

AGENDA

Audit and Governance Committee

Date: **Tuesday 21 March 2017**

Time: **2.00 pm**

Place: **Council Chamber, Shire Hall, St. Peter's Square,
Hereford, HR1 2HX**

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 PD Newman OBE
Vice-Chairman	Councillor FM Norman
	Councillor ACR Chappell
	Councillor EPJ Harvey
	Councillor JF Johnson
	Councillor RL Mayo
	Councillor RJ Phillips
	Councillor J Stone
	Councillor LC Tawn

AGENDA

		Pages
PUBLIC INFORMATION AND FIRE INFO		
1.	APOLOGIES FOR ABSENCE To receive apologies for absence.	
2.	NAMED SUBSTITUTES (IF ANY) To receive details any details of members nominated to attend the meeting in place of a member of the committee.	
3.	DECLARATIONS OF INTEREST To receive any declarations of interest by members in respect of items on the agenda.	
4.	MINUTES To approve and sign the minutes of the meeting held on 23 January 2017.	7 - 10
5.	EXTERNAL AUDIT PLAN AND PROGRESS UPDATE To approve the external audit plan for 2016/17, having regard to the audit risk assessment for 2016/17, and receive a report from the external auditors on progress.	11 - 74
6.	INTERNAL AUDIT CHARTER To approve the internal audit charter for the period 1 April 2017 to 31 March 2018.	75 - 82
7.	INTERNAL AUDIT PLAN 2017/18 To seek the committee's approval of the internal audit plan for the period 1 April 2017 to 31 March 2018.	83 - 96
8.	PROGRESS REPORT ON 2016/17 INTERNAL AUDIT PLAN 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.	97 - 122
9.	WORKING GROUP UPDATES To advise the committee on the progress of the standards working group and governance improvement working group.	123 - 126
10.	FUTURE WORK PROGRAMME FOR 2017/18 To provide an update on the Committee's work programme for 2017/18.	127 - 132

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HEREFORDSHIRE COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

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HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Audit and Governance Committee held at Committee Room 1, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Monday 23 January 2017 at 10.00 am

Present: Councillor PD Newman OBE (Chairman)
Councillor FM Norman (Vice Chairman)

Councillors: ACR Chappell, EPJ Harvey, JF Johnson, RL Mayo, RJ Phillips, AJW Powers and J Stone

Officers: Annie Brookes, Steve Hodges, Anthony Sawyer, Mark Taylor and Claire Ward

178. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor LC Tawn.

179. NAMED SUBSTITUTES (IF ANY)

In accordance with paragraph 4.1.23 of the council's constitution, Cllr AJW Powers attended the meeting as a substitute member for Cllr TC Tawn.

180. DECLARATIONS OF INTEREST

There were no declarations of interest.

181. MINUTES

RESOLVED:

That the minutes of the meeting held on 28 November 2016 be confirmed as a correct record and signed by the chairman.

182. ANNUAL GOVERNANCE STATEMENT PROGRESS

The head of corporate governance presented the report on the progress of the annual governance statement.

It was explained that the annual governance statement was a summary of the effectiveness of the governance arrangements and had been approved by committee at its meeting on 4 July 2016. The action plan which was attached as appendix A of the report was intended to address areas for improvement and progress on the identified actions had been tracked.

In response to Members' questions, it was agreed that a briefing note on commissioning would be circulated to Members. The briefing note would cover:

- The findings of the commissioning review and any agreed actions.
- Confirmation that the review covered joint commissioning arrangements and assurance that such arrangements are robust.
- Details of contract management processes, other than the contract procedure rules, together with evidence that they are being applied to best effect.

- Details of the revised timetable for the commercial and commissioning strategy review.

It was confirmed that the partnership assurance framework included significant contracting arrangements. The first self evaluation frameworks (SEF) will include significant contracts, e.g. Balfour Beatty.

In response to a Member's question, it was confirmed that there would be a SEF for the LEP under the partnership assurance framework. The self evaluation would be undertaken by council officers but the views of the partners would inform the SEF. It was agreed that the next annual governance statement would mention the LEP explicitly.

It was noted that new statutory guidance had been issued for the production of the next annual governance statement.

RESOLVED:

That the report be noted.

183. WORKING GROUP UPDATE: STANDARDS WORKING GROUP

The solicitor to the council presented the standards working group update.

It was noted that the first meeting of the working group would take place on 30 January 2017.

RESOLVED:

That the scope of the work for the standards working group, timescales and membership be approved

184. CORPORATE RISK REGISTER

The directorate services team leader presented the corporate risk register report.

The committee's role was to seek assurance that the risk framework was working well. It was noted that as part of the performance, risk, opportunity and management (PROM) framework, the risk register is reviewed monthly by management board and quarterly by Cabinet. The corporate risk register is updated on the council's website on a quarterly basis. It was confirmed that the corporate risk register had formed part of the quarter 2 corporate performance and budget report that had been approved by Cabinet on 3 November 2016. It was clarified that if Members or members of the public identify a risk that they feel should be on the corporate risk register, but isn't, they can email asking for the risk to be considered.

Members asked that consideration be given to adding the following to the corporate risk register:

- Water quality issues;
- Fracking; and
- Flood alleviation.

The directorate services team leader would liaise with colleagues on those issues.

Councillor Johnson left the meeting at 11.00 am.

Members' queried the risk rating calculations and sought assurance that the ratings after controls were appropriate for:

- Economic resilience;
- Short breaks; and
- System resilience.

Councillor Mayo left the meeting at 11.45 am.

Members' queried the numerical ratings used and the methodology behind this. They also requested that there were no acronyms. It was also requested that the risks be grouped into different categories.

Following a query from a Member, consideration to be given to how the committee receives updates on the controls which are in place.

RESOLVED:

That the report be noted.

185. ACCESS TO INFORMATION

The information access and records manager presented the access to information report.

It was noted that freedom of information (FOI) and environmental information regulations (EIR) requests tend to reflect events which are happening at a local or national level.

Cllr Johnson re-joined the meeting at 11:57.

In response to a Member's question, it was confirmed that at the moment information requested under FOI requests is not automatically published on the website. This was being investigated as part of redesign of the new council website. It was noted that with some requests information released would need to be subject to checks that no personal data of the requester was disclosed.

With regard to complaints, it was confirmed that directors are given information which is broken down by type of complaint and the lessons learnt. It was suggested that the relevant scrutiny committee may wish to receive such general details of complaints on a quarterly basis.

It was noted that for future reports, it would be helpful to see the trend of complaints, e.g. time of year, etc.

RESOLVED:

That the report be noted.

186. WORK PROGRAMME UPDATE

The committee's updated work programme was presented.

RESOLVED

That the work programme be agreed.

The meeting ended at 12.36 pm

CHAIRMAN



Meeting:	Audit and governance committee
Meeting date:	21 March 2017
Title of report:	External audit plan and progress update
Report by:	Chief finance officer

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To approve the external audit plan for 2016/17 having regard to the audit risk assessment for 2016/17, and receive a report from the external auditors on progress.

Recommendations

THAT:

- (a) comments be provided on the external auditors assessment of risk at appendix A to this report and whether the management response to that assessment is consistent with the understanding of the committee;**
- (b) having regard to the above recommendation, the external audit plan at appendix B to this report be approved; and**
- (c) the external auditors update on progress at appendix C to this report be received.**

Further information on the subject of this report is available from Andrew Lovegrove, chief finance officer on Tel (01432) 383519

Alternative options

- 1 There are no alternative options, recommendations are accordance with auditing standards.

Reasons for recommendations

- 2 The constitution provides that the audit and governance committee will:
 - ensure there are effective relationships between external and internal audit, inspection agencies and other relevant bodies by reviewing and agreeing the external auditor's annual audit plan and receiving regular update reports on progress from the external auditor; and
 - satisfy themselves that the council's assurance statements properly reflect the risk environment

Key considerations

Informing the audit risk assessment

- 3 Appendix A includes a series of questions on informing the audit risk assessment and the responses received from the council's management team. The committee is asked to consider the management responses and whether these are consistent with its understanding and to identify whether there are any further comments it would like to make. The assessment informs the audit plan below.

External audit plan

- 4 Attached as appendix B is the external audit plan for the audit of the 2016/17 statement of accounts. The 2016/17 external audit aims to complete by 31 July and interim audit work has already been completed.
- 5 The report shares the audit approach, the focus of external audit work and the preparation work that has already commenced. There are two presumed significant risks which are applicable to all audits being fraudulent transactions and management over ride of controls. Work completed to date has raised no areas of concern in addressing these risks.
- 6 The external audit plan confirms the approach to assessing if the council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the value for money conclusion. The report details the areas of risk identified and the work that will be completed to reach a conclusion that will be reported to the committee.

Progress report

- 7 Appendix C provides a progress report from the external auditor on their work.

Further information on the subject of this report is available from
Andrew Lovegrove, chief finance officer on Tel (01432) 383519

Community impact

- 8 Effective audit helps ensure the council is transparent about the way in which it conducts business and that it does so efficiently and effectively in line with the values of the council and the corporate plan priority to secure better services, quality of life and value for money.

Equality duty

- 9 None.

Financial implications

- 10 None, the external audit fee referred to in appendix B is as approved in previous reports. It is possible to adapt or add to the audit plan however the plan is designed and costed to allow for focus on major strategic risks. Therefore there has to be a distinction between delivery compliance and working on specific activity outside the plan.

Legal implications

- 11 External audit is a legal requirement; this report provides an update on the approach being taken in line with legislative requirements.

Risk management

- 12 This update informs of the risks present which the internal corporate finance team are preparing responses to. Future reports will disclose the external audit findings.

Consultees

- 13 None.

Appendices

Appendix A - Informing the audit risk assessment

Appendix B - 2016/17 external audit plan

Appendix C - External audit progress report

Background papers

None



Informing the audit risk assessment for Herefordshire Council

2016/17

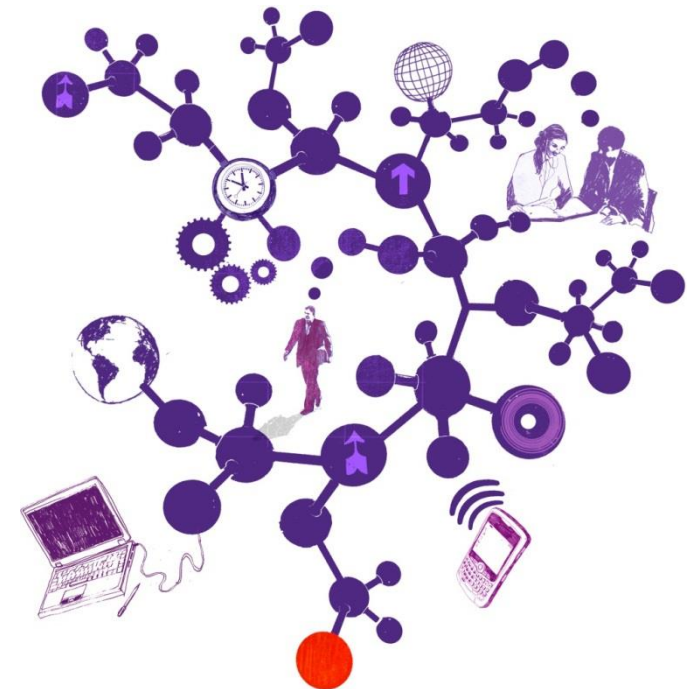
March 2017

by

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p><i>Yes. The risk of material misstatement of the accounts due to undetected fraud is low.</i></p> <p><i>Although there is an ongoing risk of fraud being committed against the council, clear and effective arrangements are in place to both prevent and detect fraud.</i></p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p><i>There have been no specific or high risk areas of fraud identified in the current financial year (relating to 16/17 or prior years). Fraud is always considered as part of each internal audit. For the audits completed in 2016-17 fraud has not been identified.</i></p>
<p>Do you suspect fraud may be occurring, either within the Council or within specific departments?</p> <ul style="list-style-type: none"> - Have you identified any specific fraud risks? - Do you have any concerns there are areas that are at risk of fraud? - Are there particular locations within the Council where fraud is more likely to occur? 	<p><i>We have no evidence to suggest fraud may be routinely occurring, however, evidence published by the National Fraud Authority amongst others, suggests that fraud is committed in all organisations to varying degrees, so it is possible that some fraud is occurring at Herefordshire Council. In order to mitigate fraud occurring the council has a number of processes in place.</i></p> <p><i>The internal audit plan incorporates consideration of potential fraud risks and how these are to be mitigated, for example through the reviews of the council's key systems and the work it completes on the council's anti-fraud processes to ensure that they are fit for purpose.</i></p> <p><i>In addition to this managers are expected to identify and record fraud risks where necessary on the relevant risk register. There are some areas that are inherently at risk such as:</i></p> <ul style="list-style-type: none"> - <i>Council tax; and</i> - <i>Housing benefit</i> <p><i>However, there is a dedicated benefits team within the corporate finance division which investigates any potential fraud issues in these areas. There is also close working with housing inspectors to ensure that any indication of fraud in respect of housing benefit claimants is considered.</i></p>

