

Agenda

Audit and governance committee

Date: **Tuesday 19 March 2019**

Time: **2.00 pm**

Place: **Committee Room 1, 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

Chairperson **Councillor PD Newman OBE**
Vice-Chairperson **Councillor ACR Chappell**

Councillor CR Butler
Councillor EE Chowns
Councillor EPJ Harvey
Councillor RJ Phillips
Councillor J Stone

Agenda

THE PUBLIC RIGHTS TO INFORMATION AND ATTENDANCE AT MEETINGS

Pages

1. APOLOGIES FOR ABSENCE

To receive apologies for absence.

2. NAMED SUBSTITUTES (IF ANY)

To receive details any details of members nominated to attend the meeting in place of a member of the committee.

3. DECLARATIONS OF INTEREST

To receive declarations of interests in respect of Schedule 1, Schedule 2 or Other Interests from members of the committee in respect of items on the agenda.

4. MINUTES

To approve and sign the minutes of the meeting held on 23 January 2019.

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QUESTIONS DURING THE 'PURDAH' PERIOD

In the run up to the local government elections on 2 May 2019, known as the "purdah" period, questions may be rejected if they affect support for a political party or candidate, or if the response could not be given without breaching the guidance on publicity during this sensitive period.

Guidance is available on the Herefordshire Council website at https://www.herefordshire.gov.uk/download/downloads/id/16017/pre-election_guidance_purdah_2018.pdf

5. QUESTIONS FROM MEMBERS OF THE PUBLIC

To receive questions from members of the public.

Deadline for receipt of questions is 5.00 pm on 13 March 2019 (3 clear working days from date of meeting).

Accepted questions and answers will be published as a supplement prior to the meeting.

6. QUESTIONS FROM COUNCILLORS

To receive any questions from councillors.

Deadline for receipt of questions is 5.00 pm on 13 March 2019 (3 clear working days from date of meeting).

Accepted questions and answers will be published as a supplement prior to the meeting.

7. EXTERNAL AUDIT PROGRESS REPORT

To provide the committee with a progress update of the work being undertaken by the external auditor, Grant Thornton.

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| 8. CERTIFICATE OF COMPLETION OF AUDIT | 45 - 48 |
| <p>To update the committee on progress of the issue of the certificate of closure of the 2016/17 audit by the council's external auditors, Grant Thornton.</p> | |
| 9. PROGRESS REPORT ON 2018/19 INTERNAL AUDIT PLAN | 49 - 74 |
| <p>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.</p> | |
| 10. INTERNAL AUDIT PLAN 2019-20 | 75 - 90 |
| <p>To be assured that the level and range of activity within the proposed annual internal audit plan is sufficient to provide assurance over the council's corporate governance arrangements;</p> <p>To ensure the council complies with recommended best practice as set out in the PSIAS; and</p> <p>To approve the internal audit charter for the period 1 April 2019 to 31 March 2020.</p> | |
| 11. ANNUAL GOVERNANCE STATEMENT 2018/19 | 91 - 138 |
| <p>To seek the views of the committee as to whether the draft annual governance statement 2018/19 properly reflects the risk environment the council is operating in and the appropriateness of any actions required to improve it.</p> | |
| 12. WORK PROGRAMME UPDATE | 139 - 144 |
| <p>To provide an update on the work programme for the committee for 2019/20.</p> | |
| 13. PROVISIONAL MEETING DATES FOR 2019/20 | |
| <p>All meetings start at 2.00 pm:</p> <p>30 July 2019
24 September 2019
26 November 2019
28 January 2020
17 March 2020
5 May 2020</p> | |

The public's rights to information and attendance at meetings

You have a right to: -

- Attend all council, cabinet, committee and sub-committee meetings unless the business to be transacted would disclose 'confidential' or 'exempt' information.
- Inspect agenda and public reports at least five clear days before the date of the meeting.
- Inspect minutes of the council and all committees and sub-committees and written statements of decisions taken by the cabinet or individual cabinet members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. (A list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public register stating the names, addresses and wards of all councillors with details of the membership of cabinet and of all committees and sub-committees.
- Have a reasonable number of copies of agenda and reports (relating to items to be considered in public) made available to the public attending meetings of the council, cabinet, committees and sub-committees.
- Have access to a list specifying those powers on which the council have delegated decision making to their officers identifying the officers concerned by title.
- Copy any of the documents mentioned above to which you have a right of access, subject to a reasonable charge (20p per sheet subject to a maximum of £5.00 per agenda plus a nominal fee of £1.50 for postage).
- Access to this summary of your rights as members of the public to attend meetings of the council, cabinet, committees and sub-committees and to inspect and copy documents.

Public transport links

The Shire Hall is a few minutes walking distance from both bus stations located in the town centre of Hereford.

Recording of this meeting

Please note that the council will be making an official audio recording of this public meeting. These recordings form part of the public record of the meeting and are made available for members of the public via the council's website.

To ensure that recording quality is maintained, could members and any attending members of the public speak as clearly as possible and keep background noise to a minimum while recording is in operation.

Please also note that other attendees are permitted to film, photograph and record our public meetings provided that it does not disrupt the business of the meeting.

If you do not wish to be filmed or photographed, please identify yourself so that anyone who intends to record the meeting can be made aware.

Please ensure that your mobile phones and other devices are turned to silent during the meeting.

The reporting of meetings is subject to the law and it is the responsibility of those doing the reporting to ensure that they comply.

Fire and emergency evacuation procedure

In the event of a fire or emergency the alarm bell will ring continuously.

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Please do not allow any items of clothing, etc. to obstruct any of the exits.

Do not delay your vacation of the building by stopping or returning to collect coats or other personal belongings.

The chairman or an attendee at the meeting must take the signing in sheet so it can be checked when everyone is at the assembly point.

Guide to Audit and Governance Committee

The Audit and Governance Committee is a non executive committee of the council. The committee consists of 7 non executive councillors and may include an independent person who is not a councillor.

Councillor PD Newman OBE (Chairman)	Conservative
Councillor ACR Chappell (Vice Chairman)	Herefordshire Independents
Councillor CR Butler	Conservative
Councillor EE Chowns	Green
Councillor EJP Harvey	It's Our County
Councillor RJ Phillips	Conservative
Councillor J Stone	Conservative

The purpose of the audit and governance committee is to provide independent assurance on the adequacy of the risk management framework together with the internal control of the financial reporting and annual governance processes. The committee do this by:

- (a) ensuring the effective and fully compliant governance of the council and in particular to ensure that all aspects of the financial affairs of the council are properly and efficiently conducted;
- (b) reviewing and approve the council's annual governance statement, annual statements of account, the contract procedure rules and financial procedure rules;
- (c) scrutinise the effectiveness of, and management compliance with, the systems identified in the annual governance statement framework;
- (d) monitor the progress made by management in implementing improvements to elements of that framework identified by external or internal audit review; and.
- (e) reviewing the constitution and recommending any necessary amendments to Council as appropriate.
- (f) reviewing the corporate risk register

Who attends audit and governance committee meetings?

Coloured nameplates are used which indicate their role at the committee:

Pale pink	Members of the committee, including the chairman and vice chairman.
Orange	Officers of the council – attend to present reports and give technical advice to the committee
Green	External advisors - attend to present reports and give technical advice to the committee
White	Other councillors may also attend as observers but are only entitled to speak at the discretion of the chairman.

Minutes of the meeting of Audit and governance committee held at Committee Room 1, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Wednesday 23 January 2019 at 2.00 pm

Present: Councillor PD Newman OBE (Chairperson)
Councillor ACR Chappell (Vice-Chairperson)

Councillors: E Chowns, EPJ Harvey, AW Johnson, RJ Phillips and J Stone

Officers: Annie Brookes, Steve Burgess, Andrew Lovegrove, Tracey Sampson

340. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor CR Butler.

341. NAMED SUBSTITUTES (IF ANY)

Councillor AW Johnson attended the meeting as a substitute member for Councillor CR Butler.

342. DECLARATIONS OF INTEREST

Councillor EJP Harvey declared that under item 7, she had requested the audit in connection with the Joint Use Agreement – Ledbury Rugby Club.

There were no other declarations of interest.

343. MINUTES

RESOLVED:

That the minutes of the meeting held on 28 November 2018 be confirmed as a correct record and signed by the chairperson.

344. QUESTIONS FROM MEMBERS OF THE PUBLIC

There were no questions from members of the public.

345. QUESTIONS FROM COUNCILLORS

There were no questions from councillors.

346. PROGRESS REPORT ON 2018/19 INTERNAL AUDIT PLAN

The head of internal audit presented the progress report on the 2018/19 internal audit plan was presented.

The head of internal audit reported that a meeting with the chief finance officer had taken place to discuss the timing of the internal audit of the South Wye Transport Package. The audit would be undertaken in quarter 1 of the 2019/20 internal audit plan.

Following a query from a member of the committee, it was confirmed that SWAP would be looking at the Southern Link Road capital programme as part of the review of the Blue School House recommendations which was due to be reported to the March 2019 committee meeting. This would check whether the recommendations from Blue School House were being implemented in other capital projects.

