- 8.31 Summary of areas for improvement identified in the 2<sup>nd</sup> draft of the ICO consensual audit in April/May focused on two specific areas: training and awareness; and records management. There are five key areas of improvement contained in the draft report which are consistent with the findings of the KPMG audit and a total of 42 recommendations. The five areas and comments are as follows:
- 8.32 **ICO Key area (1) – Information Asset Register**
- 8.33 The Council should develop a comprehensive Information Asset Register, supported by a network of Information Asset Owners, to provide a means of ensuring all personal data is accounted for and monitored for compliance with the DPA. This Register should link with the Council’s risk registers and retention schedule.
- 8.34 **Actions (1)** – This is covered by the actions identified for KPMG recommendation (1) with the addition of the creation of a register of retention schedules to provide a cross reference to the items in the information assets register.
- 8.35 **ICO Key area (2) – Access control**
- 8.36 User access permissions should be reviewed regularly to ensure that access to personal data is restricted to those staff with a business need and to provide assurance that access permissions are being disabled or amended, as appropriate, when an individual leaves the organisation or moves roles.
- 8.37 **Actions (2)** - We have agreed a new IT access control policy which requires managers to review access permissions to the information they are responsible for every 6 months, with guidance of how to do this. This will be audited by the IG team and is part of the process improvement work to be delivered by October 2013 through the Employee Lifecycle project around starters and leavers
- 8.38 **ICO Key area (3) - Training**
- 8.39 Procedures should be developed to monitor completion of information governance training and to follow-up instances when induction training is not received or mandatory/refresher training is not completed in a timely manner.
- 8.40 **Actions (3)** - Training needs to be rolled out and the reporting established. The IG team will receive a report in the first week of every month to go to the KISG and inform any actions/ recommendations for improvement and usage. It will be part of a standing agenda item on training. The reports will also be included in the bi-monthly analysis to the IM&T Board.
- 8.41 **ICO Key area (4) – Agency and Temporary Staff**
- 8.42 The Council should ensure that all temporary staff receive at least a basic level of training in data protection and information security.
- 8.43 **Actions (4)** – Discussions are in progress with Hoople to determine approach. Hoople work with 9 other agencies as second tier suppliers so the challenge is how to achieve a reliable process across these agencies. The onus will be on the recruiting manager that they have evidenced the training has been completed and on Hoople that the mandatory Information Governance modules are completed before computer accounts are set up.
- 8.44 **ICO Key area (5) - Complementary specialist training**
- 8.45 The Council should complement the recently developed information governance training by developing bespoke, specialist training for staff in key roles and for higher-risk staff who are responsible for handling significant volumes of personal data and/or sensitive personal data.

8.46 **Actions (5)** – This will be covered by the actions identified for KPMG recommendation (2).

## **9. Community Impact**

9.1 The Information Commissioners Office can exercise statutory powers to enforce compliance with the Data Protection Act 1998, impose fines of up to £500,000 for breaches of the act, or choose to prosecute individuals for offences under the act.

## **10. Equality and Human Rights**

The report does not impact upon this area.

## **11. Financial Implications**

11.1 Not acting on these recommendations increases the likelihood of large financial penalties for any data breaches reported to the ICO.

## **12. Legal Implications**

12.1 Failure to deliver the actions places the Council at risk of further action from the ICO.

## **13. Risk Management**

13.1 Until the Information Governance team can complete their 'Managing Information Safely' delivery plan the legacy practices, which have led both audits to issue the Council with a Limited Assurance grading, remain. Therefore the risk of failing to meet the requirements of the Data Protection Act 1998 is to be noted in the Corporate Services Risk Register with the reference RSK.PPP.049 until such time as the Council's 'managing information safely' delivery plan has been formally noted and agreed as delivered by the appropriate body or person.

## **14. Consultees**

14.1 None.

## **15. Appendices**

15.1 None.

## **16. Background Papers**

16.1 None identified.



<b>MEETING:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>
<b>MEETING DATE:</b>	<b>JUNE 2013</b>
<b>TITLE OF REPORT:</b>	<b>DRAFT ANNUAL GOVERNANCE STATEMENT 2012/13</b>
<b>REPORT BY:</b>	<b>HEAD OF GOVERNANCE</b>

## 1. Classification

Open

## 2. Key Decision

This is not a key decision

## 3. Wards Affected

County-wide

## 4. Purpose

The purpose of this report is to seek approval of the draft Annual Governance Statement for 2012/2013.