Fraud risk assessment

Question	Management response
<p>Are you satisfied that the overall control environment, including:</p> <ul style="list-style-type: none"> - The process for reviewing the system of internal control; - Internal controls, including segregation duties; - Exist and work effectively <p>If not where are the risk areas? What other controls are in place to help prevent, deter or detect fraud?</p> <p>21</p>	<p>Yes</p> <p><i>In the Annual Assurance Statement issued in July 2016 for the internal audits carried out in the previous year the Head of Internal Audit concluded: In the opinion of the SWAP Director and having considered the balance of audit work, the assurance levels provided and outcomes together with the response from Senior Management and the Audit and Governance Committee the Director can offer 'Reasonable Assurance' in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives.</i></p> <p><i>Internal Audit's Payroll report, highlighted control weaknesses with payments to HMRC and there is concerns regarding the control environment within payroll, however it did not identify and we do not consider that there is an indication of increased fraud risk.</i></p>
<p>How do you communicate to employees about your views on business practices and ethical behaviour? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud?</p>	<p><i>The Council has an Anti-Fraud Strategy and a Whistleblowing procedure in place which explains the procedures to follow when staff need to raise any fraud concerns These policies and procedures are available to all staff via the Council's intranet.</i></p> <p><i>There is also mandatory training on fraud for key staff via an e-learning module.</i></p>
<p>From a fraud and corruption perspective, what are considered to be high-risk posts? - How are the risks relating to these posts identified, assessed and managed?</p>	<p><i>There are not any significantly high- risk posts identified.</i></p> <p><i>We consider that the governance structures and procedures are strong and there is a requirement for declarations of interest at all council and committee meetings. The monitoring officer has worked with Councillors to ensure they understand the requirements of declaring interests</i></p>

Fraud risk assessment

Question	Management response
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p> <p>- How do you mitigate the risks associated with fraud related to related party relationships and transactions</p>	<p><i>The potential for related party arrangements to give rise to risks of fraud exists in all such relationships and these are mitigated and managed through effective and robust partnership and contractual arrangements and monitoring. We are not aware of any related party in 2016-17 which would give rise to a particular risk of fraud.</i></p> <p><i>Members and officers are required to make full disclosure of any relationships that impact on their roles.</i></p>
<p>What arrangements are in place to report fraud issues to Audit Committee?</p> <p>22</p>	<p><i>Internal Audit provided the Audit and Governance Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken.</i></p>

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations.

Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>24</p>	<p><i>The role of the monitoring officer is defined in the constitution as 'responsible for reporting the actual or potential breach of a legal requirement to the Council meeting or Cabinet'.</i></p> <p><i>The monitoring officer oversees processes which ensure that decisions are informed by appropriate legal advice, and as a member of the management board is able to provide advice and assurance on the legal and regulatory framework.</i></p> <p><i>Management board receives reports in relation to complaints, and in relation to the annual governance review in order to receive assurance regarding compliance and inform continuous improvement.</i></p> <p><i>The section 151 officer is responsible for preparing the accounting statement in accordance with relevant legal and regulatory requirements.</i></p>
<p>How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p><i>The monitoring officer and section 151 officer routinely attend Audit and Governance Committee meetings. The committee regularly reviews the operation of the risk management framework and reviews the annual governance statement and accompanying action plan.</i></p>

Impact of laws and regulations

Question	Management response
<p>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016, or earlier with an on-going impact on the 2016/17 financial statements?</p>	<p><i>No non-compliance or suspected non-compliance has been confirmed in 16/17 that effects either the current year or prior years.</i></p> <p><i>There has been no notification from any regulatory bodies of non-compliance with regulations.</i></p> <p><i>The monitoring officer is responsible for reviewing compliance with laws and regulations.</i></p> <p><i>The 2015/16 accounts cannot be formally concluded until the auditors have:</i></p> <ul style="list-style-type: none"> <i>• completed the work necessary to issue their Whole of Government Accounts (WGA) Component Assurance statement for the council for the year ended 31 March 2016, and</i> <i>• completed their consideration of other matters brought to their attention by the council.</i>
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p><i>There is an ongoing dispute with a previous contractor around amounts due to and from them at the close of the contract. One matter has been found in the council's favour, but is currently subject to an appeal. This matter would not cause any additional impact to the 2016/17 accounts. The impact would be in future years.</i></p>

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Going concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The Code of Practice on Local Authority Accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p><i>The medium term financial strategy considered the government changes in terms of grant settlement and the financial settlement. The strategy is updated to reflect the financial settlement.</i></p>
<p>Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control)</p>	<p><i>No. Some weaknesses in the clarity and accuracy of the way in which financial performance data was being reported were raised, however reviews by both internal and external auditors have confirmed these do not cast doubt on the assumptions made, and actions to secure future improvement in the clarity of financial reporting are in hand.</i></p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?</p>	<p>No</p>
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills</p>	<p><i>Yes, there are no unfilled vacancies in key posts. The council maintains a continual review of the robustness of its arrangements to ensure staff with appropriate skills and experience are in post, particularly in areas where there are national recruitment issues such as social care. Actions including apprenticeships and 'grow your own' training are actively pursued, and where necessary shorter term interim support is secured. Any risks associated with IR35 implementation are understood and being managed.</i></p>

Accounting Estimates

Issue

Local authorities need to apply appropriate estimates in the preparation of their financial statements. Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard, we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate

We need to be aware of all estimates that the Council are using as part of their accounts preparation.

The audit procedures we conduct on the accounting estimate will demonstrate that:

- The estimate is reasonable
- Estimates have been calculated consistently with other accounting estimates within the financial statements.

Accounting Estimates

Estimate	Method/model used to make estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions; -Assessment of degree of uncertainty -consideration of alternative estimate	Has there been a change in accounting estimates in the year?
Property Plant and Equipment Estimate 29	Valuations will be made by an external valuer in line with RICS guidance on the basis of 5 year valuations with interim reviews. Internal Property Services will complete the impairment review at the year end as their local knowledge is needed.	There is a rolling program of valuations and the finance team issues terms of engagement covering specific issues for the year	The external and internal valuers are members of RICS.	Valuations are made in line with RICS guidance-reliance on expert	No
Measurement of financial instruments	Council values financial instruments at fair value based on the advice of their external treasury consultants	Take advice from professionals	Yes	Take advice from treasury management professionals	No
Overhead allocation	The finance team apportion central support costs to all front line services on a per FTE basis	All support service cost centres are allocated on the basis of FTE within the service.	No	Apportionment bases are reviewed each year to ensure they are equitable	No

Accounting Estimates

Estimate	Method/model used to make estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions; -Assessment of degree of uncertainty -consideration of alternative estimate	Has there been a change in accounting estimates in the year?
30 Provisions for liability	<p>Provisions are made where an event has taken place that gives the Council legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.</p> <p>Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the council becomes aware of the obligation, taking into account relevant risks and uncertainties</p>	Charged in the year that the council becomes aware of the obligation	The most significant provision is provided for independently assessed business rate appeals	Estimated settlements are reviewed at the end of each financial year. The insurance provision is periodically reviewed by the council's insurance broker	No
Accruals	Activity is accounted for in the financial year that it takes place, not when money is paid or received	Procedures for identifying accruals are included in the closedown instructions	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used	No

Accounting Estimates

Estimate	Method/model used to make estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions; -Assessment of degree of uncertainty -consideration of alternative estimate	Has there been a change in accounting estimates in the year?
31 PFI	<p>PFI and similar schemes contracts are agreements to receive services, where the responsibility for making available or improving the asset to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, it carries the assets used under the contracts on its balance sheet as part of the property, plant and equipment.</p> <p>The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment</p>	<p>The models for the PFI contracts are used to produce the accounts. Assets are valued in line with other PPE assets.</p>	<p>Use of model for calculating PFI payment elements</p>	<p>Valuations are made in line with RICS guidance-reliance on experts</p>	No
Defined benefit pension amounts and disclosures	<p>Non-teaching staff are members of the Local Government Pensions Scheme, administered by Worcestershire County Council</p>	<p>Rely on the calculations made by the actuary</p>	<p>The actuary of the pensions scheme</p>	<p>Reliance on the expertise of the actuaries of the pension scheme</p>	No

Related Parties

Issue

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the code) requires compliance with IAS24: Related party disclosures. The Code identifies the following as related parties to local government bodies:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e subsidiaries)
- Associates
- Joint ventures in which the Council is a venturer
- An entity that has an interest in the Council that gives it significant influence over the Council
- Key officers, and close members of the family of key officers
- Post-employment benefit plan (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the Council and the related party.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties Consideration

Question	Management response
<p>Who are the Council's related parties?</p>	<p><i>The Council has a number of related parties in which there is a material impact to the financial statements via virtue of- whether the Council might have the potential either to be controlled or influenced by the party or the potential to exert control or influence over the party.</i></p> <p><i>The Council discloses its related parties under the following headings:</i></p> <ol style="list-style-type: none"> 1) <i>Central Government</i> 2) <i>Members and member bodies</i> 3) <i>Officers</i> 4) <i>Other public bodies (Including Worcestershire County Council, Wye Valley Trust, 2Gether and the Clinical Commissioning Group)</i> 5) <i>Significant long-term contracts (Including Balfour Beatty and FOSCA UK)</i> 6) <i>Other organisations (including Hoople, HALO Leisure Trust, Herefordshire Housing Ltd)</i>
<p>What are the controls in place to identify, account for, and disclose, related party transactions and relationships?</p>	<p><i>A number of arrangements are in place for identifying the nature of a related party and reported value including:</i></p> <ul style="list-style-type: none"> - <i>Maintenance of a register of interests for members</i> - <i>Maintenance of a register of interests for employees and requirement for all employees to declare relationships and business interests</i> - <i>Review of in-year income and expenditure transactions with known identified related parties from prior year or known history</i> - <i>The council has updated its contract's register which is available through share point, so that management can better identify long-term contracts which give rise to related parties.</i> <p><i>Review of year end debtors and creditors analysing systems and manual accruals records.</i></p>



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The Audit Plan for Herefordshire Council

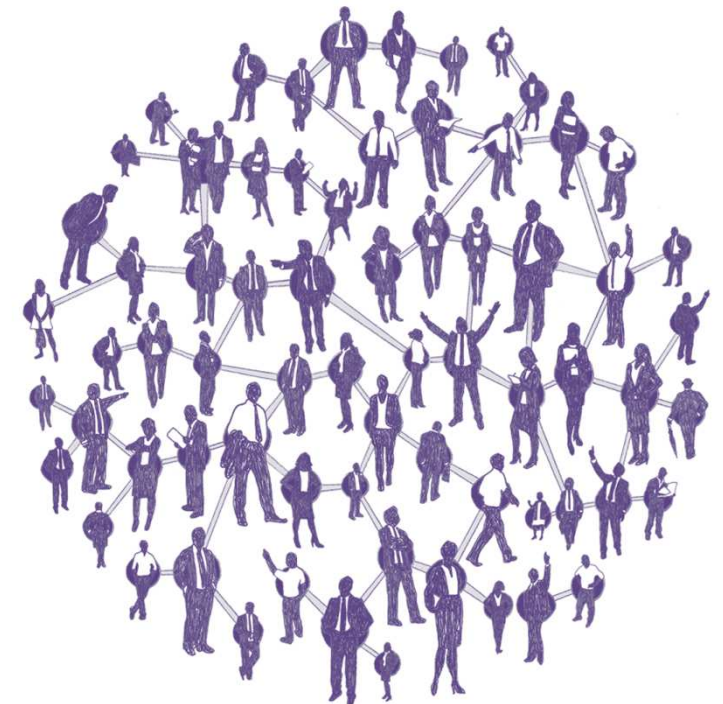
Year ended 31 March 2017

~~March~~ 2017

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Herefordshire Council
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2 March 2017

Dear Members of the Audit and Governance Committee

Audit Plan for Herefordshire Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case Herefordshire Council the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Phil Jones

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Understanding your business and key developments

Developments

Highways network asset (HNA)

On the 14 November, 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations.

CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It currently anticipates that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

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Integration with health sector

Wider transfers of responsibility for public health to local government, and more specifically Better Care Fund (BCF) plans and the associated pooled budgets have been operational since 2015. Herefordshire Council is co-terminus with Herefordshire CCG and Wye Valley Trust.

Herefordshire continues to be a relatively challenged health economy. The Trust and the CCG are increasingly financially challenged. The STP covers Herefordshire and Worcestershire. This incorporates the priorities within the 'One Herefordshire' Plan for Health and Social Care Transformation.

Key challenges

Autumn Statement /LG finance settlement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities. No plans were announced to increase funding for adult social care. The 2017/18 finance settlement refers to £240m of new homes bonus to be redirected into a social care grant and the ability for councils to raise precepts by up to 3% for the funding of social care.

Financial challenges

The Council has an agreed medium term financial plan. The Council faces local pressures due to the rural nature of the county. In common with other councils there are risks associated with the reduction in funding from new homes bonus and from the future retention of business rates. Herefordshire faces financial pressures around adult social care, and in children's services, looked after children.

Key performance indicators (Jan 17)

Measure	Value
Outturn	£250k overspend
Capital budget	£71m against a revised budget of £77m
Savings plans	£10m

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

Earlier shutdown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year. We are working with the Council to achieve completion of the audit by 31 July 2017.

The Council has reviewed the basis of the MRP as part of the budget setting process for 2017/18. This has a direct future revenue impact but associated changes to asset lives could have material impact on depreciation in the 2016/17 accounts. The Council has decided to dispose of the farming small holdings. This could impact on asset values in the 2016/17 accounts.

Our response

- We will discuss with you your progress in implementing the HNA requirements, highlighting any areas of good practice or concern which we have identified.
- We aim to complete all our substantive audit work of your financial statements by 31 July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.
- We will consider the basis of the MTFP as part of our VFM conclusion.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £6,637k (being 1.8% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £332k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Herefordshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Herefordshire Council.</p>
Management over-ride of controls	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of unusual significant transactions

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
The expenditure cycle includes fraudulent transactions	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered.	<p>PN10 does not require us to rebut this in the same way as with revenue recognition but to consider the risk, we have considered this and do not consider this a significant risk, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate expenditure recognition • opportunities to manipulate expenditure recognition are very limited • The culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable <p>Therefore do not consider this to be a significant risk for Herefordshire Council.</p>
Valuation of property, plant and equipment	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work <p>At the request of the CFO, at interim we reviewed the basis of the proposed changes to asset lives, reclassification of investment properties and valuation of PPE (updated for the rolling programme), as these potentially have a material impact on the accounts. This work is currently ongoing.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> • Completion of our testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value – there are currently on-going discussions with management about this matter. • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.

Significant risks identified (continued)

Significant risk	Description	Audit procedures
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	Work planned: <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
<p>Operating expenses</p> <p>43</p>	<p>Year end creditors and accruals are understated or not recorded in the correct period.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have documented the processes and controls in place around the accounting for operating expenses. • We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding and that these controls are operating effectively. • Tested a sample of operating expenses up to month 10 to underlying records. Further work planned: • Testing of the completeness of the subsidiary system (purchase ledger) interfaces with the ledger. • Documentation of the processes in place for month and year end accruals. • Cut off testing of purchase orders and goods received notes. • Testing of a sample of goods received that have not yet been invoiced, to identify any items which have not been accrued correctly. • Completion of substantive testing of a sample of operating expenses.
<p>Employee remuneration</p> <p>9</p>	<p>Employee remuneration accruals are understated</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have documented the processes and controls in place around the accounting for Employee Remuneration. • We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding and that these controls are operating effectively. • Tested a sample of employees to underlying records. we have been unable to fully complete our planned work as the related HR records will not be available until our next visit. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of monthly trend analysis of payments to identify any usual or irregular movements which would then be investigated. • Review of the monthly payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements.

Other risks identified (continued)

Other risks	Description of risk	Audit procedures
<p>Changes to the presentation of local authority financial statements</p> <p>44</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements. We have reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. <p>Further work planned:</p> <ul style="list-style-type: none"> We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

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- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes
- Funds held on trust note

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing and utilising assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

We have not identified any significant risks from our initial risk assessment. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 30 September 2017.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Health & Social Care Integration The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services. Working with partners from different organisations and service areas with potentially conflicting priorities, the project is complex and high profile.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will follow up progress that the Council is making in relation to the 'One Herefordshire' plan.</p>
<p>Financial sustainability The Council has a challenging target of delivering £87m of savings between 2010 and 2020. Significant progress has been made towards delivering this target with an anticipated £69.5m of these savings to be achieved in 2016/17. As at January 2017 the council is forecasting a moderate overspend of £250k. The 2017/18 budget (and update to MTFP) includes some changes in assumptions. The budget monitoring reports in year contain a number of variations on a detailed directorate report level.</p>	<p>This links to the Councils arrangements for sustainable resource deployment, and planning resources effectively to support sustainable delivery of strategic priorities.</p>	<p>We will gain an understanding of the financial settlement impact and the Council's response to it and what arrangement the Council has in place to remain financial sustainable in the medium to long term.</p>

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

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Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

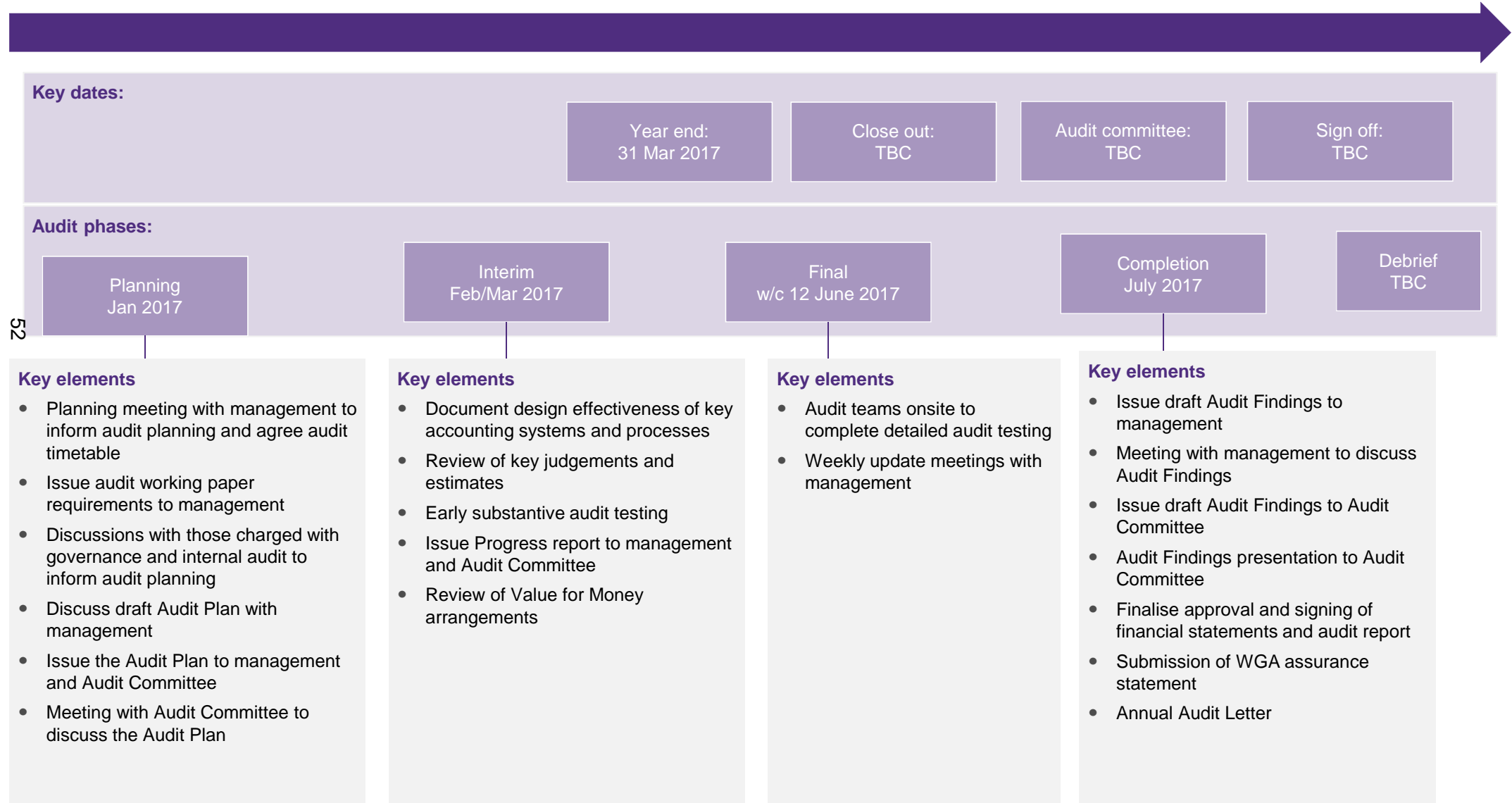
	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach. We will continue to review the reports as they become available.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. Our work is currently on-going at the time of drafting and we will update the committee should any matters of concern arise.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements (These areas are: Operating Expenses, Employee Remuneration, Housing Benefits and Property Plant and Equipment)</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Journal entry controls 51	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>	<p>The control environment for journal postings was found to be sufficiently sound to not adversely impact on our planned approach or raise additional material risks for the financial statements.</p> <p>We have determined our journal testing approach and will undertake detailed testing on journal transactions for the year, by extracting 'unusual' entries for further review during our final audit.</p>
Early substantive testing	<p>We have undertaken early substantive testing for the period to December 2015 at the interim audit in the following areas:</p> <ul style="list-style-type: none"> • Operating expenditure • Employee remuneration • Property, Plant and Equipment <p>We also agreed opening balances and comparators brought forward into the current year's accounts as consistent with the previous year's accounts.</p>	<p>We will test the remaining months of the final year during our work on the financial statements.</p>

The audit cycle

The audit timeline



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Audit Fees

Fees

	£
Council audit	124,405
Grant Certification	5,415
Audit of subsidiary company (Hoople)	12,000
Total audit fees (excluding VAT)	141,820

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact with EL to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified for the Council for 2016/17:

Fees for other services

Service	Fees £	Planned outputs
Audit related		
Teachers pension return	4,200	Certificate in line with departmental requirements
SFA grant certification	3,000	Certificate in line with departmental requirements
Non-audit related		
Hoople tax compliance	2,500	See separate engagement letter

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The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors **[or explain exceptions]**.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓



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Audit Committee Update Herefordshire Council Progress Report and Update Year ended 31 March 2017

March 2017

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Phil Jones

Engagement Lead

T 0121 232 5232

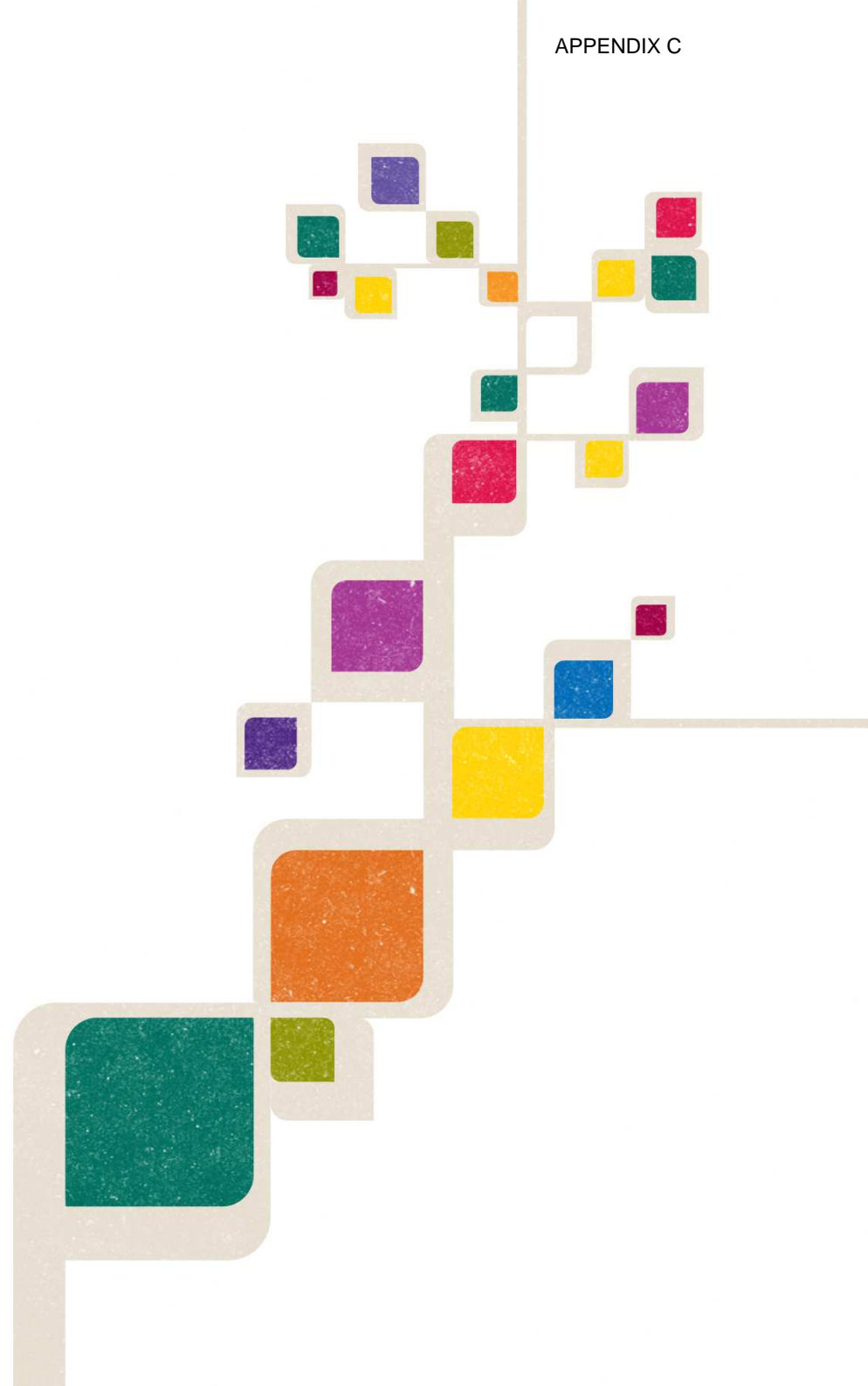
E phil.w.jones@uk.gt.com

Zoe Thomas

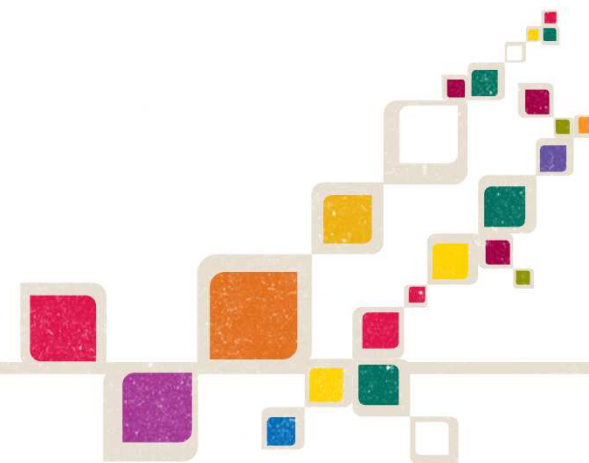
Manager

T 021 232 5277

E zoe.thomas@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



Introduction

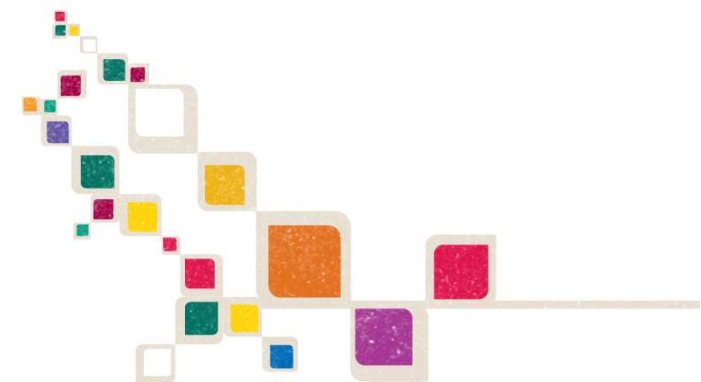
This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

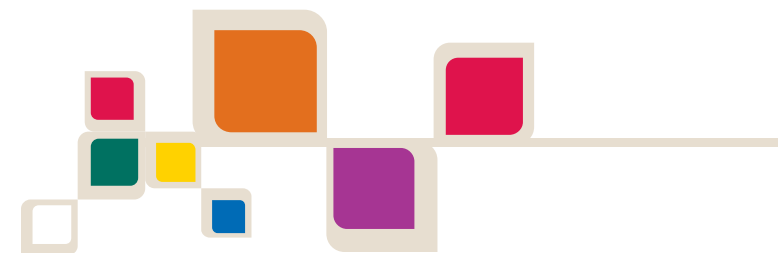
- CFO Insights – reviewing council's 2015/16 spend (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016); <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- New laws to prevent fraud may affect the public sector (November 2016); <http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government – transitioning successfully (December 2016); <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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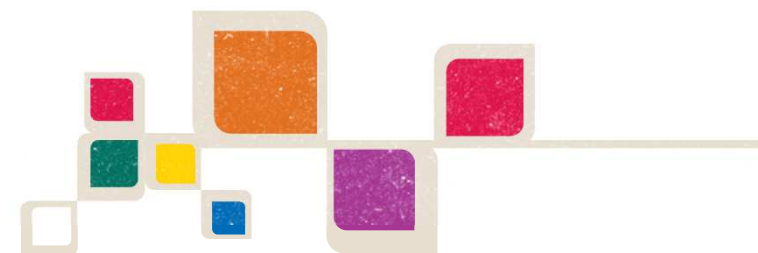
Progress at March 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2016	yes	
<p>Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.</p>	March 2017	yes	Included in the pack to the March Audit and Governance Committee
<p>Interim accounts audit Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	February and March 2017	In progress	At the time of drafting the interim audit is on-going. We will provide a verbal update to the committee if there are any matters of concern arising from completion of our work.

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Progress at March 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Final accounts audit Including:</p> <ul style="list-style-type: none"> audit of the 2016/17 financial statements proposed opinion on the Council's accounts proposed Value for Money conclusion review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	June 2017	No	<p>We have prepared a detailed list of working paper requirements to support the final accounts audit and have discussed this with your finance team. Your team have agreed that these will be available on the first day of the onsite visit.</p> <p>We will agree dates for progress updates with key officers prior to our onsite visit and weekly thereafter until completion of our work.</p>
<p>Value for Money (VfM) conclusion The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> Informed decision making Sustainable resource deployment Working with partners and other third parties 	July 2017	No	<p>We will complete the work in relation to our detailed risk assessment and our findings will be included in our audit report.</p>
<p>Other areas of work Meetings with Members, Officers and others</p>	ongoing	ongoing	

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Technical Matters



Update to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued an update to the Local Authority Accounting Code for 2016/17. The main changes include:

- Confirmation of the postponement of the measurement requirements for the Highways Network Asset and that all references to this in the 2016/17 Code shall not apply.
- Updates regarding the disclosure requirements for notes to the Housing Revenue Account Statements. There are a number of changes to the disclosure requirements as a result of the issue of the Housing Revenue Account (Accounting Practices) Directions 2016.

3 Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Sector issues and developments



Local Government Finance Settlement

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey *2017 State of Local Government Finance* have recently been published. http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

Paul Dossett Head of Local Government in Grant Thornton LLP has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax."

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will

National developments

"Social care precept changes will not help those living in more deprived areas"

"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"

not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

Links:

<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018>

<http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/>

<http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/>

Pooling of LGPS

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

- having a responsible investment strategy
- reporting to employers and members

Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

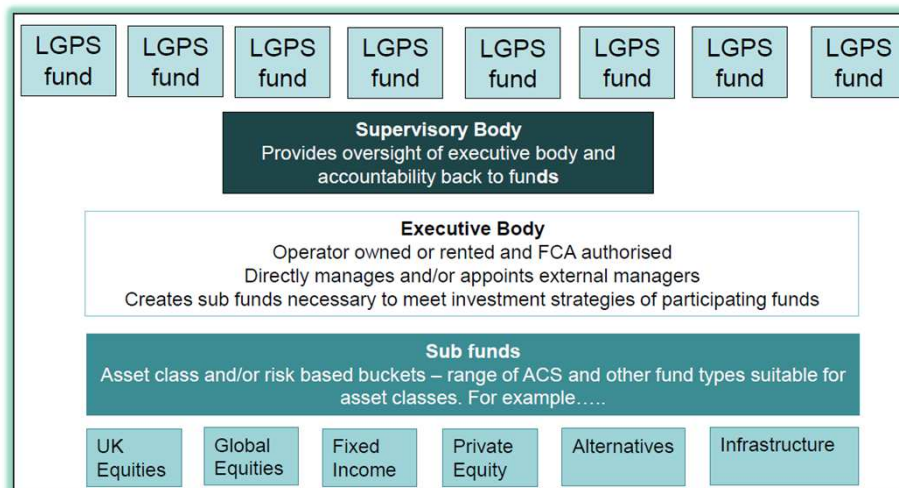
CIPFA in the recent article *Clear pools: the future of the LGPS* highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

National developments

Challenge question:

- Is your CFO keeping you up to date on developing arrangements in your area?

Link:
<http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps/>



typical structure of LGPS Pool

Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

“The housing market in this country is broken, and the cause is very simple: for too long, we haven’t built enough homes.”

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they’re behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

National developments

Challenge questions:

- Have you been briefed on the White Paper and the implications for your statutory housing function?
- Is the Council planning to respond to the consultation?

Consultation on the White Paper will begin on 7 February 2017. The consultation will run for 12 weeks and will close on 2 May 2017.