The head of internal audit reported that since the last progress report to the committee:

- 16 audits had been completed
- 2 were in draft
- 11 audits were in progress
- There were 2 audits with partial assurance which were SEN transport and Health and Safety.
- No significant high corporate risk had been identified.
- There had been 2 additions to the audit plan which were honorarium, market forces and standby and on call allowances and treasury management.
- The mandatory training audit had been moved to 2019/20.
- The local population forecast using for future planning such as house building requirement had been removed from the audit plan

In response to queries raised by members of the committee in connection with the health and safety audit, the head of HR and organisational development confirmed the following:

- There are a low number of accidents reported but it was believed there was under reporting so action was being taken to raise the profile of this area.
- A new health and safety manager would be starting at the beginning of February.
- Risk assessments in high risk areas are completed and are done well.
- That the display screen equipment (DSE) assessment was covered as part of the induction and mandatory training. It was noted that it was the responsibility of the employee.
- There are no health and safety champions but that this was a good idea so it would be looked into.
- There were processes in place to ensure that staff have the security required to work safely.

Following a request from a member of the committee, it was confirmed that internal audit would be starting work in February to look at the processes used by the children's and families directorate following the two recent high court cases.

The head of internal audit confirmed that data quality is normally good and that SWAP are always provided with the data requested. When checking a key performance indicator (KPI), the methodology used for the calculation is requested and if SWAP cannot resolve the calculation, then they will make a recommendation to the service.

With regard to the treasury management internal audit which had been added to the audit plan, it was confirmed that in comparison to other councils, Herefordshire is doing well.

In response to queries raised by members of the committee in connection with the SEN transport audit, the head of transportation and access services confirmed:

- There was now a policy owner. Following discussions with the children and families directorate, it had been agreed that the transport team within the economy and place directorate would take over ownership of the policy.
- The policy was not out of date and was available on the council's website.
- A passenger transport board has been established drawing together senior officers from the client directorates and chaired by the head of transportation and access to help coordinate policy review and provide oversight in respect of service issues. This board will be monitoring requests for transport which were outside of the guidance provided to officers.
- The complaints process has been reviewed and the government's guidance on a 2 stage dispute escalation process has been adopted. If an issue cannot be resolved to the satisfaction of the requester by senior officers within the passenger transport team (Stage 1), they can submit an appeal to an independent officer panel (Stage 2). Complainants not satisfied after Stage 2 may refer their complaint to Local Government Ombudsman.
- The length of journeys for children with SEN are monitored and the council aim to follow national guidelines - 45 minutes for primary school aged children and 75 minutes for secondary school aged children. This can be challenging due to the limited number of specialist schools in the county which are concentrated in Hereford and the size of the county.
- Transport operators and the council's in house staff who provide the transport services have to undertake training and are subject to DBS checks. Specialist training may also be required depending on the specific conditions of individual riders. In these circumstances the council agrees appropriate controls with parents/carers and their medical advisors.
- The passenger transport board will be looking at the potential future demand for special transport to help inform budgeting decisions. Information which will help include the number of education, health and care (EHC) plans, the number of looked after children (LAC) and their trends and wider demographic data.
- It was noted that new demands for special transport can be requested on a daily basis due to changes in the circumstances of individual children.

A member of the committee expressed concern that there had a policy without an owner and requested assurance that there were no other policies without owners. The directorate services team leader agreed to work with the performance leads in the other directorates to check that there were policy owners for all policies.

The chief finance officer agreed to send a copy of the joint use agreement: Ledbury Rugby Club audit to a member of the committee.

RESOLVED

That the report be noted.

347. TRACKING OF AUDIT RECOMMENDATIONS

The directorate services team leader presented the tracking of internal and external audit recommendations.

Tracking of internal audit recommendations

It was noted that the trend improvement was 82% of recommendations completed within timescale compared to 76% during the last period.

Following a concern raised from a member of the committee about the number of revised completion dates, it was confirmed that the original deadline dates were agreed with the relevant manager. However, there may be a justification for revising the completion target date, e.g. there may have been an under-estimation of the amount of time it would take to complete the action recommended by SWAP or there may be further work required once work on the action commenced. SWAP also revisits the priority findings to ensure that there is progress.

The committee expressed concern over the number of NMiTE recommendations still outstanding. The chief finance officer confirmed that he was working with NMiTE to address the recommendations and meets on a monthly basis with the university. It was noted that some of the dates had slipped due to changes in personnel. There was an ongoing dialogue with NMiTE and the Department for Education (DfE) and there had now been significant progress and NMiTE were on track to complete the recommendations albeit at the later date.

Given that the council were the accountable body for the DfE funding, and the reputational risk, the committee remained concerned about the slow progress and requested that the chief finance officer report at the next NMiTE board that they were requesting assurance that the recommendations would be implemented swiftly.

External audit recommendations tracking

A member of the committee requested that the external audit recommendations tracking were presented in the same fashion as the tracking of the internal audit recommendations.

A member of the committee requested assurance on the capital programme as they did not feel fully assured. There was a claim that there was an overspend on a capital project where the business case had not yet been approved. It was noted that this was a major area and it was anticipated that this will be the focus of the next external audit.

It was noted that work to improve capital reporting was ongoing and the capital programme was long term so changes needed to be embedded. It was acknowledged that some schemes would be delivered later than planned. However work was being undertaken to align the projects to a more realistic timescale.

A member of the committee commented that it was important that senior management take ownership of data quality. It was noted that delays in capital projects may also be due to the actions of third parties and therefore outside the control of the council.

RESOLVED

That the report be noted.

348. CORPORATE RISK REGISTER

The directorate services team leader presented the report. The following points were highlighted:

- 5 new risks added to the corporate risk register
- 1 risk had been removed and an explanation had been provided.
- The risk registers had been reviewed in line with the performance, risk, opportunity management (PROM) framework and scores have been challenged within directorates as part of the process
- A scoring matrix is now included within the report, as requested by committee at its last meeting.
- Appendices 2-4 contained the directorate risk registers which reflected the previous directorate structure. These risk registers will be aligned to the new directorate structures in due course.

The directorate services team leader agreed to arrange for a briefing note which explained why risk number CR.048 (Delayed Transfer of Care [DToC]) had appeared on the corporate risk register at the highest rating even after mitigation.

It was agreed that the DToC and risk number AWB.029 (Care Home Ratings) be referred to the Adults and Wellbeing Scrutiny Committee due to the high level of risk involved.

A member of the committee requested that the ratings for the following risks be reviewed:

CR.36 (Good decision making) – in light of the concerns expressed over the governance of the SLR.

CR.21 (Welfare Reform) – in light of the recent national decisions, it was felt that the removal from the corporate risk register may be premature.

RESOLVED

That the report be noted.

349. EXTERNAL AUDIT ANNUAL CERTIFICATION LETTER

The external audit annual certification report was presented.

RESOLVED

That the report be noted.

350. EXTERNAL AUDITORS ANNUAL PLAN

The chief finance officer presented the report.

The committee expressed concern that the accounts for 2016/17 and 2017/18 had still not been signed off.

It was reported that the council do not have any leverage in connection with the confidential matter which was still outstanding as it did not relate to an existing staff member or a company which the council have a controlling interest in.

The following points were raised in discussion with the issue:

- The matter had been ongoing for 3 years and there was no indication when this could reasonably be expected to change

- There had been no sharing of information in a confidential session so the committee struggled to see how it could be reasonably allowed to continue.
- It appeared that there were no elected representatives who were in possession of an understanding of the issue. The chief finance officer confirmed that the issue was being held by the statutory officers of the council.
- Grant Thornton had issued an audit opinion for audit of the accounts and the value for money audits.
- The level of materiality could not be determined at this stage but Grant Thornton could not comment until the matter was progressed further. Grant Thornton were being kept informed of progress. It was noted that there were different levels of materiality but it did not reach the £6m financial materiality level.
- This was an historical event and not an ongoing issue but there could be ramifications arising from the event.
- It was a complex issue which cut across a number of things and there were different routes which the issue could go down.
- This was a complex, sensitive issue and external legal advice had been sought.
- The council were in the hands of third parties and there was another conversation with them on Thursday 24 January 2019.
- It was concerning to note that this issue may go beyond the May 2019 elections.
- It would be inappropriate to identify the third parties as this would fuel speculation

It was agreed that:

- A letter would be sent to Grant Thornton and ask what action has been taken, what the options are and the timescales involved.
- A report would be presented to the March meeting setting out the progress of this issue.

A discussion over whether the committee could be briefed on the issue in private session took place. It was agreed that there would be no private session.

Grant Thornton presented the annual audit plan for the 2018/19 accounts.

It was noted that the level of materiality may be different following discussions between Grant Thornton and the council. There will be an update on what the materiality level will be at the March committee meeting.

Following a query from a member of the committee, it was confirmed that the audit fee was a scale fee which was set by the PSAA.

Following a question from a member of the committee, Grant Thornton confirmed that they would not look specifically at the development regeneration partnership (DRP) and SLR. They would look at the high level information and if there were any specific queries, they would then look at any issues in more depth. At this stage, they could not confirm what they would be looking at in more depth.

With regard to the housing benefit certification, it was confirmed that a view would be taken closer to the time as to who would be best placed to carry out this work.

RESOLVED

That the external auditors annual audit plan for 2018/19 be approved.