## 5. Recommendation(s)

That:

- (a) the draft Annual Governance Statement 2012/13 attached at Appendix 1 to this report be reviewed; and
- (b) the draft Annual Governance Statement 2012/13 for inclusion in the Statement of Accounts for 2012/13, be approved.

## 6. Alternative Options

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

## 7. Reasons for Recommendations

This is a statutory requirement.

## 8. Key Considerations

- 8.1 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.

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Further information on the subject of this report is available from  
John Jones, Head of Governance on Tel (01432) 260222

8.2 Actions on significant internal control issues identified in the Annual Governance Statement for 2011/12 were reported to the Audit and Governance Committee as part of the Interim Assurance Reports in 2012/13.

8.3 The Audit and Governance Code authorises the Audit and Governance Committee to review and approve the Council's Annual Governance Statement.

8.4 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.

8.5 The Annual Governance Statement is signed by the Leader of the Council, the Chief Executive, the Chief Officer: Finance & Commercial, and the Head of Governance.

## **9. Community Impact**

As mentioned in paragraph 8 above the Council is responsible for ensuring that appropriate safeguards are in place to ensure that it operates effective governance arrangements and internal controls. The decisions the Council makes have direct impact on the lives of residents of the County and therefore it is essential that the Council have appropriate governance arrangements in place.

## **10. Equality and Human Rights**

The internal and governance arrangements underpins the requirement on the Council to ensure that due regard is paid to all equality and human rights issued when the Council makes decisions.

## **11. Financial Implications**

There are no financial Implications.

## **12. Legal Implications**

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

## **13. Risk Management**

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

## **14. Consultees**

None

## **15. Appendices**

Appendix 1- Audit and Governance Statement 2012/13.

## **16. Background Papers**

16.1 None identified.

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Further information on the subject of this report is available from  
John Jones, Head of Governance on Tel (01432) 260222



### Annual Governance Statement 2012/13

#### 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 Head of Governance.
- 1.4 The Annual Governance Statement for 2012/13 explains how the Council has complied with its code of corporate governance. It also explains how the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) regulations 2006 in relation to the publication of a statement have been met.

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

- 2.1 The governance framework comprises the systems, processes, culture and values by which the Council is managed and controlled. The framework also sets out how the Council accounts to, engages with and leads the community.
- 2.2 The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
- 2.3 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives as an individual's failure to comply with policies and procedures, even when provided with comprehensive training on them, can never be entirely eliminated.

- 2.4 The system of internal control is based on an ongoing process designed to:
- (a) identify the risks to the achievement of the Council’s policies, aims and objectives;
  - (b) evaluate the likelihood and impact of the risks should they be realised; and
  - (c) identify and implement measures to reduce the likelihood of the risks being realised and to negate, or at least mitigate, their potential impact.

### 3. The Governance framework

- 3.1 The Council’s corporate governance framework was approved by the Audit and Corporate Governance Committee on 21 November 2008. It seeks to ensure that the principles of good governance are embedded into all aspects of the Council’s work. The five principles agreed by the Audit and Corporate Governance Committee have been linked to the six principles of good governance outlined in the SOLACE/CIPFA publication “Delivering good Governance in Local Government”.
- 3.2 For ease of reference, the following table matches the Council’s set of principles with those contained in the SOLACE/CIPFA guidance:

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



<b>Council</b> – Principle 4	Take sound decisions on the basis of good information.
<b>SOLACE/CIPFA Guidance</b> - Principle 5	Developing the capacity and the capability of members and officers to be effective.
<b>Council</b> – Principle 2	Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness.
<b>SOLACE/CIPFA Guidance</b> - Principle 6	Engaging with local people and other stakeholders to ensure robust public accountability.
<b>Council</b> – Principle 6	Be transparent and open: responsive to Herefordshire’s needs and accountable to its people.

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

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

3.4 In April 2011 the Council along with NHS Herefordshire and Wye 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 through transferring services to Hoople Ltd.

The Council also continues to transform the way in which services are delivered. A number of themed Root and Branch reviews have been undertaken which have identified substantial savings during the year.

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

3.6 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**

- 3.7 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.
- 3.8 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.
- 3.9 The Chief Executive is the Head of Paid Service, the Chief Officer – Finance and Commercial Services is designated the Section 151 Officer and the Head of Governance is designated the Council’s Monitoring Officer.
- 3.10 There is a formal staff performance review requirement for all officers.