The White Paper is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf

Integrated Thinking and Reporting

Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders*.

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

CIPFA Publications

Challenge question:

- Have you reviewed the CIPFA guide to Integrated Reporting in the public sector?



Grant Thornton



Apprentice Levy-Are you prepared?

Grant Thornton update

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: $250 \times £20,000 = £5,000,000$

Levy sum: $0.5\% \times = £25,000$

Allowance: $£25,000 - £15,000 = £10,000$ annual levy

How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

Off-payroll working and salary sacrifice in the public sector

Off-payroll working

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of “consistency, certainty and simplicity”.

When the proposals were originally made, the public sector was defined as “those bodies that are subject to the Freedom of Information rules”. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

This will increase costs, move responsibility to the engager and increase risks for the engager

Salary sacrifice

The Chancellor's Autumn Statement 2016 speech also introduced changes to salary sacrifice arrangements. In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

Grant Thornton update

Issues to consider

- Interim and temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications

Brexit

Planning can help organisations reduce the impact of Brexit

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States.

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

Existing EU legislation will remain in force

We expect that the Government will introduce a “Repeal Act” (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

The UK wants a 'bespoke deal'. Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

The Chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

Grant Thornton update

For regular updates on Brexit, please see our website:

<http://www.grantthornton.co.uk/insights/brexit-planning-the-future-shaping-the-debate>

Staffing – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

Financial viability – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

Market volatility – for example pension fund and charitable funds investments and future treasury management considerations.

International collaboration – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.



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Meeting:	Audit and governance committee
Meeting date:	21 March 2017
Title of report:	Internal audit charter
Report by:	Internal audit – South West Audit Partnership

Classification

Open

Wards affected

Countywide

Key decision

This is not an executive decision.

Purpose

To approve the internal audit charter for the period 1 April 2017 to 31 March 2018.

Recommendation

That:

- (a) the internal audit charter be approved.

Alternative options

- 1 There are no alternative options as this charter is a requirement of the arrangements between Herefordshire Council and the South West Audit Partnership (SWAP).

Reasons for recommendations

- 2 To ensure compliance with good practice as set out in the International Professional Practices Framework of the Institute of Internal Auditors and the Public Sector Internal Audit Standards (PSIAS).

Further information on the subject of this report is available from
Jacqui Gooding – assistant director (SWAP) on Tel: 01432 260294 or 07872 500675

Key considerations

- 3 The internal audit charter is set out in appendix A.
- 4 The charter sets out the nature, role, responsibility, status and authority of internal auditing within Herefordshire Council, and to outline the scope of internal audit work.
- 5 The addition of the wording to reflect the Accounts and Audit (England) Regulations 2015 under Role of Internal Audit is the only change from the charter approved by the committee in 2016.

Community impact

- 6 The council's corporate values and plan include commitments to being open transparent and accountable about its performance. The internal audit charter sets out the reporting arrangements to the audit and governance committee demonstrating the council's openness and transparency in providing reports that are published in the public domain.

Equality duty

- 7 The report does not impact on this area.

Financial implications

- 8 There are no financial implications.

Legal implications

- 9 There are no legal implications.

Risk management

- 10 Without an approved charter there is a risk that the SWAP will not have:
 - the support of management and the council
 - direct access and freedom to support to senior management including the chief executive and the audit and governance committee
 - access to any records, personnel or physical property of the council for audit work

Consultees

- 11 The interim director of resources (section 151 officer) was consulted in the drafting of this report.

Appendices

Appendix A – internal audit charter

Background Papers

- None identified.

Delivering Audit Excellence



Internal Audit Charter

Herefordshire Council

South West Audit Partnership Ltd

South West Audit Partnership Ltd

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Version	1.1
Date of last revision	23 February 2017
Last revision author	J M Gooding
Date for next review	March 2018

INTERNAL AUDIT CHARTER

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Herefordshire Council, and to outline the scope of internal audit work.

Approval

This Charter was approved by the Audit and Governance Committee¹ on 23 June 2014 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the Audit and Governance Committee on 21 March 2017.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the Director of Resources in consultation with the Chief Executive of SWAP.

Role of Internal Audit

The Accounts and Audit (England) Regulations 2015, state that: *"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance."*

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the council's operations. It helps the council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management and of Internal Audit

Management²

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the council; and
- direct access and freedom to report to senior management, including the Chief Executive and the Audit and Governance Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

¹ The Standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit Committee in this instance represents the Board.

² In this instance Management refers to the Management Team

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS); SWAP has been independently assessed and found to be in Conformance with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for Herefordshire Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. The Chief Executive of SWAP and the SWAP Director also report to the Director of Resources as Section 151 Officer, and reports to the Audit and Governance Committee as set out below.

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Herefordshire Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether Herefordshire Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;

- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned;
- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy;
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditors independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Audit and Governance Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least four times a year to the Audit and Governance Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit and Governance Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Director of Resources and to other relevant line management.

The Chief Executive of SWAP will submit an annual report to the Audit and Governance Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and the SWAP Director have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit and Governance Committee, the Council's Chief Executive or the External Audit Manager.



Meeting:	Audit and governance committee
Meeting date:	21 March 2017
Title of report:	Internal audit plan 2017-18
Report by:	Internal audit – South West Audit Partnership

Classification

Open

Wards affected

County-wide

Key decision

This is not an executive decision.

Purpose

To seek the committee's approval of the internal audit plan for the period 1 April 2017 to 31 March 2018.

Recommendation

That

- (a) The internal audit plan 2017-18 at appendix B be approved.

Alternative options

- 1 There are no alternative options to approving a plan as this plan is a requirement of the public sector internal audit standards (PSIAS).
- 2 The content of the plan may be amended; however in doing so regard should be had to the overall prioritisation of resources, level of risk and/or evidence of control weakness.

Further information on the subject of this report is available from
Jacqui Gooding – assistant director (SWAP) on Tel: 01432 260294 or 07872 500675

Reasons for recommendations

- 3 The committee is responsible for approving the annual plan and should be satisfied with the level of assurance it can give over the council's corporate governance arrangements.
- 4 To ensure the council complies with recommended best practice as set out in the PSIAS.

Key considerations

- 5 The internal audit plan report is set out in appendix A.
- 6 The internal audit plan 2017-18 is set out in appendix B.
- 7 The plan sets out the work required for internal audit to give an opinion on the adequacy and effectiveness of the council's risk management, governance and internal control arrangements.

Community impact

- 8 An effective internal audit service is a key element of the council's overall assurance framework. By agreeing an annual audit plan it is clear where the internal audit resource will focus its attention through the coming year and how this activity will support assurance and improvement to enable the council to achieve its corporate priorities.

Equality duty

- 9 The report does not impact on this area.

Financial implications

- 10 The 2017/18 internal audit plan will be delivered from an existing revenue budget of £225k, which includes a contribution from local authority schools. The budget includes a contingency for audit issues which arise during the year. Based upon 2016/17 performance the 2017/18 budget is deemed appropriate for expenditure arising.

Legal implications

- 11 In accordance with section 5 of the Accounts and Audit (England) Regulations 2015, the council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance."

Risk management

- 12 There is the risk that the annual internal audit plan does not take into account the key issues and risks facing the council and does not provide adequate coverage of the council's key systems for the head of internal audit to form an opinion on the council's

Further information on the subject of this report is available from
Jacqui Gooding – assistant director (SWAP) on Tel: 01432 260294 or 07872 500675

control environment. The process by which the plan has been compiled mitigates this risk.

- 13 There is also a risk that there may be insufficient resources available to deliver the planned programme of audit work. To mitigate this, the plan has been based on an assessment of the resources available from the South West Audit Partnership (SWAP). Regular meetings will be held between the SWAP assistant director and the director of resources which allows regular monitoring of resource availability.

Consultees

- 14 The views of the chief executive, directors, interim director of resources and other key officers have informed development of the proposed internal audit plan.

Appendices

Appendix A – Internal audit plan report 2017-18

Appendix B – Internal audit plan 2017-18

Background papers

- None identified.



Herefordshire Council

Internal Audit Plan 2017/18

Contents

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Role of Internal Audit Background Page 1

The Annual Plan Page 2

The Annual Plan – Continued Page 3

Our audit activity is split between:

- **Key Control Audit**
- **Fraud/Governance Audit**
- **IT Audit**
- **Operational Audit**
- **Follow Up Audit**
- **Urgent Work/Special Projects**

Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors and is also guided by interpretation provided by the Public Sector Internal Audit Standards. The work of the Partnership is also guided by the 'Internal Audit Charter' which was last reviewed and approved by the Audit Committee on 23 March 2016 and is presented to the Audit Committee today for approval for 2017-18.

Internal Audit provides an independent and objective opinion on the Authority's governance, risk and control environment by evaluating its effectiveness. In order to achieve this, the audit activity is split across the review categories listed to the left.

Background

It is recommended by the Public Sector Internal Audit Standards that organisations nominate a 'Board' to oversee (monitor and scrutinise) the work of Internal Audit. As such, in addition to senior management oversight, this Council has determined that, the Audit and Governance Committee will undertake this function. The plan is presented in Appendix B to this report and represents the internal audit activity planned for the 2017/18 financial year.

It should be noted that plan days are only indicative for planning our resources. Where efficiencies can be identified these will be implemented. At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review. Any changes to individual plan items, in terms of days, are managed within the annual payment made by the Council. The plan is produced with a view to providing assurance to both Officers and Members that current and imminent risks faced by the Authority are adequately controlled and managed. As with previous years the plan will have to remain flexible as new and emerging risks are identified. Any changes to the agreed plan will only be made through a formal process involving the Director of Resources (Section 151 Officer).

The Annual Plan

The Annual Plan

To ensure that to the best of our ability we have covered the necessary risks, the annual internal audit plan has been developed with the co-operation and approval of the Director of Resources following meetings between Internal Audit and members of the Senior Management Team. The plan is currently showing a contingency of 141 days – this is due to a number of audits that have been discussed with Senior Management for inclusion in the plan but require further clarification and to allow some capacity for work that may be identified by the new Director of Resources.

The audit plan is notionally broken down across various audit categories; the following summarises each:

Key Control Audit – focus primarily on key risks relating to the Council’s major financial and IT systems. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance. To this end we have liaised with the Council’s External Auditors and included any requirements they have in providing them with necessary assurance, in line with the Auditing Standards, against which they are required to audit.

Fraud/Governance Audit – SWAP operate a specialised Fraud Team who will undertake proactive fraud reviews and also provide a reactive service to Partners should the need arise. Governance reviews focus primarily on the key risks relating to cross cutting areas that are controlled and/or impact at a corporate rather than service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will, in some cases, enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting most of these reviews at all our Partner Sites.

06

The Annual Plan - Continued

The Annual Plan - Continued

ICT Audits – are completed to provide the Authority with assurance with regards to their compliance with industry best practice. Some of these audits have come from previous year assessments and our awareness of current IT risks. As referred to above ICT system Key Control work is also undertaken in accordance with the External Auditors requirements.

Operational Audits - are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

Grant Certification - certification by an appropriately qualified and independent auditor to provide assurance that the Statement of Grant Expenditure and/or Grant Claim, in all material respects, fairly presents the eligible expenditure for the period in accordance with the definitions and conditions of the grant offer letter.

Urgent Work/Special Projects – SWAP also undertake urgent work, special investigations and projects on a responsive basis at the request of the Director of Resources (Section 151 Officer). Projects can be in an Advisory capacity without an assurance opinion or a grant certification.

The schedule provided at Appendix B details the Annual Internal Audit Plan for 2017/18.