351. ANNUAL GOVERNANCE STATEMENT: ACTION PLAN

The head of corporate governance presented the report.

The following points were highlighted.

- The action plan attached at appendix 1 to the papers had been approved at the audit and governance meeting held in July 2018.
- There was progress for all actions and tracked changes were on the action plan which showed where there were any revised dates.
- A draft annual governance statement will be presented to the March committee meeting.
- A close down of the 2018/19 action plan would be included within the annual governance statement report due to be discussed at the July 2019 committee meeting.

Councillor EPJ Harvey left the meeting at 16:32.

Following a query from a committee member, the chief finance officer outlined the improvements on capital reporting following the Blue School House recommendations:

- There was improved ledger reporting
- Managers can only commit spend if there is a budget.
- The budget is now compared over the life of the project.
- Capital reports which are presented to cabinet and council have greater levels of detail.
- For the larger capital programmes, the projects which make up the programme will be shown.
- The reporting template are now the same in order to ensure consistency.

With regard to the public question which had been re-directed from audit and governance to cabinet, the chief finance officer confirmed that the answer would be provided at the next Cabinet meeting.

RESOLVED

That the report be noted.

352. RECRUITMENT OF INDEPENDENT PERSONS

The chief finance officer presented the report.

It was agreed that the issue of remunerating independent persons would be re-visited in a year's time to enable data to be collated.

A member of the committee requested that details of how the independent persons were utilised be included within the annual code of conduct report to the committee.

It was also noted that the views of the independent persons would be sought over any improvements which could be made to the processes.

RESOLVED

That the following candidates be recommended to Council for appointment for a term of office of four years from the date of appointment:

- **Sheila Archer**
- **Jake Bharier**
- **Bryn Caless**
- **Malcolm Foorde JP**
- **Gerald Hodson**
- **Claire Jenkins**
- **Stephen Willmot**
- **Roger Yates**

353. STANDARDS APPEALS PANEL WORKING GROUP UPDATE

The chairperson thanked all members who had sat on the working group.

The head of corporate governance presented the report.

Councillor Richard Gething, nominated HALC representative and Mr Richard Stow, independent person were thanked for their contribution.

The head of corporate governance explained that the processes which covered all councils within Herefordshire were operational and were a matter for the monitoring officer. They were presented to the committee for endorsement.

RESOLVED

That the amendments to the standards appeals process be endorsed by the committee

354. WORK PROGRAMME UPDATE

The work programme was discussed and it was agreed that:

- The remuneration of independent persons would be added to the 2019/20 work programme
- A report on the failure to sign off the accounts would be added to the March 2019 agenda.
- The internal audit plan for 2019/20 report scheduled for the March 2019 meeting would include the South Wye Transport Pack
- The internal audit progress report scheduled for March 2019 would include references to Blue School House and the Southern Link Road.

RESOLVED

That subject to the above amendments the work programme be approved.

The meeting ended at 4.53 pm

Chairperson



Meeting:	Audit and governance committee
Meeting date:	Tuesday 19 March 2019
Title of report:	External audit progress report
Report by:	Chief executive

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To provide the committee with a progress update of the work being undertaken by the external auditor, Grant Thornton.

The progress update also includes a sector update on emerging issues for the committee to consider.

Overall Grant Thornton are making satisfactory progress against the audit deliverables.

Recommendation(s)

That:

- (a) the progress report and sector update attached at appendix 1 be reviewed and the committee determine any recommendations it wishes to make to ensure the value of the external audit work is maximised.**

Alternative options

1. There are no alternative recommendations. The report provides a factual update on progress against the agreed external audit annual plan in accordance with the functions of the committee, together with briefings on a range of matters of local government interest.

Further information on the subject of this report is available from
 Josie Rushgrove, Tel: 01432 261867, email: jrushgrove@herefordshire.gov.uk

Key considerations

2. The external auditor's progress report attached at appendix 1 provides the committee with an update on progress against delivering the external audit responsibilities.
3. An initial 2018/19 interim audit visit has been completed, a follow up visit will take place in March. Materiality levels, in relation to monetary misstatements, disclosure requirements and adherence to acceptable accounting practice and applicable law, have been increased for 2018/19.
4. Materiality has been set at £10.2m (£6.6m in the previous year) for the group and £10m (£6.5m in the previous year) for the Council, being 1.4% of the prior year asset value, see table below:-

Threshold	2018/19 value £000	2017/18 value £000	Methodology
Group financial statements	10,200	6,600	Based on 1.4% of asset value (1.8% of gross expenditure in prior year)
Council financial statements	10,000	6,500	Based on 1.4% of asset value (1.8% of gross expenditure in prior year)
Misstatements reported to the committee	500	332	Based on a determination of a value below which is considered to be trivial

5. The change in materiality being determined by reference to asset value is in recognition of the users of the financial statements (considered to be the general public) are mainly concerned with the financial strength of the Council and whether the current level of services will be reduced. Assets are seen as a sign of financial strength. Practice note 10 – Financial Reporting Council – gives an example that assets can be used as a basis for determining materiality. The new materiality level set will be considered when reviewing any impact of misstatements on the Comprehensive Income and Expenditure Statement and will still provide assurance to the Engagement Lead.
6. Separate materiality levels continue to be appropriate for disclosures of officers' remuneration.
7. Any identified unadjusted misstatements of lesser amounts will continue to be reported to the committee unless they are determined to be trivial. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, trivial is proposed to be less than £500k (£332k in the previous year).
8. The appendix also includes a summary of emerging national issues for consideration by the committee.
9. Overall Grant Thornton have made satisfactory progress against their audit plan and of the work concluded no items have been identified that require highlighting to the committee.

Community impact

10. One of the principles in the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. External audit contributes to effective accountability.

Equality duty

11. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:
A public authority must, in the exercise of its functions, have due regard to the need to -
 - (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
12. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

13. The update has no direct resource implications however the consideration of sector wide emerging issues may lead to further work streams being identified.
14. As approved by the committee in May 2018 the 2018/19 annual external audit fee totals £96k (£124k in previous year).

Legal implications

15. The update has no direct legal implications.

Risk management

16. The potential risks of being unaware of the update include not producing a compliant statement of accounts; this is being mitigated by ensuring the corporate finance team maintain up to date financial knowledge and awareness and maintain open dialogue with the council's external auditors with whom there is an established, defined and detailed working paper requirements being complied for the next audit visit.

Consultees

17. None.

Appendices

Appendix 1 External audit progress update

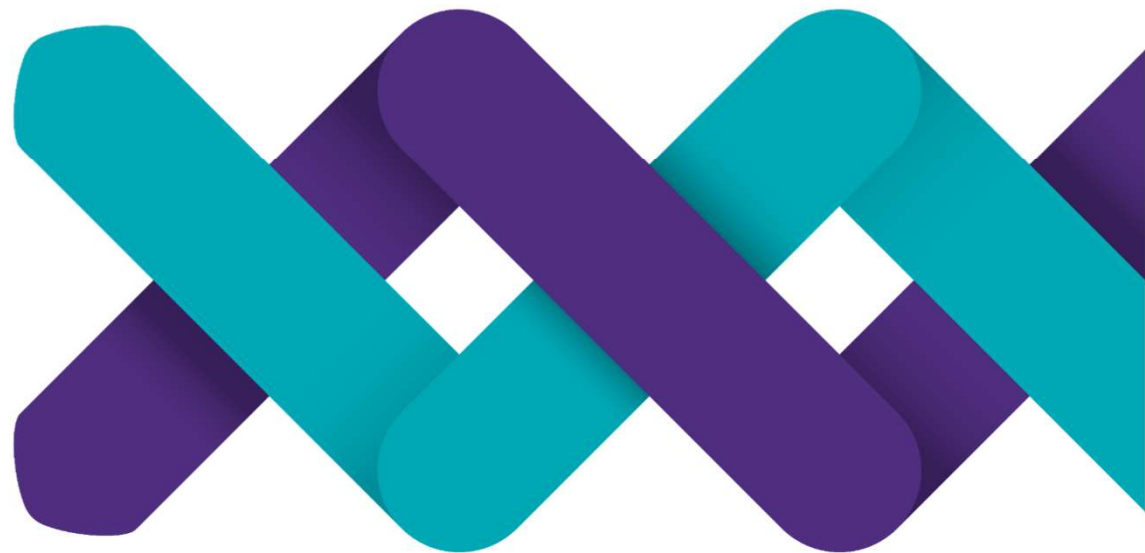
Background papers

None identified.

Audit Progress Report and Sector Update

Herefordshire Council
Year ending 31 March 2019

19 March 2019



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Introduction



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Engagement Manager

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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

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.

Progress at February 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We commenced our interim audit in February 2019 and this will continue in March 2019. Our interim fieldwork visit will include:

- 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

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We will discuss our plan and timetable with officers.

The final accounts audit is due to begin on the 17 June with findings reported to you in the Audit Findings Report by the deadline of July 2019.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. 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".

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".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 was concluded in November 2018.

The results of the certification work are reported to you in our certification letter, presented to the Audit Committee in January 2019.

Meetings

We met with Finance Officers in January as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in November to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables

Annual Certification Letter

This letter reports any matters arising from our certification work carried out under the PSAA contract.