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

- 3.11 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 and has been repeated.
- 3.12 The work undertaken in 2012 on ethics and standards has continued into 2013. Both county and parish councils have adopted new codes of conduct and a new system for determining complaints under those codes have been implemented. Three new Independent Members of the Standards Panel have been appointed.
- 3.13 There are Codes of Conduct for Members and Officers.
- 3.14 Complaints made between May 2012 and July 2012 fell to be considered under the standards Committee procedure in place at that time. During this period, four complaints were received. Two of these complaints concerned to the same member of Herefordshire Council and related to the same allegations. This complaint was investigated and the allegations upheld. Of the two other complaints, one related to an allegation of failure to declare a personal and prejudicial interest. The allegation was not upheld and no action was taken. The second complaint related to an allegation that a member had failed to treat another person with respect and had brought the authority into disrepute. The standards committee decided, in this case, that the member was not acting in their capacity as a councillor at the relevant time.
- 3.15 Complaints received after July 2012 and dealt with under the new system:

Total number of complaints received:	40
Complaints withdrawn:	8

Of the 32 complaints taken forward, 13 (41%), related to town and parish councillors, and 19 (59%), related to Herefordshire Councillors.  
 Allegations related to the following sections of the code of conduct:

<b>Reasons for allegations</b>				
	<b>T/P councils</b>	<b>HC</b>	<b>All</b>	<b>%</b>
Inappropriate involvement in staff matter	0	2	2	6%
Inappropriate publication on website	1	3	4	13%
Misuse of council resources	2	1	3	10%
Bullying, failure to show respect	10	6	16	50%
Failure to declare an interest	0	2	2	6%
Bringing authority into disrepute	0	2	2	6%
Failure to respond to correspondence	0	3	3	9%
<b>Totals</b>	<b>13</b>	<b>19</b>	<b>32</b>	<b>100%</b>

Outcome of allegations:

	<b>Six months July – December 2012</b>	<b>Six months January – June 2013</b>
<b>Total Complaints received</b>	<b>17</b>	<b>23</b>
Withdrawn	2	6
Investigated	2	0
Upheld	2	1
No action	12*	8*
Referred to CIU	1	0
Outstanding	0	8

\* 'No action' means that, following consideration by the monitoring officer and independent persons, no failure to comply with the code of conduct has been identified, and no formal action has been taken. However, it includes cases where the monitoring officer might informally remind the member of the need to be aware of their responsibility to comply with the code of conduct.

3.16 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.

3.17 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.

- 3.18 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.
- 3.19 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.
- 3.20 A register of members' interests is maintained and updated on a regular basis.
- 3.21 Anti-fraud and Anti-corruption Policy is in place.
- 3.22 A Whistle-blowing Policy is in place and forms part of the Council's Constitution. This was reviewed in December 2011.
- 3.23 There is a formal Monitoring Officer Statement in relation to the use of the Monitoring Officers powers.
- 3.24 Written assurances are received from key managers. These assurances highlight any areas of concern.

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

- 3.25 There is an overview and scrutiny function that encourages constructive challenge. The Council has two Overview and Scrutiny Committees, one of which is responsible for Health and Social Care and the other has wider responsibilities.
- 3.26 The Council has an Audit and Governance Committee, which is independent of the executive and scrutiny functions.
- 3.27 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.
- 3.28 Decisions made by Cabinet and Committees are based upon written reports as presented.
- 3.29 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**

- 3.30 All meetings are held in public unless there are legal reasons for confidentiality.
- 3.31 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.

- 3.32 All Committee agendas, reports and minutes are publicly available on the Council's website other than for confidentiality reasons.
- 3.33 The Cabinet published its Rolling Programme of future decisions.
- 3.34 The public are allowed to ask a question at Council as long as a copy of the question is deposited with the Head of Governance.
- 3.35 There is a Herefordshire Customer Insight Unit, established as a single point of contact for Herefordshire Council. The unit is made up of officers from across the Council, who work together to administer and monitor feedback such as feedback and complaints. Every directorate receives monthly performance reports relating to feedback.
- 3.36 For the period 2012/13, a total of 263 compliments and 363 complaints have been received. Of these, 32 complaints were escalated to the Local Government Ombudsman. It should be noted that since January 2010 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. Regular press and media notices are also issued.
- 3.38 Further information about services can be found on the Council's website and through other channels. Text notifications are sent to residents where appropriate.
- 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 also publishes a pay policy statement, which details the remuneration of senior officers, and officer decisions are also now published on the Council's web site.

#### **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 Head of Internal Audit 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 Head of Internal Audit Annual Assurance Reports being presented to the Audit & Corporate Governance Committee. This report is 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 Head of Governance.