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Herefordshire Council Annual Audit Plan 2017-18	
Audit Type and Area	Number of days
Key Financial Control Audits	
Main Accounting - follow up	5
Account Payable – follow up	5
Accounts Receivable – follow up	5
Council Tax	5
NNDR	20
Housing and Council Tax Benefits	5
Payroll	20
Capital Accounting	5
TOTAL	70
Operational Audits	
Economy, Communities & Corporate	
Maintenance of property including School Property Maintenance -	20
Mandatory Training	15
Land in public ownership	15
ICT client management	20
Data Quality	20
Communications Strategy	15
Fastershire BDUK	8
TOTAL	113
Children, young people and families	
Schools - prevention of fraud	
Children, young people and families - audit areas TBC	25
Supporting Children - Short breaks	50
TOTAL	90
Adults and Wellbeing	
Annual Care Assessment Process	15
Residential and Nursing Care	20
Carers (Support for) including WISH (Wellbeing and Signposting for Herefordshire)	10
Disabled Facilitates Grants	20
Public Health Contracts	20
Safeguarding	15
Help 2 Live @ Home (H2L@H)	15
Emergency Planning - Public Health	20

Herefordshire Council Annual Audit Plan 2017-18	
Audit Type and Area	Number of days
Operational Audits contd.	
Adults and Wellbeing	
Integrated Short Term Support and Care Pathway - Advisory Board attendance and review of each pathway	30
Integration – Clinical Commissioning Group (Adults and Children's)	25
On-line choice based letting scheme - Homepoint (Home Hunt)	20
Areas - Business Support Function	20
TOTAL	235
Governance, Fraud	
Serious and Organised Crime Audit checklist	8
Data Sharing Protocols with partners and third parties	10
EU General Data Protection Regulation readiness	10
Electronic Signatures	15
TOTAL	43
Grant Certification	
Local Transport Block Funding	10
Troubled Families	15
TOTAL	25
ICT Audits	
PSN Submission	10
Firewall Security management	10
Domain Administration	10
Network Management - Project assurance - (Q1 to Q4)	15
TOTAL	45
Follow Up Audits (Partial Assurance)	
Protection from Malicious Code	5
Hardware & Software Asset Management	5
Brokerage	5
Client Finances	5
Car parking Income and Enforcement	5
Recruitment Contracts	5
Catering Contract	5
Property Services - Accounts Payable	5
SVFS- Schools	8
TOTAL	48

Herefordshire Council Annual Audit Plan 2017-18	
Audit Type and Area	Number of days
Contingency	
Contingency for additional audit work, emerging risk, projects, special reviews, investigations, advisory.	141
TOTAL	141
Management	
Corporate/ General Advice	15
Committee Reporting and attendance	25
Planning /Client Liaison	45
External Audit liaison	5
TOTAL	90
PLAN TOTAL	900



Meeting:	Audit and governance committee
Meeting date:	21 March 2017
Title of report:	Progress report on 2016/17 internal audit plan
Report by:	Interim director of resources/internal audit

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

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(s)

THAT:

- (a) performance against the approved plan be reviewed and any areas for improvement identified; and
- (b) the robustness of the management response to recommendations be reviewed and any recommendations for strengthening the response to further mitigate risk be identified.

Alternative options

- 1 There are no alternative recommendations; it is a requirement of the council's adopted audit and governance code that the committee considers these matters in fulfilling its assurance role.

Reasons for recommendations

- 2 To enable the committee to monitor performance of the internal audit team against the approved plan.
- 3 To assure the committee that action is being taken on risk related issues identified by internal audit. This is monitored by acceptance by management of audit recommendations and progress updates in implementing the agreed action plans. In addition, audit recommendations not accepted by management are reviewed and progress to an appropriate recommendation to cabinet if it is considered that the course of action proposed by management presents a risk in terms of the effectiveness of or compliance with the council's control environment.

Key considerations

- 4 The internal audit progress report is attached at appendix A. In the period covered by the report, one priority 4 recommendation was made.
- 5 The annual plan summary is provided at appendix C, and a glossary of terms provided at appendix B.

Community impact

- 6 The council's corporate values and plan include commitments to being open transparent and accountable about its performance. By ensuring robust management responses to identified risks, the council will be better able to meet its corporate plan priority to secure better services, quality of life and value for money.

Equality duty

- 7 The report does not impact on this area.

Financial implications

- 8 None arising from the recommendations; any additional recommendations made by the committee will be considered by the relevant manager or cabinet member and the financial implications of accepting those recommendations will be considered then.

Legal implications

- 9 None.

Risk management

- 10 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. This is mitigated by the regular active management and monitoring of progress against the agreed internal audit plan.

Further information on the subject of this report is available from
Jacqui Gooding, assistant director (SWAP) on Tel: 01432 260294 or 07872 500675

- 11 Risks identified by internal audit are mitigated by actions proposed by management in response.

Consultees

- 12 None.

Appendices

Appendix A – SWAP plan progress report 2016-17

Appendix B – Summary of control assurance definitions, categorisation of recommendations and risk levels

Appendix C – Audit Plan Status 2016-17

Background papers

- None identified.



Herefordshire Council

Report of Internal Audit Activity

Plan Progress 2016-17 March 2017

Contents

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Appendices

Appendix B - Audit Definitions

Appendix C - Audit Plan Progress 2016-17

Our audit activity is split between:

- Operational Audit
- Key Control Audit
- Governance, Fraud & Corruption Audit
- IT Audit
- Special Reviews

See Appendix A for individual audits

Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 23 March 2016.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- School Themes
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Reviews

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Director of Resources (Section 151 Officer) following consultation with the Senior Management Team. This year's (2016/17) Plan was presented to this Committee on 23 March 2016.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Update 2016-17

Completed Audit Assignment in the Period

Audit Plan Progress

The summary of the Annual Plan for 2016/17 (Appendix C) highlights progress to date. Based on the findings of each review, an overall control assurance is offered. For a summary of Control Assurance Definitions, Categorisation of Recommendations and Risk Levels, please refer to [Appendix 'B'](#).

It is important that Members are aware of the status of audits as this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

As can be seen from [Appendix 'C'](#), the following audits have been progressed to date:

Operational:

- Completed, 12 reviews (1 substantial, 6 reasonable, 4 partial, 1 advisory)
- Draft Report - 1 reviews
- In Progress, 12 reviews
- Removed - 7 reviews

Governance, Fraud and Corruption:

- Completed - 1 review

Follow Up Reviews:

- Completed - 8 reviews
- In progress - 3 reviews
- Not started - 1 review

Update 2016-17

Completed Audit Assignment in the Period

Audit Plan Progress

Special reviews:

- Completed - 2 reviews

School Themes –: SFVS – Schools Financial Value Standard

- Completed, 6 schools (3 partial, 3 reasonable)

Key Control:

- Completed – 2 reviews (1 partial, 1 reasonable)
- Draft Report – 2 reviews
- Discussion Document – 2 reviews
- In Progress – 2 reviews

Grants:

- Complete - 3 claims
- Not started - 1 claim
- Removed - 1 claim

Completed Audit Assignments in the Period

Audit Plan Progress

Audits completed to final report since my last update are:

Operational

- Recruitment Contracts - Partial
- Public Health Contracts – Reasonable
- Property Services - Accounts Payable – Advisory
- Food Safety – Reasonable
- Protection from Malicious Code – Reasonable
- Performance Management Framework – Reasonable
- S106 Agreements – Reasonable

Key Control

- Housing & Council Tax Benefits – Partial
- Capital Accounting - Reasonable

Follow Up

- Use of Agency
- Changes to Role & Exit - ICT Access Controls
- Licensing
- Mobile Phone Usage
- Direct Payments
- NNDR

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Report on Significant Findings

Where a review has a status of 'Completed' and has been assessed as 'Partial' or 'No Assurance' or with a 'High' corporate risk, I will provide further detail to inform Members of the key findings (Priority 4 and 5) identified. For the audits completed since my last report two audits – Recruitment Contracts and Housing and Council Tax Benefits have been assessed as Partial assurance (some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives). In addition, there was one priority 4 finding in the Public Health Contracts audit which was assessed as Reasonable.

None were assessed to have a 'High' corporate risk.

The full detail of each significant finding and the agreed management action and implementation is detailed on pages 13-16.

Recruitment Contracts – Partial

The Council is a large employer and recruits staff to provide management and operation of its services. Contracts are provided to employees which outline employee benefits and terms and conditions of their employment. As part of the recruitment process, where positions in specific service areas require specialist expertise, the Council offers a number of inducements which include Market Forces Supplement, Relocation Expenses and Welcome Payments.

The objective of the audit was to ensure that the use of formally approved, standard employee contracts are routinely issued to officers that are recruited, and only by exception when a business case is made, authorised variations to those standard contracts and/ or recruitment inducements are made and to ensure that employees do not receive more benefits than they are contractually entitled.

There were no priority 4 findings but ten priority 3 findings resulting in the partial assurance opinion. Weaknesses were found in:

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These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

- Authorisation of employment contracts – apart from school’s employment contracts, which were signed by the Director for Children’s Services; some contracts were signed by the HR Officer rather than the appropriate council officer.
- There were instances where Market Forces Supplement payments were processed without the authorisation of a completed form, outlining the business case for this award.
- Relocation expenses payments are processed through the Council’s Creditors payments, instead of the HR payroll system, which means that all taxable benefits for expenses paid are not maintained in one reporting system.
- We found two cases where returnable accommodation rental deposits were paid to employees, which should had been recovered when those members of staff left the Council, or changed address.
- There is no Council policy for making Welcome Payments, or a policy which provides guidance on the varying types of inducements that could be offered to prospective recruits.
- Welcome payments were made as a lump sum in advance, rather than a staged payment, which means that if the employee leaves the Council shortly after joining, deduction of monies due often is greater than the employee’s final pay, leading to a potential for non-recovery.
- In a sample review, we found that monies were not recovered from employees that had either left or been dismissed from the Council, who had received Welcome Payments, and Relocation expense payments.
- There is no process in place within payroll or HR to monitor and control the appropriate recovery of any Welcome Payment and/ or Relocation expenses from leavers.

Whilst the payments not recovered were not significant the Council should ensure that adequate controls and monitoring is in place to ensure appropriate recovery action.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

Housing and Council Tax Benefit - Partial

A partial assurance was provided due to the number of outstanding recommendations from the Housing and Council Tax Benefits 2014-15 audit report issued 05 August 2015 where nine recommendations were made. The progress of these recommendations was reported in the Housing and Council Tax Follow Up audit report issued 21 December 2015, where three recommendations were deemed complete, three were in progress and three were not yet due.

This year's audit identified a total of four priority 3 recommendations remain outstanding from last year's Housing and Council Tax Follow Up Report. Therefore, limited progress has been made in implementing the recommendations made in the 2014-15 audit.

The outstanding recommendations from 2014-15 are:

Recommendation	Implementation Date	Revised Implementation Date
I recommend that the Revenues and Benefits Service Manager organises a review and update of those procedures held by Housing Benefits staff (Benefits Operational Manager, Quality Officer, and the Senior Team Leader - Finance). The dates of review / planned future review, version number, screenshots from the Academy system should all be included within the documents.	31 March 2016	31 December 2017
I recommend that the Quality Officers Officer create procedures to cover the review and correction of imbalances between the HB and Council Tax modules on Academy. These should be completed prior to the handover of the task, to provide guidance on methods of identifying the differences between the two modules, thus leading to a more efficient process within the new team structure.	31 March 2016	31 March 2017
I recommend that the Revenues and Benefits Service Manager ensures that guidance documents for Housing and other related benefits, published on the Herefordshire Council website, show the date that they were written or updated.	31 March 2016	31 January 2017
I recommend that the Housing Benefits Team Leader liaises with the Assistant Accountant in respect of the current list of unrepresented Housing Benefits cheques and, where it is economical to do so, cancel at the bank all those that were generated prior to the current financial year. These cheques should also be cancelled on Academy. I also recommend that the Housing Benefits Team Leader creates a procedure, to review and deal with unrepresented cheques not cashed within a specific timescale.	31 March 2016	30 June 2017

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

Public Health Contracts – Reasonable

The Health and Social Care Act 2012 transferred responsibility for public health improvement to the Council in April 2013; this service can be delivered through the activities of the dedicated Public Health team, or through activities of other Council departments. Funding is provided largely via the public health grant.