Planned Date

January 2019

Status

Complete

2018/19 Deliverables

Fee Letter

Confirming audit fee for 2018/19.

Planned Date

May 2018

Status

Complete

Accounts Audit Plan

We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.

Planned Date

January 2019

Status

Complete

Audit Findings Report

The Audit Findings Report will be reported to the July Audit Committee.

Planned Date

July 2019

Status

Not yet due

Auditors Report

This is the opinion on your financial statement, annual governance statement and value for money conclusion.

Planned Date

July 2019

Status

Not yet due

Annual Audit Letter

This letter communicates the key issues arising from our work.

Planned Date

August 2019

Status

Not yet due

Annual Certification Letter

This letter reports any matters arising from our certification work carried out under the PSAA contract.

Planned Date

December 2019

Status

Not yet due



Materiality

The concept of materiality

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. 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.

Materiality for planning purposes

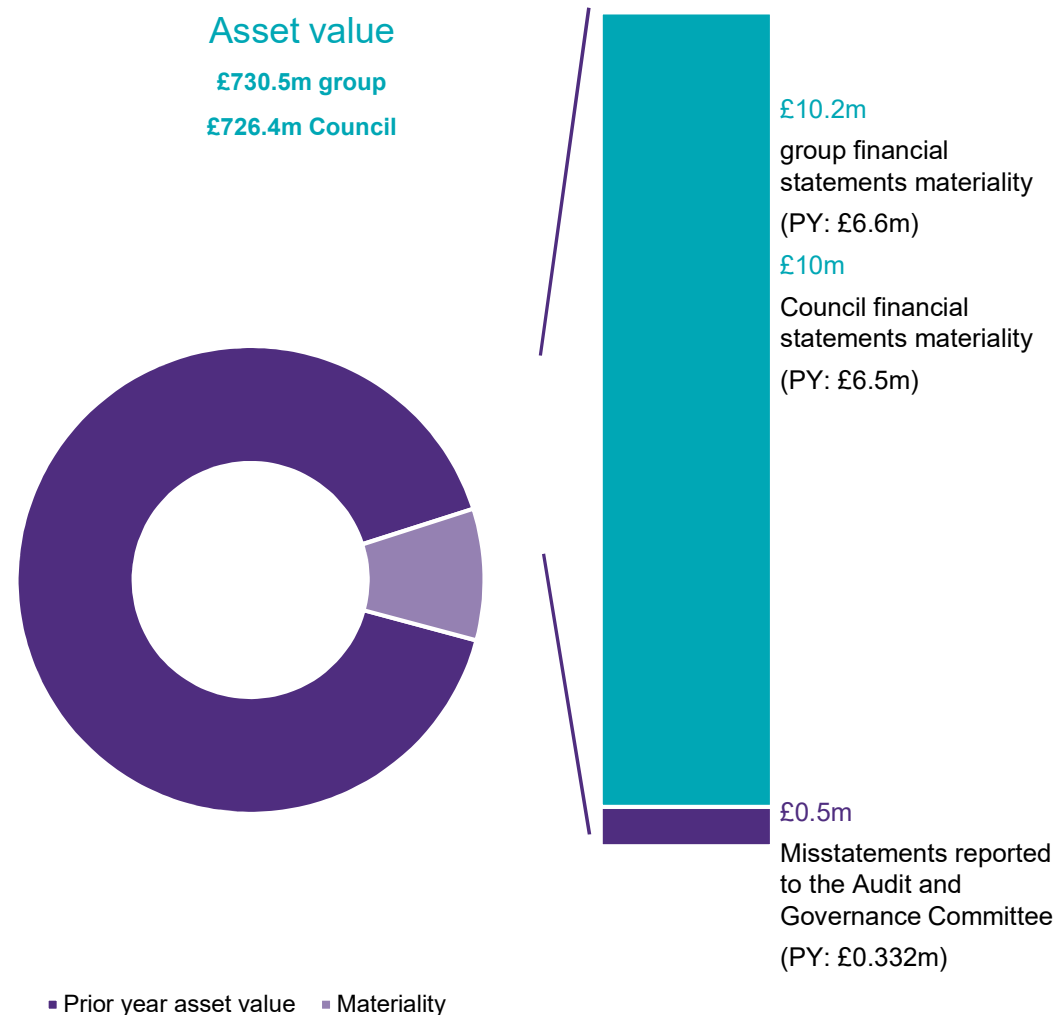
We have determined financial statement materiality based on a proportion of the assets of the group and Council for the financial year. Materiality at the planning stage of our audit is £10.2m (PY £6.6m based on gross expenditure) for the group and £10m (PY £6.5m based on gross expenditure) for the Council, which equates to 1.4% of your prior year asset value. We have identified that due to public interest, separate materiality levels are appropriate for disclosures of officers' remuneration. See appendix 1 for further information.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £500k (PY £332k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

PSAA Contract monitoring

Herefordshire Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts in 2018/19. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

28 Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the attached presentation. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Our team

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Local Government audits 2018/19 and beyond

Grant Thornton's External Audit commitment

Audit 2018/19

"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".

Director of Finance, local audited body

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

30

"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council

Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

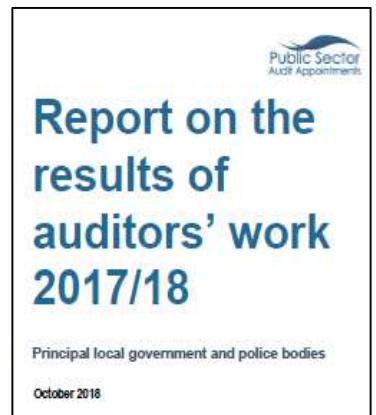
The report is available on the PSAA website:

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

PSAA Report

Challenge question:

Has your Authority identified improvements to be made to the 2018/19 financial statements audit and Value for Money Conclusion?



National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

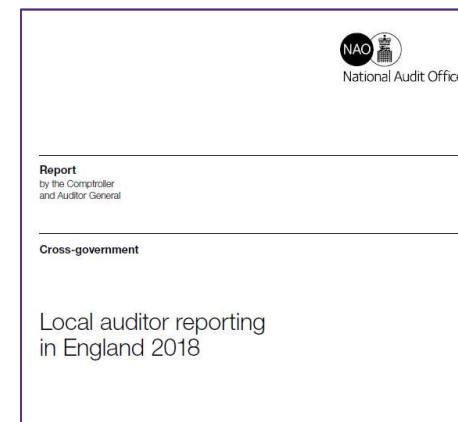
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



NAO Report

Challenge question:

Has your Authority responded appropriately to any concerns or issues raised in the External Auditor's report for 2017/18?



National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

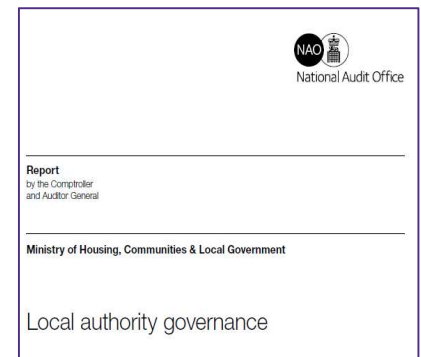
The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>

NAO Report

Challenge question:

Has your Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

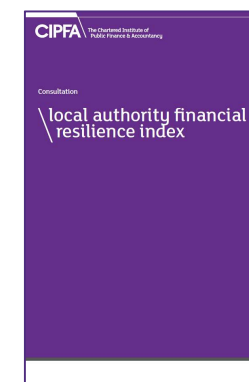
“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.

CIPFA Consultation

Challenge question:

Has your Director of Finance briefed members on the Council’s response to the Financial Resilience Index consultation?



ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

Short-term solvency vs. Longer-term value:

- LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

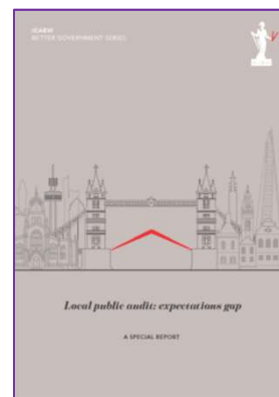
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



The expectations gap

Challenge question:

How effectively is the audit meeting client expectations?



Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies. Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Brexit

Challenge question:

How well advanced are your authority's plans for Brexit?



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:

<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

Social Housing Green Paper Consultation



Challenge question:

What does the Social Housing Green Paper mean for your local authority?



Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

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Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

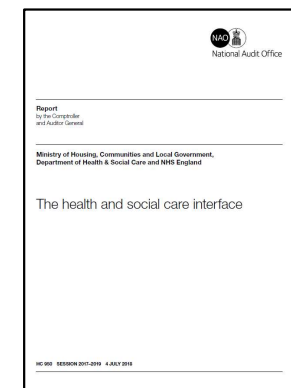
This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

The health and social care interface

Challenge question:

Has the **Audit Committee** considered the 16 challenges to joint working and what can be done to mitigate these?



A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint (Oct 2018)

Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council) the subsequent debate identified three themes for Grant Thornton to take forward:

1. Ethics and philosophy: What is meant by care? Should the state love?

2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'Care'? (Dec 2018)

Julia Unwin, Chair of the Civil Societies Futures Project, and Sam Newman of Partners4Change sparked debate on why we need society to be brave enough to talk about care and the different levels at which 'care' can be applied to create a Caring Society.