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 2011/12 in relation to the key aspects of the Council's governance framework.

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

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 Two decisions made by Cabinet were called in during 2012/13 as follows:

(a) Variation of the retail quarter (old livestock market development)

(b) Supplementary agreement and deed of variation to the retail quarter (old livestock market development agreement)

#### **(B) Corporate Objectives and Priorities**

4.7 On 20 June 2012 Cabinet received a report on 'Understanding Herefordshire' (the integrated evidence base and needs assessment); in light of this Cabinet agreed that a review of the Corporate Plan should be undertaken and the recommendations of Cabinet regarding a refreshed Corporate Plan were scheduled and considered by Council on 23 November 2012.

4.8 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 23 November 2012.

4.9 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**

4.10 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.

4.11 The updated Medium Term Financial Management Strategy for 2013/16 was presented to Cabinet on 17 January 2013. Cabinet recommended to Council the recommendations for updating.

#### **(D) Code of Governance**

- 4.12 The Audit & Corporate Governance Committee approved the Annual Governance Statement for 2011/12 at its September 2012 meeting.
- 4.13 The Audit and Governance Committee considered the Audit Commission's Annual Governance Report at their September 2012 meeting. The Audit Commission made recommendations which were accepted by the Council.

#### **(E) Financial management arrangements**

- 4.14 The Audit Commission's Annual Audit Letter dated October 2012 indicated the council received an unqualified opinion on its accounts. It also concluded that the council had made proper arrangements to secure economy, efficiency and effectiveness (the statutory value for money opinion). The certificate to indicate the Whole of Government Accounts audit was completed was also issued... The Audit Commission noted that the accounts closedown process for the 2011/12 financial year was particularly challenging as it was the first year that the new shared services company HOOPLE closed down the accounts and the same year that a new integrated ledger was implemented. This degree of change is rarely seen in a single year and adversely affected the approach the Audit Commission usually sees at Herefordshire. The letter also identified four key issues that continue to require focus:

- Financial position
- Adult Social Care
- Waste disposal; and
- Health and Social Care Act

- 4.15 The Council had an overspend of £1.5 million in 2012/13; this is being funded from the general fund.
- 4.16 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.

This is the second year the Council has 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, in 2012/13 it 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. From April 2013 this has been addressed by the new Chief Executive and the S151 role now reports to the Chief Executive and Management Board.

**(F) Performance management arrangements**

- 4.17 The Council has a performance improvement framework which underpins the Corporate Plan. The performance improvement framework encompasses the Council's arrangements for preparing directorate and service plans in support of corporate priorities.
- 4.18 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 2012/13. The performance reports detail performance against the key priorities, performance measures and commitments as included in the 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 Corporate Plan, including those of partners.

**(G) Risk management arrangements**

- 4.19 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 Management Board.
- 4.20 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.
- 4.21 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**

- 4.22 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 was 1 whistleblowing incident recorded in 2012/13.
- 4.23 The Council has its own anti-benefit fraud team that looks at fraudulent benefit claims. The team is proactive and has taken forward a number of cases in the year. It has successfully carried out a number of prosecutions leading to a significant recovery of fraudulently claimed benefit.

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

- 4.24 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.
- 4.25 The Joint Corporate Plan 2010-13 contains a large number of projects. The status of projects is monitored through Corporate Performance Reports presented to Cabinet.

## **(J) Community engagement**

- 4.26 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.
- 4.27 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 the Council needs to engage with citizens, its partners are also supporting mechanisms and facilitating opportunities for communities to be 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**

- 4.28 The need to maintain and improve data quality remains critically important. The Knowledge and Information Steering Group recommended in January that rather than having a separate data quality action plan, projects being commissioned need to have data quality embedded in them, and the Information Governance Team need visibility of these projects. Three key areas for improvement in data quality already identified are Frameworki, Agresso and CRM. Data quality will be reported through the projects via

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.

- 4.29 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, however further current organisational changes mean that the Policy will be updated later in 2013.