The scope of the audit was to review a selection of contracts administered by the Public Health Team in conjunction with the Commissioning Team: Adults Wellbeing Directorate. The focus was on the smaller contracts as there is a monitoring structure in place around the larger higher profile contracts but this is not the case for smaller contracts.

There are issues that need to be addressed around the monitoring of the contracts reviewed, as there is minimal contact with the providers on an ongoing basis and no supporting information is requested from them or drawn from the Pharmoutcomes website. While it is acknowledged that there is a reduction in staffing resources available following the Commissioning (AWB) restructure, with the focus on higher value / higher profile contracts, smart levels of monitoring should be adopted by requesting information from the service providers, which at the same time should aim to focus provider attention on the services as a means to encouraging improvements in service provision. Relevant management information from the service provider is the foundation to achieving a positive outcome to service delivery.

There was one priority 4 finding:

Services to be provided are documented in the contract specifications for both Stop Smoking and Pharmacotherapy contracts however there is no evidence that this is complied with by the contractors. The contractors have not been requested to provide any evidence of services provided; there are no KPIs for Pharmacotherapy contracts, and although there are some targets in the quarterly report template for Behavioural Support contracts, these reports are not requested and no individual KPIs have been set for each provider.

By setting some minimum targets for these contracts or similar in future, it may serve to focus attention on the contract and thus improve results against overall targets.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

Follow Up audits

The purpose of the follow up audit is to provide assurance to the Director, Senior Managers and the Audit and Governance Committee, that the agreed actions to mitigate risk exposure have been implemented.

Six follow up audits have been completed; the table below is a record of progress against recommendations.

Audit	Categorisation of Recommendations	Complete	In Progress	Not Complete	Not Yet Due
NNDR	Priority 3	5	1	0	0
Use of Agency	Priority 4	5	1	0	0
	Priority 3	7	0	0	0
Mobile Phone Usage and Strategy	Priority 4	8	2	0	0
	Priority 3	1	1	0	0
Licensing	Priority 4	2	1	0	0
	Priority 3	9	1	0	0
Direct Payments	Priority 4	0	1	1	0
	Priority 3	3	3	2	0
Changes to Role and Exit – ICT Access	Priority 4	3	0	0	0
	Priority 3	4	1	0	0

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Added Value

Primarily, Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

SWAP has completed the following comparison reviews:

- Audit Committee Workplans
- Equality Impact Assessment process comparison
- Fees and Charges
- Cyber Security Awareness – Best practice
- Partnering and Voluntary Organisation benchmarking

Special Reviews

Unplanned work, special reviews or projects carried out on a responsive basis are requested through the Director of Resources (Section 151 Officer).

No further work has been requested since my last update.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Future Planned Work

As new and emerging risks are identified, any changes to the plan will be subject to the agreement of the Director of Resources (Section 151 Officer) with removal or deferral of audits to be formally agreed by the Audit Committee.

In agreement with the Business Partner three additional audits have been added to the plan - Continuing Healthcare Funding, Troubled Families, and Integrated Short Term Support and Care Pathway. Additional days have also been agreed for further work on Concessionary Fares.

Four audits - Hospital Discharges, Nottingham rehab contract review, Contracts and Contract Management and Complex Care LD have been removed at the request of the Director of AWB. Most of these areas will be picked up in the work planned for Integrated Short Term Support and Care Pathway with the remaining days used for Continuing Healthcare Funding, Troubled Families and Concessionary Fares.

I propose that the Committee agrees the removal of Hospital Discharges, Nottingham rehab contract review, Contracts and Contract Management and Complex Care LD Business Partner from the 2016-17 audit plan.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Conclusion

Since my last update fifteen audits have been completed which includes six follow up audits. Where low to medium control or administrative weaknesses are identified normal expectation is for reviewed areas to be assessed into the 'Reasonable' category of assurance. However, where the assessed area falls below 'Reasonable', management is expected to address the risks identified as a matter of priority and monitor their progress against the agreed action plan. Of the fifteen audits completed two have been assessed as Partial assurance and the significant findings have been reported in the table below. Six have been assessed as reasonable assurance and one is an Advisory review. The remaining five are follow up audits and of the 62 recommendations 47 have been assessed as complete. Where a recommendation is either in progress or not complete a revised implementation date has been provided by the responsible officer.

Members can take assurance that all recommendations have been agreed by management with agreed target dates for completion. Internal Audit will also complete a follow up review on all Partial assurance audits in 2017-18.

At the end of each audit review, a Customer Satisfaction Questionnaire is sent out to the service manager or nominated officer. The aim of the questionnaire is to gauge satisfaction against timeliness; quality; and professionalism. As part of the Balanced Scorecard presented to the SWAP Management Board, a target of 80% is set where 75% would represent a score of good. The current accumulative feedback for Herefordshire Council is 84%.

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
Public Health Contracts					
Priority 4 - Levels of service cannot be predicted by the Council, making it difficult to earmark funds effectively within the budget setting process. Service provision may not aid the Council in meet the required Department of Health targets. Funding could be used to better effect elsewhere if service provision for a particular project is poor.	Minimum targets were not specified in either the Stop Smoking Behavioural Support or Pharmacotherapy contracts, therefore putting the council in a weak position to provide meaningful challenge on a poor outcome. Coupled with minimal contract management service levels may be unacceptable but not identified.	The Director of Public Health has agreed to endeavour to negotiate a minimum target for the contracts that are to remain in place for Stop Smoking Behavioural Support and Pharmacotherapy contracts. KPIs should be written into all contracts in future, along with minimum levels of service provision, and failure to meet these standards constituting the right for the Council to terminate the contract.	Minimum targets will be established with each Qualified Provider. These will include KPIs appropriate to the specific provider and linked to the population groups that they have be requested to target. These measures will be in place for 31st March 2017.	31 March 2017	Director of Public Health

Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★★★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Herefordshire Council 2016-17 Audit Plan Progress

Appendix C											
Directorate/Service	Audit Type	Audit Name	Quarter	Status	Opinion	No. of recommendations					
						Total	1	2	3	4	5
*Finance	Grant Certification	Heat Network Delivery Units	April 2016	Removed	–	–	–	–	–	–	–
*Finance	Special Review	Link Road Scheme (LEP & HC) (additional work days from Contingency)	April 2016	Completed	Non-Opinion	1	0	0	1	0	0
*Finance	Grant Certification	Redundant Building Grant Scheme - Round 4	April 2016	Completed	Grant Certification	–	–	–	–	–	–
*Adult care services	Operational	Brokerage	April 2016	Completed	Partial	7	0	0	3	4	0
*Adult care services	Operational	Client Finances	April 2016	Completed	Partial	10	0	0	10	0	0
*Finance	Operational	Car Parking Income/Enforcement	April 2016	Completed	Partial	19	0	0	16	2	0
*Finance	Operational	Cash Handling & Collection	April 2016	Completed	Reasonable	9	0	0	8	1	0
*Human resources	Operational	Recruitment - Contracts	April 2016	Completed	Partial	10	0	0	10	0	0
*Information and communication technology	Operational	FWI EDRMS/Mosaic Upgrade - Implementation & Assurance -	April 2016	In Progress							
*Education and skills	School	SFVS (School Financial Value Standard) Governance - Bridstow Primary School	April 2016	Completed	Partial	9	0	0	8	1	0
*Education and skills	School	SFVS (School Financial Value Standard) Governance - Pembridge CE Primary School	April 2016	Completed	Reasonable	5	0	0	4	1	0
*Education and skills	School	SFVS (School Financial Value Standard) Governance - Weobley Primary School	April 2016	Completed	Reasonable	9	0	0	9	0	0
*Education and skills	School	SFVS (School Financial Value Standard) Governance - Ameley Primary School	April 2016	Completed	Reasonable	0	0	0	7	0	0
*Education and skills	School	SFVS (School Financial Value Standard) Governance - Peterchurch Primary School	April 2016	Completed	Partial	8	0	0	7	1	0
*Education and skills	School	SFVS (School Financial Value Standard) Governance - St Marys RC High School	April 2016	Completed	Partial	14	0	0	12	2	0
*Finance	Special Review	Special Review	April 2016	Completed	Non-Opinion	–	–	–	–	–	–
*Information management	Follow Up	Modern Records follow up	July 2016	Completed	Follow Up	–	–	–	–	–	–
*Finance	Grant Certification	Local Transport Block Funding	July 2016	Completed	Grant Certification	–	–	–	–	–	–
*Adult care services	Operational	Residential & Nursing Care	July 2016	Removed	–	–	–	–	–	–	–
*Adult care services	Operational	Deferred Payments	July 2016	In progress							
*Adult care services	Operational	Pre Paid Cards (Direct Payments)	July 2016	In Progress							
*Adult care services	Operational	Public Health Contracts	July 2016	Completed	Reasonable	7	0	0	6	1	0
*Children and families services	Operational	Children Missing Education (Safeguarding)	July 2016	In Progress							

Herefordshire Council 2016-17 Audit Plan Progress

Appendix C											
Directorate/Service	Audit Type	Audit Name	Quarter	Status	Opinion	No. of recommendations					
						Total	1	2	3	4	5
*Consumer affairs	Operational	Food Safety	July 2016	Completed	Reasonable	7	0	0	7	0	0
*Finance	Operational	Property Services - Accounts Payable (additional work days from Contingency)	July 2016	Completed	Advisory	4	0	0	4	0	0
*Human resources	Follow Up	Use of Agency	July 2016	Completed	Follow Up	-	-	-	-	-	-
*Information and communication technology	Operational	Protection from Malicious Code	July 2016	Completed	Reasonable	4	0	0	4	0	0
*Management	Operational	Performance Management Framework - Performance Indicators Corporate	July 2016	Completed	Reasonable	6	0	0	6	0	0
*Planning and building control	Operational	S106 Agreements	July 2016	Completed	Reasonable	7	0	0	7	0	0
*Transport and infrastructure	Operational	Concessionary Fares	July 2016	In Progress							
Procurement	Operational	Catering Contract (additional work days from Contingency)	October 2016	Draft Report							
*Consumer affairs	Follow Up	Licensing	October 2016	Completed	Follow Up	-	-	-	-	-	-
*Finance	Follow Up	Treasury Management	October 2016	Completed	Follow up	-	-	-	-	-	-
*Information and communication technology	Follow Up	Changes to Role & Exit - ICT Access Controls	October 2016	Completed	Follow Up	-	-	-	-	-	-
*Transport and infrastructure	Follow Up	Home to School Transport	October 2016	In Progress							
*Finance	Governance, Fraud & Corruption	NFI	October 2016	Completed	Advisory	-	-	-	-	-	-
*Finance	Grant Certification	Troubled Families	October 2016	Completed	Substantial	3	0	0	3	0	0
*Finance	Key Control	Accounts Payable	October 2016	Draft Report							
*Finance	Key Control	Accounts Receivable	October 2016	In Progress							
*Finance	Key Control	Capital Accounting	October 2016	Completed	Reasonable	1	0	0	1	0	0
*Finance	Key Control	Main Accounting	October 2016	Draft Report							
*Finance	Key Control	Council Tax	October 2016	Discussion Document							
*Finance	Key Control	Housing & Council Tax Benefits	October 2016	Completed	Partial	7	0	0	7	0	0
*Finance	Follow Up	NNDR - follow up	October 2016	Completed	Follow Up	-	-	-	-	-	-
*Finance	Key Control	Payroll	October 2016	Discussion Document							
*Finance	Key Control	Pensions - Auto enrolment	October 2016	In Progress							
*Information and communication technology	Operational	Public Services Network Submission Assurance	October 2016	Completed	Substantial	1	0	0	1	0	0
*Adult care services	Follow Up	Financial Assessments	January 2017	In Progress							