Sprint 2 – A new role for the state? (7 Feb 2019)

Donna Hall, CEO of Wigan Council and Andrew of Reform, will start the debate on how can the state – nationally and locally – develop and adapt itself to be in service to a caring society.

To find out more or get involved:

- Join the conversation at #acaringssociety
- [Why we need to create a caring society](#)
- [Creating a caring society – the start of the debate](#) – the key themes from our first round table
- [Social care must take the starring role in its own story](#) – why the definition of social care is so important if the system is to change
- [Markets, trust & governance](#) – how social care can evolve to become a driver of local care economies
- [The future care leader](#) – Fiona Connolly, director of adult social care at Lambeth, discusses the importance of local care leaders working across the entire health system

Challenge question:

How is your authority engaging in the debate about the future of social care?



In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

Public Sector Audit Appointments

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

Appendix 1

Determining materiality

- Prior year materiality determined by reference to gross revenue expenditure. Standard practice across the sector.
- More and more Councils using reserves to fund the budget.
- Users of the financial statements are considered to be the general public, who are mainly concerned with the financial strength of the Council and whether the current level of services will be reduced.
- Assets are seen as a sign of financial strength.
- Practice note 10 – Financial Reporting Council – gives an example that assets can be used as a basis for determining materiality.
- Regulators more and more concerned over the revaluation of the assets.
- We will be aware of the relatively large materiality when we consider the impact of misstatements on the income and expenditure account.
- The level of materiality will still provide assurance to the Engagement Lead.
- Approach suggested has been approved by the Grant Thornton technical team.

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Meeting:	Audit and governance committee audit and governance committee
Meeting date:	Tuesday 19 March 2019
Title of report:	Certificate of completion of audit
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

All Wards

Purpose and summary

To update the committee on progress of the issue of the certificate of closure of the 2016/17 audit by the council's external auditors, Grant Thornton.

Recommendation(s)

That:

- (a) The update is noted.

Alternative options

1. There are no alternative options to receiving the report; the update is provided at the request of the committee. If further information about the matter is necessary the committee will need to consider exclusion of the public and press.

Further information on the subject of this report is available from
 Andrew Lovegrove, chief finance officer, email:
Andrew.Lovegrove@herefordshire.gov.uk drew.Lovegrove@herefordshire.gov.uk

Key considerations

2. The council's external auditors, Grant Thornton, have not issued an audit certificate in respect of the 2016/17 accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice until they have completed their consideration of matters brought to their attention by the council. The matters are dependent on the successful conclusion of third party work being carried out on behalf of the council. Since the last audit and governance committee meeting further progress has been made by the third parties, however the matter is not yet concluded as the council is awaiting a response from a third party. Council officers have continued ongoing dialogue with Grant Thornton keeping them informed of progress. This has not affected the external audit opinion in any year.
3. The phase of the work being carried out by the third party that was mentioned to the committee at previous meeting has been concluded, the council is now awaiting external advice. The council set a deadline for a response of the middle of March 2019. The external auditors will provide further progress reports in their regular updates to the committee.

Community impact

4. One of the principles in the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability.
5. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner.
6. External audit contributes to effective accountability.

Equality duty

7. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –
 - (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
8. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this report is for information only, we do not believe that it will have an impact on our equality duty.

Resource implications

9. None

Legal implications

10. The Local Audit and Accountability Act 2014 specifies the general duties of the council's auditors. Section 20 requires the auditor to enter a certificate. It is permissible not issue a certificate at the same time as the statement of accounts and this does not affect the accuracy of the statement of accounts.
11. Section 100F of the Local Government Act 1972 provides that any document which is in the possession of the council and contains material relating to any business to be transacted at the meeting shall be open to inspection by any member of the council. However a document does not have to be open for inspection if it appears to the proper officer that the document discloses exempt information.
12. In accordance with the council's constitution the monitoring officer has determined that access to any other information is withheld because the material falls within many of paragraphs 1 to 7 in schedule 12A and is exempt information if and so long, as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. As the matter has not yet reached a conclusion and the disclosure of information may affect the ability to conclude the matter it is not in the public interest to disclose any further material at this time.

Risk management

13. The work completed has not identified any significant risks.

Consultees

14. Grant Thornton have been consulted in the drafting of this report.

Appendices

None.

Background papers

None identified.



Meeting:	Audit and governance committee
Meeting date:	Tuesday 19 March 2019
Title of report:	Progress report on 2018/19 internal audit plan
Report by:	Chief finance officer / internal audit

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

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. To enable the committee to monitor performance of the internal audit team against the approved plan.

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.

Recommendation(s)

That:

- (a) **performance against the approved plan be reviewed and any areas for improvement identified; and**
- (b) **consider the assurances provided and the recommendations which the report makes, commenting on its content as necessary.**

Alternative options

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

1. There are no alternative recommendations; it is a function of the committee to consider these matters in fulfilling its assurance role.

Key considerations

2. The internal audit progress report is attached at appendix A. In the period covered by the report, three priority 2 recommendations were made. A summary of the significant findings is provided in the report.
3. The annual plan summary and a glossary of terms is also provided in the report.

Community impact

4. The council's code of corporate governance commits the council to managing risks and performance through robust internal control and strong public financial management and to implementing good practices in transparency, reporting, and audit to deliver effective accountability. 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

5. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
6. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

7. 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

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

8. None.

Risk management

9. 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.
10. Risks identified by internal audit are mitigated by actions proposed by management in response. Progress on implementation of agreed actions is reported to this committee every six months.

Consultees

11. None.

Appendices

Appendix A – SWAP Internal Audit plan progress report 2018-19 – quarter 3/4

Background papers

None identified.

Herefordshire Council

Report of Internal Audit Activity

Plan Progress 2018/19 Quarter 3/4

Contents

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Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by SWAP Internal Audit Services (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 the CIPFA Local Government Application Note. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 21 March 2018.

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
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Outturn to Date



Internal Audit Work Programme

The schedule provided at Appendix C contains a list of all audits as agreed in the Annual Audit Plan 2018/19. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in Appendix B of this document.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in the audit receiving a ‘Partial Assurance Opinion’ is given as part of this report.

In circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised.

Internal Audit Plan Progress 2018/2019

Outturn to Date



Internal Audit Work Programme

This is the quarter 3/4 update for 2018-19. Seven audits have been completed since my last update and there are two audits at Draft report and ten audits in progress. Six audits were assessed as Reasonable assurance and three priority 2 findings were identified across the six audits. One audit was a follow up audit.

The following audits have been completed since the last update:

Audit	Assurance
Emergency Planning – Public Health	Follow Up
Hoople	Reasonable
Honorarium, Market Forces and Standby and on call payments	Reasonable
Compliance with contract and financial procedure rules – revenue	Reasonable
Accounts Receivable	Reasonable
Accounts Payable	Reasonable
Internal Communications	Reasonable

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Internal Audit Plan Progress 2018/2019

Significant Corporate Risks

Identified Significant Corporate Risks should be brought to the attention of the Audit and Governance Committee.



Significant Corporate Risks

We provide a definition of the 3 Risk Levels applied within audit reports. For those audits which have reached report stage through the year, I will report risks we have assessed as 'High'.

In this update there are no final reports included with significant corporate risks.

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SWAP Performance - Summary of Partial Opinions

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.



Summary of Partial Assurances and Significant Service Findings (Priority 1 and 2)

Two audits assessed as Reasonable assurance reported three significant findings. The significant findings have been summarised below.

Hoople – Reasonable

Hoople Ltd was created in 2011 by the Council as a 'Teckal' company. The original Shared Services Agreement was drafted in April 2011 between the Council and the Shared Services Partnership Ltd. The Council and Wye Valley NHS Trust are the two shareholders with 85% and 15% shareholding respectively. The current Hoople Ltd Board who govern Hoople Ltd currently comprises of one Board member from Wye Valley NHS trust; one cabinet member from the Council and the Director of Economy and Place, each role having equal voting rights on Board decisions. The Council, as the majority shareholder, recognises Hoople Ltd service provision and the partnership which is inclusive of honesty, openness and transparency.

The objective of the audit was to confirm that Hoople contracted services are delivered in accordance with the terms and conditions of the service level agreement contract and the desired outcomes are achieved.

Most of the areas reviewed were found to be adequately controlled and risks were found to be monitored, reported, reviewed and discussed through to Board level.

There was one priority 2 finding identifying improvements required in the calculation of some KPIs. During audit testing we found that not all KPIs had written KPI methodologies in support of the KPI calculation and on re-performance testing of original KPI calculations we found that some KPIs reported different figures and supporting data for original calculations was not always retained for a set period.

The Commercial and Contracts Manager has accepted the recommendation and will put actions in place to address the findings by 31st March 2019.

SWAP Performance - Summary of Partial Opinions

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.



Summary of Partial Assurances and significant service findings (Priority 1 and 2)

Compliance with contract and financial procedure rules – revenue – Reasonable

The previous audit report on Commissioning and Procurement was completed in October 2016 and identified that the Council's Contracts register required a review due to inconsistencies in the contract information recorded by Directorates and the Commercial Team and highlighted a risk that the Council may not be able to demonstrate compliance with procurement legislation.