**(L) Independent review**

- 4.30 The Audit and Governance Committee met seven 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.
- 4.31 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.
- 4.32 The internal audit service is delivered via a contract with KPMG and this function operates in accordance with best practice, professional standards and guidelines. The Head of Internal Audit is a KPMG member of staff who ensures an independent and objective review, on a continual basis, of the internal control environment. This is evidenced by the opinion given on the Council's overall system of control by the Head of Audit.
- 4.33 The Audit & Governance Committee receives interim and annual reports on internal audit activity and approves the annual audit plan and
- 4.34 Sufficient internal audit work has been carried out to enable the Head of Internal Audit to draw a reasonable conclusion about the adequacy and effectiveness of the Council's risk management, control and governance processes.
- 4.35 In the opinion of the Head of Internal Audit the Council has adequate and effective risk management, control and governance processes to manage the achievement of its objectives, except for those areas highlighted as limited. This is the same outcome as last year, although it should be noted that there are fewer areas covered by this exception this year and in particular the controls governing key financial and IT systems have shown an improvement.
- 4.36 The audits have been conducted in accordance with the relevant internal audit standards. As reported previously to the Committee, CIPFA's Code of Practice for Internal Audit in local government in the United Kingdom represented the applicable professional standards during 2012/13. From April 2013 this has been superseded by PSIAS. These frameworks require all local authorities to base the opinion on:

- All audits undertaken during the year;
- Any significant recommendations not accepted by management and the consequent risks;
- The effects of any significant changes in the Council's objectives or systems;
- Matters arising from previous reports to the Audit and Governance Committee; and
- Any limitations which may have been placed on the scope of the internal audit.

4.37 In 2012/13, 21 audit reviews have been either completed or are in draft. There are currently eight reviews being completed by Audit Services, with draft reports issued in another five areas. Within our final reports we raised seven priority one recommendations, 28 priority two and 13 priority three recommendations.

4.38 The Annual Internal Audit Report sets out further detail on the areas above. It also sets out how the internal audit service has complied with the PSIAS.

4.39 The report notes that the Council has faced a number of challenges in 2012/13. These range from the impact of the government's deficit reduction programme to local issues such as those affecting Adult Social Care.

#### **(M) Audit Strategy**

4.40 We have issued a total of 13 final audit reports and made 48 recommendations. Four areas were graded as **Substantial Assurance** which reflects positively on the organisation and its control framework. These include areas such as Treasury Management, NNDR and Council Tax and Housing Benefit. Five areas have been rated as **Adequate Assurance** and this assurance conclusion suggests scope to improve, but not fundamental control weaknesses. These areas included Access Controls to the Academy and IDOX systems, Income collection (Car Parking) and ISO 27001 Modern Records Unit.

4.41 Four areas were rated as **Limited Assurance** indicating that the control framework is weak within that area and significant improvements are required to ensure that key risks are being mitigated. These were Data Protection, Legal Services, Industrial Lets (income protection) and Food Licensing.

4.42 The Council has recognised that significant improvements are required to these systems and has put in place action plans to resolve the issues which Internal Audit has highlighted.

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

- 4.43 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.

**(O) Information Technology Security Controls (ISO 27001)**

- 4.44 The external assessor SGS completed their 2012/13 audit in December 2012, and concluded after a further visit in March 2013 that Herefordshire Council has maintained its information security management system in line with the requirements of the ISO 27001 standard for its ICT Services (managed by Hoople Ltd) and the Modern Records Unit managed within the Council,
- 4.45 The Council's ISO 27001 certification was continued.

**(P) Assurances by Managers**

- 4.46 Written assurances have been received from managers. These confirm that they have examined transactions charged to their budgets in 2012/13 and that they do not include any suspicious or unexplained entries.

**5. Significant Governance issues 2012/13**

The Council is required to include in its Annual Governance Statement (AGS) any significant control issues. It was noted that the Council has improved controls over its key financial and IT systems in 2012/13. However, based on the reviews undertaken the following issues are included:

- the controls over Data Protection need strengthening to ensure that the risks in relation to inappropriate access and manipulation of data are mitigated;
- the Council needs to develop controls within its Legal Services, Industrial Lets and Food Licensing functions to ensure that they can meet their objectives and manage key risks; and
- the controls within the Adult Social Care function require strengthening to ensure that the system can meet its objectives in terms of the service it delivers and the financial resources being managed.

It should be noted that there is already evidence that controls over the Data Protection function system have been strengthened. Action is also being taken by the Council in respect of the other areas.

Cllr Philip Price  
Deputy Leader of the Council  
(on behalf of The Leader)

Signed:  
Date:

Alistair Neill  
Chief Executive & Head of Paid Services

Signed:  
Date:

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

Signed:  
Date:

John Jones  
Head of Governance  
and Monitoring Officer

Signed:  
Date:





<b>MEETING:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>
<b>MEETING DATE:</b>	<b>5 JULY 2013</b>
<b>TITLE OF REPORT:</b>	<b>APPOINTMENT OF INDEPENDENT PERSONS TO THE COUNCIL'S STANDARDS PANEL</b>
<b>REPORT BY:</b>	<b>HEAD OF GOVERNANCE</b>

## 1. Classification

Open

## 2. Key Decision

This is not a key decision

## 3. Wards Affected

County-wide

## 4. Purpose

To recommend the appointment of two independent persons to the standards panel.