Herefordshire Council 2016-17 Audit Plan Progress

Appendix C											
Directorate/Service	Audit Type	Audit Name	Quarter	Status	Opinion	No. of recommendations					
						Total	1	2	3	4	5
*Adult care services	Operational	Better Care Fund	January 2017	In Progress							
*Adult care services	Operational	Contracts & Contract Management	January 2017	Removed	-	-	-	-	-	-	-
*Adult care services	Operational	Hospital Discharges	January 2017	Removed	-	-	-	-	-	-	-
*Adult care services	Operational	Telecare - Living Aids & Equipment	January 2017	Removed	-	-	-	-	-	-	-
*Adult care services	Operational	Transitions	January 2017	Removed	-	-	-	-	-	-	-
*Adult care services	Operational	Complex Care (LD)	January 2017	Removed	-	-	-	-	-	-	-
*Children and families services	Operational	Looked After Children	January 2017	In progress							
*Children and families services	Operational	Early Years Funding	January 2017	In Progress							
*Children and families services	Operational	Direct Payment/Personal Budgets (Children's) - HC	January 2017	In Progress							
*Information and communication technology	Operational	Business Continuity/Disaster Recovery Processes - Data Centre	January 2017	In Progress							
*Procurement	Operational	Nottingham Rehab Contract Review	January 2017	Removed	-	-	-	-	-	-	-
Information and Communication technology	Follow Up	PCI Data Security Standard Compliance	January 2017	Completed							
Information and Communication technology	Follow up	Mobile Phone Usage and Strategy	January 2017	Not Started	Follow Up	-	-	-	-	-	-
*Adult care services	Follow up	Direct Payments (Adults)	January 2017	Completed	Follow Up	-	-	-	-	-	-
*Adult care services	Follow Up	Midland Heart	January 2017	In Progress							
*Adult care services	Operational	Continuing Healthcare Funding	Feb-17	In Progress							
*Adult care services	Operational	Integrated Short Term Support and Care Pathway	Feb-17	In Progress							
*Finance	Grant Certification	Troubled Families	Mar-17	Not Started							



Meeting:	Audit and governance committee
Meeting date:	21 March 2017
Title of report:	Working groups update
Report by:	Solicitor to the council

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To advise the committee on the progress of the standards working group and governance improvement working group.

Recommendation(s)

THAT:

- (a) the committee comment on the progress to date of the working groups**

Alternative options

- 1 There are no alternative options, the code forms part of the constitution and requires review.

Reasons for recommendations

- 2 A new council constitution will come into effect in May 2017. Reviewing the code of conduct and associated documents will bring them into line with the new constitution.

Further information on the subject of this report is available from
 Claire Ward, solicitor to the council on Tel (01432) 260657

Key considerations

Governance Improvement Working Group

- 3 The governance improvement working group met on 30 January 2017 to discuss the implementation and training plan for the implementation of the new constitution.
- 4 The working group will be meeting at the beginning of April to discuss and agree the plan drafted by the head of corporate governance and the monitoring officer.
- 5 It is suggested that the working group be asked to consider any revisions to the contract procedure rules; finance procedures and the anti-fraud rules prior to them being presented to audit and governance committee in May for approval to ensure consistency with the new constitution.

Standards Working Group

- 6 The standards working group met on 6 January 2017 and undertook a SWOT analysis of the current arrangements and the amendments needed to the members' code of conduct. A further meeting was held on 24 February where a revised code was discussed and agreed.
- 7 The revised code of conduct was discussed with the group leaders on 8 March 2017 so that they were aware of the proposed changes prior to the consultation with Herefordshire Council councillors and parish councils.
- 8 There will be a 4 week consultation with Herefordshire Council councillors and a six week consultation with parish councils.
- 9 The working group will be meeting after the consultation ends in order to discuss comments which have been received and whether any changes to the revised code will be needed prior to audit and governance committee recommending approval on 10 May for council on 19 May.

Community impact

- 10 The constitution sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The format and content of the revised constitution should help make these arrangements clearer to understand, and show how the public can effectively engage with them.

Equality duty

- 11 Legislation requires that the council must, in the exercise of its functions, have due regard to the need to:
 - eliminate discrimination, harassment, victimisation and any other conduct prohibited by law;
 - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
 - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.."

Further information on the subject of this report is available from
Claire Ward, solicitor to the council on Tel (01432) 260657

Financial implications

- 12 None arising from the recommendations. The council already makes provision within its existing budgets to enable publication of the constitution on its website and to ensure that members and officers have the training necessary to ensure awareness and understanding of the requirements within the constitution.

Legal implications

- 11 None from this report. The working group will be advised of the legal implications when undertaking their review and the committee will be advised of any legal implication as part of the recommended changes.

Risk management

- 13 If the council's constitution is not accurate, up to date and understood then there is a risk that governance arrangements are not clear and robust leaving the council open to judicial review, contractual challenge or financial risk. The proposed amendments and adoption of the revised constitution seek to mitigate that risk. In addition the audit and governance committee will continue to maintain oversight of the constitution, once adopted, and should any further amendments be necessary will make recommendations to full council accordingly.

Consultees

- 14 None - parish councils will be consulted on any proposed changes.

Appendices

None

Background papers

None



Meeting:	Audit and governance committee
Meeting date:	21 March 2017
Title of report:	Future work programme for 2017/18
Report by:	Democratic services officer

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To provide an update on the Committee's work programme for 2017/18.

Recommendation(s)

THAT:

Subject to any updates made by the committee, the work programme for 2017/18 for the audit and governance committee be agreed.

Alternative options

- 1 There are no alternative options as regards whether or not to have a work programme as the committee will require such a programme in order to set out its objectives for the coming year.

Reasons for recommendations

- 2 The work programme is recommended as the committee is required to define and make known its work for the coming year. This will ensure that matters pertaining to audit and governance are tracked and progressed in order to provide sound governance for the council.

Further information on the subject of this report is available from
Caroline Marshall, democratic services officer on Tel (01432) 260249

3 The committee is asked to consider any further adjustments.

Key Considerations

4 The routine business of the committee has been reflected as far as is known, including the regular reporting from both internal and external auditors.

Community impact

5 A clear and transparent work programme provides a visible demonstration of how the committee is fulfilling its role as set out in the council's constitution.

Equality duty

6 This report does not impact on this area.

Financial implications

7 There are no financial implications.

Legal implications

8 The work programme reflects any statutory or constitutional requirements.

Risk management

9 The programme can be adjusted in year to respond as necessary to risks as they are identified; the committee also provides assurances that risk management processes are robust and effective.

Consultees

10 The interim director of resources and monitoring officer have contributed to the work programme

Appendices

Appendix A – audit and governance work programme 2017-18

Background papers

- None identified.

**Audit and Governance Work Programme
2017/18**

Function area	Report	Purpose
May 2017		
Governance (annual)	Annual governance statement	<ul style="list-style-type: none"> To approve the annual governance statement. Review the effectiveness of partnership arrangements, together with monitoring officer, S151 officer, Caldicott guardian and equality and compliance manager reviews.
Internal audit	Progress report on 2017/18 internal audit plan	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.
Internal audit (bi-annual)	Internal tracking of audit recommendations	To monitor implementation of action plans agreed in response to recommendations made by internal audit
Governance (annual)	Contract procedure rules, finance procedure rules and anti-fraud and corruption strategy	To approve the contract procedure rules; the finance procedure rules and the anti-fraud and corruption strategy
Governance (as and when there are working groups)	Working group update: standards and governance improvement	<ul style="list-style-type: none"> To provide an update and the work of the two working groups. To approve the recommendation to council of the revised code of conduct
Governance (quarterly)	Corporate risk register	To consider the quarterly status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.
Governance (every meeting)	Work programme	To note the current work programme of the committee
July 2017		
Governance (quarterly)	Corporate risk register	To consider the status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.
Accounts (Annual)	Draft statement of account	To note the draft statement of accounts
Waste contract (Annual)	Energy from waste (EFW) Loan Update	To provide assurance to the audit and governance committee on the status of the energy from waste (EFW) loan arrangement.

**Audit and Governance Work Programme
2017/18**

Function area	Report	Purpose
Governance (every meeting)	Work programme	To note the current work programme of the committee
September 2017		
Governance (Quarterly)	Corporate risk register	To consider the quarterly status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.
Internal audit (Bi-annual)	Internal tracking of audit recommendations	Monitor implementation of action plans agreed in response to recommendations made by internal audit
Internal audit	Progress report on 2017/18 internal audit plan	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.
Internal audit (Annual)	SWAP annual report	To consider SWAP's annual report and opinion, and a summary of the internal audit activity and the level of assurance it can give over the council's corporate governance arrangements
Accounts (annual)	Signing of accounts	To approve the statement of account
Governance (as and when there are working groups)	Working group update	To provide an update and the work of the two working groups.
External audit	External auditor report	Update on progress to date in order to comment on the scope and depth of external audit work and ensure that it gives value for money.
Governance (annual)	Statement on Internal Control	Review the council's Statement of Internal Control and recommend its adoption to council
External audit (Every three years)	Appointment of the Council's local (external) auditor	To recommend the appointment of the council's local (external) auditor to council.
Governance (every meeting)	Work programme	To note the current work programme of the committee
November 2017		
External audit (annual)	Annual audit letter	To review the annual audit letter
Internal audit	Progress report on 2017/18 internal audit plan	To update members on the progress of internal audit work and to bring to their attention any

**Audit and Governance Work Programme
2017/18**

Function area	Report	Purpose
Governance (annual)	Raising Concerns at Work policy	key internal control issues arising from work recently completed. To review and approve, if necessary, any changes to the policy.
Governance (annual)	Information governance review	To review the council's information governance requirements to include all complaints (inc. children's social care), information requests, breaches of Data Protection Act, corporate governance and Regulation of Investigatory Act.
TBC	Highways network asset revaluation	
Governance (as and when there are working groups)	Working group update	To provide an update
Governance (every meeting)	Work programme	To note the current work programme of the committee
January 2018		
Governance (Annual)	Annual governance statement progress	<ul style="list-style-type: none"> Review of the effectiveness of the council's governance process and system of internal control. Update on the progress of the annual governance statement
Governance (Annual)	Constitution Review	Conduct an overview of the council's constitution and recommendation to council of any changes
Governance (Annual)	Code of Conduct Review and complaints	<ul style="list-style-type: none"> Review the code of conduct and recommend any changes to the code to council Review code of conduct complaints
Governance (Annual)	Contract procedure rules, finance procedure rules and the anti-fraud and corruption strategy	Review of procedure rules/strategy and approve any amendments to the rules.
Governance (as and when there are working groups)	Working group update	To provide an update.
Governance (Quarterly)	Corporate risk register	To consider the quarterly status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.

**Audit and Governance Work Programme
2017/18**

Function area	Report	Purpose
Governance (every meeting)	Work programme	To note the current work programme of the committee
March 2018		
Internal audit (Annual)	Internal audit charter Internal audit plan for 2018/19	To consider the internal audit plan for 2018/19.
Internal audit	Progress report on 2017/18 internal audit plan	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.
External audit (Annual)	External auditors annual plan	Review and agree the external auditors' annual plan, including the annual audit fee and annual letter.
Governance (as and when there are working groups)	Working Group Update	To note progress of the working group
Governance (Bi-annual)	Internal tracking of audit recommendations	Monitor implementation of action plans agreed in response to recommendations made by internal audit
Governance (Annual)	Future work programme for 2018/19	To note the work programme for 2018/19.
Governance (Quarterly)	Corporate risk register	To consider the quarterly status of the council's corporate risk register in order to monitor the effectiveness of the performance, risk and opportunity management framework.