The objective was to review that External Supplier expenditure is in accordance with Financial, Procurement and Contract Rules and to test that operational processes are meeting external codes of practice, best practice and statutory regulations. This audit only included Revenue contracts up to the current EU threshold of £181K and sampled a selection of Low, Medium and High value contracts across all Directorates currently live within the Council's Contracts Register and being serviced within BusinessWorld.

The Commercial Team provide good training, support and advice to the Directorate commercial teams throughout the initial procurement stages of a contract. The Council has in place Contract Procedure Rules and Finance Procedure Rules. There is localised Directorate reliance on compliance with the CPRs and FPRs. However, there is no centralised governance control and oversight in place which includes supplier contract compliance; monitoring and review of value for money and whole contract life management

There were two priority 2 findings:

Central Governance Oversight The primary role of the Commercial Team is to provide advice on procurement process. The Contract Register has a Governance button but there was uncertainty how this should be used, and a number of contracts sampled from the Contract Register did not have the Governance button ticked as Yes. A centralised control should be put into place in support of the governance process before the Commercial Team assist with the procurement process in order to formally establish that all of key governance requirements have been fully completed.

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Internal Audit Plan Progress 2018/2019

SWAP Performance - Summary of Partial Opinions

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.



Summary of Partial Assurances and Significant Service Findings (Priority 1 and 2)

The recommendation has been agreed with Chief Finance Officer with a target date for completion of May 2019.

Spend Analysis

There is no current centralised spend analysis being conducted on whether it would be beneficial for the Council to enter into a contract arrangement with a supplier. Without regular spend analysis there is a risk that the Council may not be maximising value for money.

The Chief Finance Officer has agreed to review the best way of achieving regular spend analysis in order to inform the relevant Directorates whether it would be beneficial to enter into a contract arrangement, whether there is a Framework agreement in place which could be utilised or to advise Directorates of how they can be supported with procurement strategies. The target date for completion is June 2019.

Follow Up Audits

Follow Up Audits

Follow Up audits are completed where the auditor could only provide partial assurance. The follow-up audit is to provide assurance to the Director, Senior Management and the Audit and Governance Committee that the key risks have been mitigated to an acceptable level of risk. Evidence is obtained to demonstrate implementation and progress made in relation to all 2017-18 priority 4 and 5 recommendations. For the priority 3 recommendations progress reported is based on self-assessment by relevant officers. The following table demonstrates progress against agreed actions at the time of the follow up audit completed and correct when this report was prepared on 12 February 2019. The overdue recommendation has a revised target date of 31 May 2019.

Priority of recommendation	Complete	Overdue	Not yet due	In Progress	Superseded
Emergency Planning					

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Internal Audit Plan Progress 2018/2019

4	1	1	0	0	0
3	6	0	0	0	0

Follow Up audits are completed where the auditor could only provide partial assurance.



Follow Up Audits

Internal Control Improvement Board

The further follow up audit is in progress with the majority of testing complete however the report is currently in progress and has yet to be issued to relevant officers. Once the report has been finalised, I will provide the Committee with a copy of the report. For the meeting today I have provided a summary of the audit findings for the work completed to date.

In quarter 2 2018/19 a follow up audit was undertaken for Blueschool House Refurbishment Special Investigation. At this time, it was not possible to assess the overall effectiveness of the control improvements either implemented or in progress because some key deliverables were incomplete. This was in part attributed to the development of in-house project management software, which was not providing all the requirements to satisfy the business need.

The positive findings identified in the previous review are still evident and becoming embedded across the Council:

- Council governance - Modern.Gov system software is utilised to accept/amend or challenge decision reports before submission. Each decision paper must be approved through legal, governance, finance, procurement, risk and communication.
- Governance training – new constitution, use of Modern.Gov, decision making, and report writing is available throughout the year.
- Introduction to Procurement – comprehensive workshop or on-line training is available regularly.
- Financial – overarching holistic view of the capital programme. Monthly monitoring of both revenue and capital expenditure associated with projects.
- Culture – officers within the Council continue to recognise the need for accountability, transparency and a good audit trail.

pleted to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided rovided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Internal Audit Plan Progress 2018/2019

Follow Up audits are completed where the auditor could only provide partial assurance.

In October 2018 the Council's Management Board agreed to roll out 'Verto,' an industry standard Project Management software, used by many councils and already employed within the Adult and Community Directorate. This was to replace the in-house project management software.

Follow Up Audits

The South Wye Transport Package was one project that was considered for review as part of this follow up. However following review of progress of the project and discussion with the Strategic Capital Finance Manager it was determined that the project was not at a point on its journey where it could be used to test compliance with the actions put in place following Blueschool House and would not enable us to form a view at this stage as part of this follow up. The South Wye Transport package has been included in the 2019-10 Internal audit plan as a Governance review in quarter 1 and compliance with the recommended internal controls improvements will be tested as part of that audit.

This work completed to date as part of the follow up found that there were still some areas where although significant progress has been made there are some actions that need to be completed to ensure governance and internal control of projects is fully embedded:

- 'Verto,' to be embedded as the project management system so all projects which meet the criteria for inclusion on the software are captured. Additional project managers have recently been recruited and more are planned to support project management using the software.
- Some change requests to 'Verto' to match business needs are still in progress.
- All projects need to be assessed under the project scorecard to determine the risk rating and apply an appropriate level of project management.
- A designated Project Board should be put in place should be put in place for each project that falls under a higher-level delivery board.

From the financial year 2019-20 quarterly Management Board meetings are planned, dedicated to the review of capital projects. This will be supported at the directorate levels, where projects will be monitored at both existing and newly formed monthly delivery boards.

Internal Audit Plan Progress 2018/2019

In conclusion the infrastructure is in place to have a solid control framework, which needs to be fully embedded. At this stage there is no reason to believe that this will not happen, but as always good oversight will be required.

Added Value

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.



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”.

The followings audits have provided a cross comparison survey for the SWAP Partners:

Internal Communications - The cross comparison undertaken demonstrated that Herefordshire Council’s communications is not out of line with other local authorities but there are channels used elsewhere, which may benefit the organisation.

Elections – Compliance with Data Protection Act 2018 - Comparisons were made against the different data subjects, the methods used to collect data, the notification methods used for the purpose and legal basis for processing the data, retention periods for both paper documents and electronic records, the security arrangements that are in place for both paper and electronic documents, the parties to which data is shared and the methods used to share this data.

Parking Services - Parking is one of the key sources of income for a Council. The benchmarking covered areas they for consideration to improve the service or increase the income received from car parks.

The findings of each survey have been shared with the SWAP Partners.

Internal Audit Plan Progress 2018/2019

SWAP Performance - Summary of Audit Opinions

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- Substantial
- Reasonable
- Partial
- None

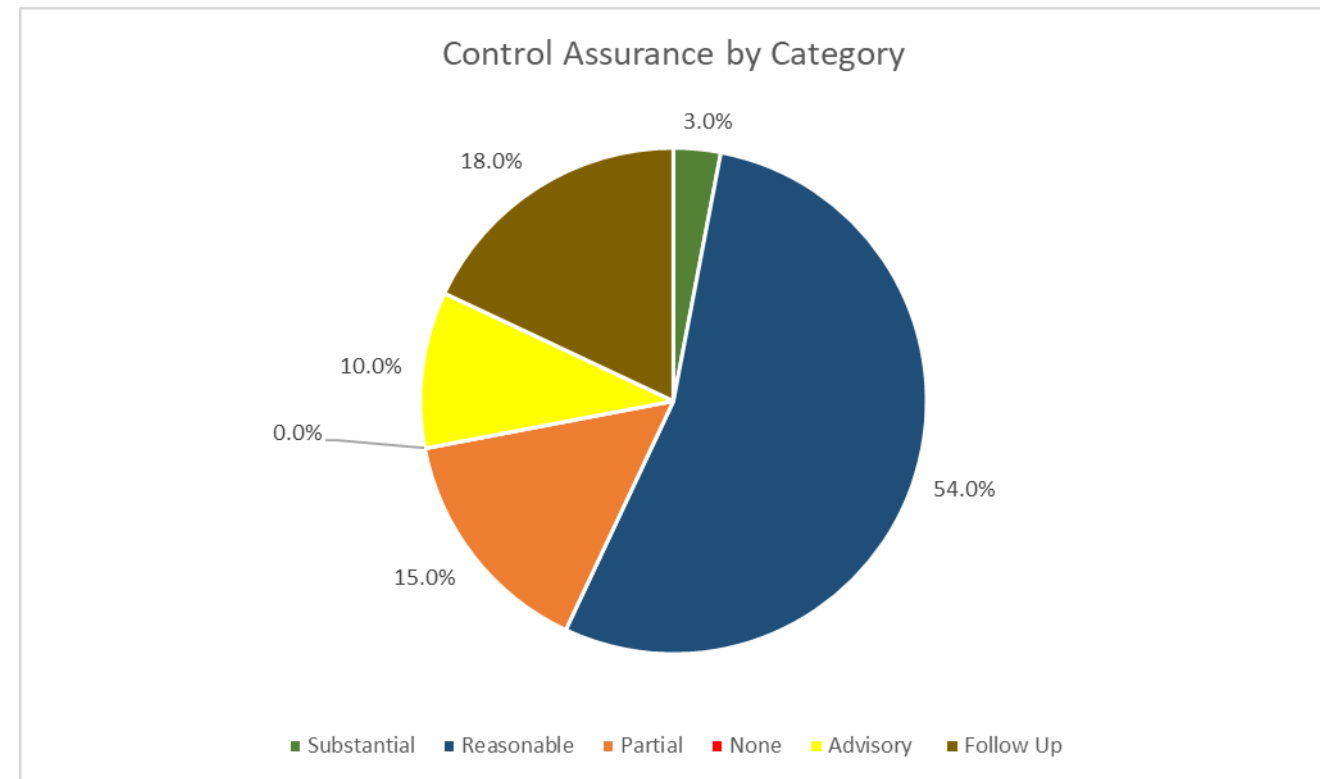
We also undertake Advisory / Non-Opinion work on a consultancy basis where we have been asked to look at a specific area of potential concern.