## 5. Recommendation(s)

THAT:

- (a) it be noted that approval will be sought at Council on 19 July 2013, to appoint John Sharman and David Williams MBE QFSM as independent persons to the Standards Panel.

## 6. Alternative Options

- 6.1 The Localism Act 2011 states that the Council must appoint "at least one independent person" to deal with standards matters. Therefore, there is an option to retain the existing independent person, Mr Rob Cook, and make no further appointments. However, the monitoring officer's view is that it is essential to appoint more than one independent person to avoid any potential conflicts of interest in dealing with complaints, to allow flexibility during periods of holiday and sickness, to ensure good governance of the standards process, and to provide him with sufficient regular support.

## 7. Reasons for Recommendations

- 7.1 Herefordshire receives on average one new standards complaint about a county, town or parish councillor every two weeks, and these need to be processed in a timely manner. The view is that at least three independent persons are required to ensure the efficient running of the system.

## **8. Key Considerations**

- 8.1 Until recently, the council had three appointed independent persons, whose role is to give opinion to the monitoring officer on standards complaints, and to inform the decisions on all standards investigations and complaints where a resolution is not readily achieved. The council's independent persons were Jake Bharier, Rob Cook and David Stevens MBE. Mr Bharier and Mr Stevens are longstanding serving independent persons who were both members of the Standards Committee under the old standards system, which existed before the Localism Act introduced a new system in 2012. They have served voluntarily as independent persons since 2009 and 2003 respectively. Mr Cook was appointed in 2012 after the new system took effect.
- 8.2 The Act does not allow previously serving independent persons to serve in the new system for more than twelve months. As a result, the tenure of post for both Mr Bharier and Mr Stevens ended on 30 June 2013. Mr Cook remains as our only serving independent person.
- 8.3 Following a recruitment period, interviews were held on 23<sup>rd</sup> and 24<sup>th</sup> April 2013. The interview panel comprised Councillors Barnett, Bowen and Stone, the Head of Governance and Mr Bharier and Mr Stevens. The interview panel has no hesitation in recommending that the council appoints 2 new independent persons, namely John Sharman and David Williams MBE QFSM. Excellent references have been received for both candidates.
- 8.4 John Sharman has recently retired from an interim project manager post for the Wye Valley NHS Trust, having formerly enjoyed a career in Biomedical Science. He has worked at senior managerial level in various Health-related posts since 1992. Mr Sharman also has experience of local government through his service as a member of Surrey Heath Borough Council from 1995-1999.
- 8.5 David Williams is a retired chief fire officer, most recently serving as chief fire officer and chief executive of South Wales Fire Service. He has also served as an adviser to both local and national government. He is a fellow of the Institution of Fire Engineers, an instructor and trustee of Heartstart Herefordshire, chairman/trustee of Herefordshire Advanced Motorists, and a churchwarden and member of the PCC of St. Weonards.
- 8.6 Mr Sharman and Mr Williams attended their first independent members' training session with the the Head of Governance/Monitoring Officer on 19 June 2013, to enable them to be up-to-speed with their roles, should they be appointed.

## **9. Community Impact**

- 9.1 The public expectation is rightly that the council has adequate, objective and transparent measures in place to deal with complaints against councillors. The appointment of Mr Sharman and Mr Williams will help to provide continued assurance of this.

## **10. Equality and Human Rights**

There are no equality and human rights implications in this report.

## **11. Financial Implications**

- 11.1 There are no financial implications in respect of the proposal.



## **12. Legal Implications**

- 12.1 The appointments will ensure that the council is able to meet comprehensively the requirements of the Localism Act 2011.

## **13. Risk Management**

- 13.1 There is a reputational risk to the council if it is unable to manage effectively its standards complaints process. There is also a risk to councillors if there are no independent mechanisms in place to support them in their responsibilities towards good governance and adhering to the members' code of conduct. Part of the independent person's role is to help councillors achieve these aims through giving objective opinion when councillors are the subject of complaints, and through the recommendations that they make for training and mediation.

## **14. Consultees**

- 14.1 None.

## **15. Appendices**

- 15.1 None.

## **16. Background Papers**

- 16.1 None identified.