Where we follow up on a previous adverse audit opinion the opinion is stated as follow up.



Summary of Audit Opinion

Of the reviews that have a final report, the opinions offered are summarised below.



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Internal Audit Plan Progress 2018/2019

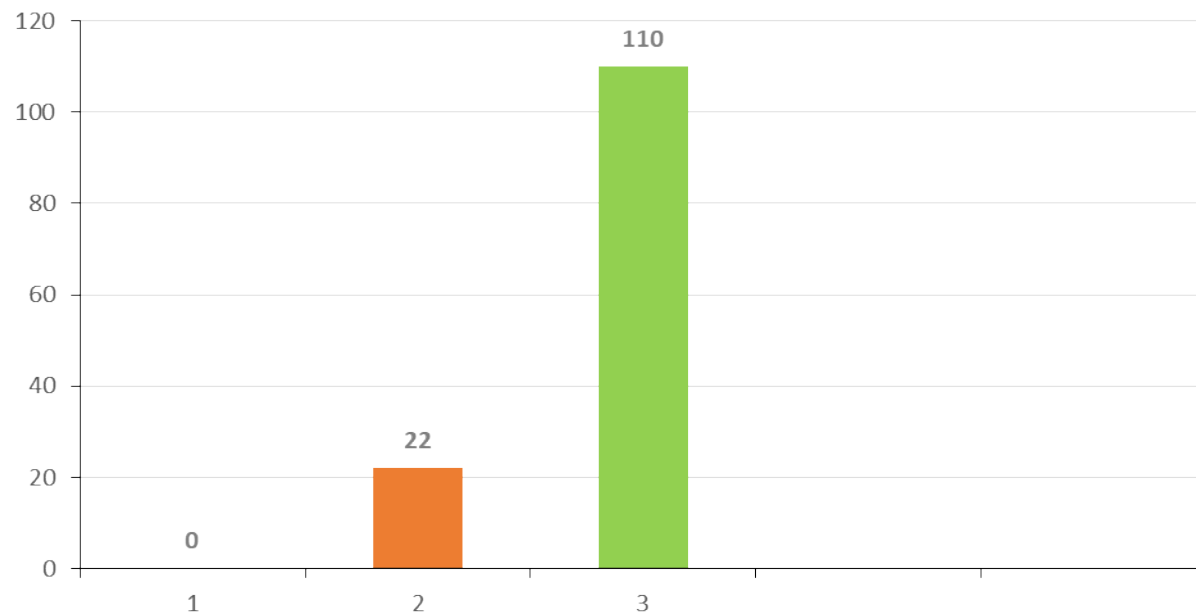
Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of fundamental concern requiring immediate corrective action.



Summary of Recommendations

Audit Recommendations by Priority



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Internal Audit Plan Progress 2018/2019

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



Approved Changes to the Audit Plan

Unplanned work, special reviews or projects carried out on a responsive basis are requested through the Chief Finance Officer (Section 151 Officer). As new and emerging risks are identified, any changes to the plan will be subject to the agreement of the Chief Finance Officer (Section 151 Officer) and reported to this Committee.

There have been no changes since my last update.



Conclusion

Thirty- nine audits have been completed and there are two audits at draft report and a further ten audits are in progress. The completed audits are currently reporting 3% substantial assurance, 54% reasonable assurance and 15% partial assurance. There have been no significant corporate risks identified.

Recommendations have been made for improvement at service level and all findings have been accepted by management and a target date agreed for implementation. No areas of significant corporate concern have been identified.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. A score of 80% would reflect the fact that the client agreed that the review was delivered to a good standard of quality, i.e. agreed with the statement in the questionnaire and satisfied with the audit process and report. The current feedback score for the Council is 100%.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- None
- Advisory



Audit Framework Definitions

Control Assurance Definitions

Substantial	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	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	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	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.

Advisory - In addition to our opinion-based work we will provide consultancy services. The advice offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

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Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

Risk	Reporting Implications
	In addition to the corporate risk assessment it is important that management 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. Each recommendation has been given a priority rating at service level with the following definitions:
Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Definitions of Risk

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

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Summary of Partial Opinions

APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium Recommendation		
						1	2	3
Governance, Fraud & Corruption	NMITE Project (University)	1	Completed	Reasonable	4	0	1	3
Governance, Fraud & Corruption	Joint Use Agreement - Ledbury Rugby Club	1	Completed	Advisory	2	0	0	2
Governance, Fraud & Corruption	Highways Projects - Capital Spend	1	Draft Report					
Operational	Building Control	1	Completed	Reasonable	7	0	0	7
Operational	Special Educational Needs Transport	1	Completed	Partial	7	0	4	3
Operational	Property Maintenance - Schools	1	Deferred to 2019-20	-	-	-	-	-
Operational	Internal Communications	1	Completed	Reasonable	5	0	0	5
Operational	Records Management	1	Completed	Reasonable	3	0	0	3
Schools	Schools Financial Value Standard - School 1	1	Completed	Partial	13	0	5	8
Schools	Schools Financial Value Standard - School 2	1	Completed	Reasonable	5	0	1	4
Schools	Schools Financial Value Standard - School 3	1	Completed	Partial	8	0	2	6
Schools	Schools Financial Value Standard - School 4	1	Completed	Reasonable	7	0	0	7
Operational	Safer recruitment - Children's Wellbeing - Staff and Agency Staff	1	Completed	Reasonable	6	0	0	6
ICT	Patch Management	1	Completed	Reasonable	4	0	0	4
ICT	IT Access Controls –Mosaic and other systems used by AWB and CWB	1	Completed	Partial	6	0	2	4
Follow Up	Deprivation of Liberties	1	Completed	Follow Up	-	-	-	-
Key Control	Council Tax	2	Completed	Reasonable	2	0	0	2

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium Recommendation		
						1	2	3
						Key Control	Housing Benefit and Council Tax Reduction	2
Governance, Fraud & Corruption	NMITE Project (University) End of July 18 assurance	2	Completed	Advisory		–	–	–
Governance, Fraud & Corruption	Corporate Peer Challenge	2	In Progress					
Governance, Fraud & Corruption	Internal Control Improvement Board	2	Completed	Follow up	-	-	-	-
Grant Certification	Local Transport Block Funding – Grant Certification	2	Completed	Reasonable	1	0	0	1
Governance, Fraud & Corruption	Effectiveness of programme Boards for major system changes/projects	2	Not Started					
Operational	Health and Safety	2	Completed	Partial	6	0	2	4
Operational	Compliance with contract and financial procedure rules – revenue	2	Completed	Reasonable	9	0	2	7
Operational	Hoople	2	Completed	Reasonable	5	0	1	4
Operational	Integrated Short Term Support and Care Pathway - DToC plan – Front Door Customer Service – Redirected.	2	Completed	Reasonable	5	0	0	5
Operational	Client finance System - Interface between all systems –	2	Deferred to 2019-20	-	-	-	-	-
Operational	Use of regional framework for foster care	2	In Progress					
ICT	Third Party Agreements (including Cloud)	2	Completed	Partial	6	0	2	4
Key Control	Accounts Payable	3	Completed	Reasonable	2	0	0	2
Key Control	Main Accounting	3	Completed	Substantial	1	0	0	1
Key Control	Payroll	3	Completed	Reasonable	4	0	0	4
Key Control	Accounts Receivable	3	Completed	Reasonable	2	0	0	2

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium Recommendation		
						1	2	3
						Key Control	Capital Accounting	3
Key Control	NNDR	3	Discussion Document					
Governance, Fraud & Corruption	NMITE Project (University) End of October 18 assurance	3	Completed	Advisory	-	-	-	-
Governance, Fraud & Corruption	Declaration of personal and business interests	3	Removed	-	-	-	-	-
Grant Certification	Redundant Building Grant Funding	3	Not Started					
Operational	Local population forecast using for future planning such as house building requirement	3	Removed	-	-	-	-	-
Grant Certification	Troubled Families – Monthly assurance on claims to end of March 2019	3	In Progress					
Operational	Integrated Short Term Support and Care Pathway - County Teams	3	Draft Report					
Governance, Fraud & Corruption	Children’s centres – governance and financial control	3	Deferred to 2019-20	-	-	-	-	-
Operational	Care Workforce Project – support to Domiciliary Care Agencies recruitment	4	Not Started					
Operational	Contract Monitoring	4	In Progress					
Governance, Fraud & Corruption	NMITE Project (University) End of January 19 assurance	4	In Progress					
Governance, Fraud & Corruption	EU General Data Protection Regulation	4	In Progress					
Operational	P- Cards	4	In Progress					
Operational	Mandatory Training	4	Deferred to 2019-20	-	-	-	-	-
Governance, Fraud & Corruption	Treasury Management Counterparty	3	Completed	Advisory	-	-	-	-
Governance, Fraud & Corruption	Blue Badges	4	Completed	Reasonable	5	0	0	5

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium Recommendation		
						1	2	3
						Operational	Development Regeneration Partnership	4
Operational	AWB Contract Management	4	In Progress					
Governance, Fraud & Corruption	Quality Assurance Framework	4	In Progress					
Operational	Homepoint - Review of new provider	4	Deferred to 2019-20	-	-	-	-	-
Follow Up	Internal Control Improvement Board	4	In progress					
Schools	Prevention of Fraud (Schools)	4	In Progress					
Follow Up	Serious and Organised Crime Audit checklist	4	Not Started					
Follow Up	Data Sharing Protocols with partners and third parties	4	Completed	Follow Up	-	-	-	-
Follow Up	Market Intelligence	4	Completed	Follow Up	-	-	-	-
Follow up	Emergency Planning - Public Health	4	Completed	Follow Up	-	-	-	-
Operational	Honorarium, Market Forces and Standby and on call payments	4	Completed	Reasonable	3	0	0	3
Follow Up	Annual Care Assessment -Social Care Workforce Performance	4	Completed	Follow Up	-	-	-	-
Follow Up	Short Breaks - Children's Wellbeing	4	Not Started					
Follow Up	Public Health Contracts	4	Not Started					
Follow Up	Data Quality - Decision Making Reports and Corporate Budget Performance Reports	4	Completed	Follow Up	-	-	-	-
Follow Up	CHC Funding	4	Completed	Follow Up	-	-	-	-



Meeting:	Audit and governance committee
Meeting date:	Tuesday 19 March 2019
Title of report:	Internal Audit Plan 2019-20 and Internal Audit Charter
Report by:	Chief finance officer / internal audit

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

Internal Audit Plan 2019-20

To be assured that the level and range of activity within the proposed annual internal audit plan is sufficient to provide assurance over the council's corporate governance arrangements.

To ensure the council complies with recommended best practice as set out in the PSIAS.

The 2019/20 internal audit programme of work will be equivalent to 900 days the same as in 2018-19.

Internal Audit Charter

To approve the internal audit charter for the period 1 April 2019 to 31 March 2020.

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) and the CIPFA Local Government Application Note.

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

Recommendation(s)

That:

- (a) the proposed internal audit plan 2019-20 at appendix A be reviewed and the committee determine any recommendations it wishes to make regarding the level and range of activity proposed in order that the work carried out may give a satisfactory level of assurance over the council's corporate governance arrangements; and**
- (b) the internal audit charter at appendix B be approved**

Alternative options

- 1. There is no alternative option to an internal audit plan as it 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.
- 3. The alternative option is to not approve the internal audit charter. As this is a requirement of the arrangements between Herefordshire Council and the South West Audit Partnership (SWAP) it would put us in breach of our agreement.

Key considerations

- 4. 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. The plan has been developed in conjunction with senior management and consideration has been given to audits deferred from 2018-19 as well as areas suggested by the audit and governance committee such as the governance assurance in relation to the South Wye Transport Package.
- 5. The internal audit charter (appendix B) sets out the nature, role, responsibility, status and authority of internal auditing within Herefordshire Council, and to outline the scope of internal audit work. The charter has not altered since 2018.

Community impact

- 6. The council's code of corporate governance commits the council to managing risks and performance through robust internal control and strong public financial management and to implementing good practices in transparency, reporting, and audit to deliver effective accountability. 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.
- 7. 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.

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

Equality duty

8. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
9. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

10. The council is a SWAP partner and the Section 151 Officer (Chief Finance Officer) is the council's nominated director on the Board of South West Audit Partners Ltd. It is a Partnership arrangement and resources are equalised across the Partnership. The legal agreement sets out the delivery which as a minimum should be 90% of the plan. SWAP has delivered 100% of the plan since the council became a partner in 2014.
11. The council's revenue budget includes appropriate budget to fund the equivalent of 900 audit days from SWAP. There is no planned reduction in the number of audit days from previous years.

Legal implications

12. 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.
13. The council is under a duty to make adequate arrangements for its internal audit functions and has chosen to appoint an external partner to assist with the discharge of this function.
14. The charter forms part of the legal agreement which the Council has entered into with SWAP. Both parties have committed to refreshing the charter on an annual basis to establish a clear expectation of the annual priorities and processes by which the audit service will be provided.

Further information on the subject of this report is available from

Jacqui Gooding, email: Jacqui.Gooding@swapaudit.co.uk

Risk management

15. 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.
16. Risks identified by internal audit are mitigated by actions proposed by management in response. Progress on implementation of agreed actions is reported to this committee every six months.
17. 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

18. The views of the directors, chief finance officer and other key officers have informed development of the proposed internal audit plan.
19. The chief finance officer was consulted in the drafting of the internal audit charter.

Appendices

Appendix A – Internal annual audit plan report 2019-20.

Appendix B - Internal Audit Charter

Background papers

None identified.

Herefordshire Council

Proposed 2019-20 Internal Audit Plan and Internal Audit Charter

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Appendix A

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

The Internal Audit Plan

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2019/20 financial year.

Delivery of an internal audit programme of work that provides sufficient and appropriate coverage, will enable us to provide a well-informed and comprehensive year-end annual internal audit opinion.



Introduction and Objective of the Internal Audit Plan

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

It should be noted that internal audit is only one source of assurance, and the outcomes of internal audit reviews should be considered alongside other sources, as part of the 'three lines of defence' assurance model. Key findings from our internal audit work should also be considered in conjunction with completion of the Authority's AGS.

It is the responsibility of the Authority's Management Board, and the Audit and Governance Committee, to determine that the audit coverage contained within the proposed audit plan is sufficient and appropriate in providing independent assurance against the key risks faced by the organisation.

When reviewing the proposed internal audit plan (as set out in Appendix 1), key questions to consider include:

- Are the areas selected for coverage this coming year appropriate?
- Does the internal audit plan cover the organisation's key risks as they are recognised by the Management Board and Audit and Governance Committee?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

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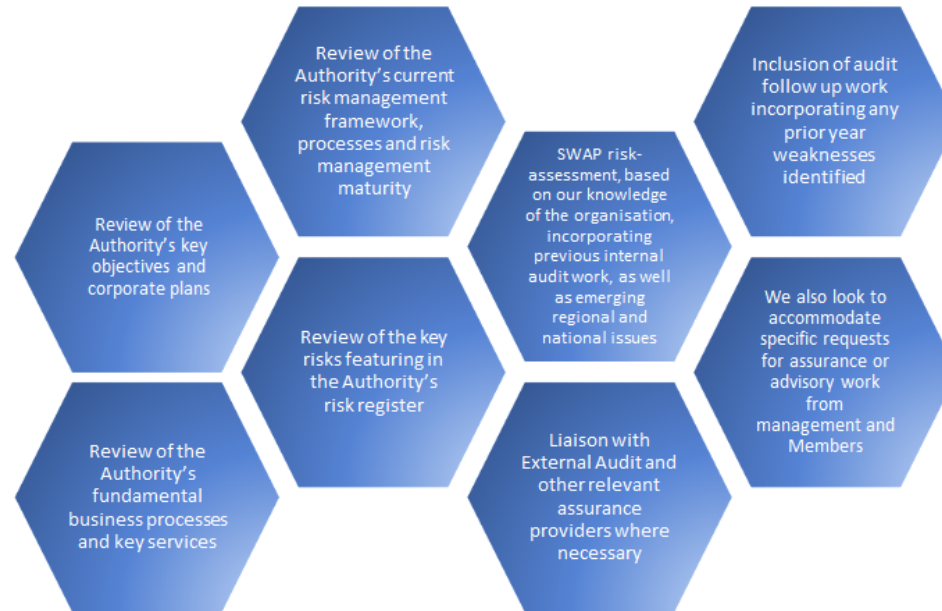
The Internal Audit Plan

To develop an appropriate risk-based audit plan, SWAP have consulted with senior management, as well as reviewing key documentation, in order to obtain an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes.



Approach to Internal Audit Planning 2019/20

The factors considered in putting together the 2019/20 internal audit plan have been set out below:



Due to the pace of change within Local Authorities, it is becoming increasingly difficult to accurately predict longer-term key organisational risks.

We will regularly re-visit and adjust our programme of audit work to ensure that it matches the changing risk profile of the organisation's operations, systems and controls. Our 2019/20 audit plan therefore remains flexible to respond to new and emerging risks as and when they are identified.

The Internal Audit Plan

A documented risk assessment prior to developing an internal audit plan, ensures that sufficient and appropriate areas are identified for consideration.

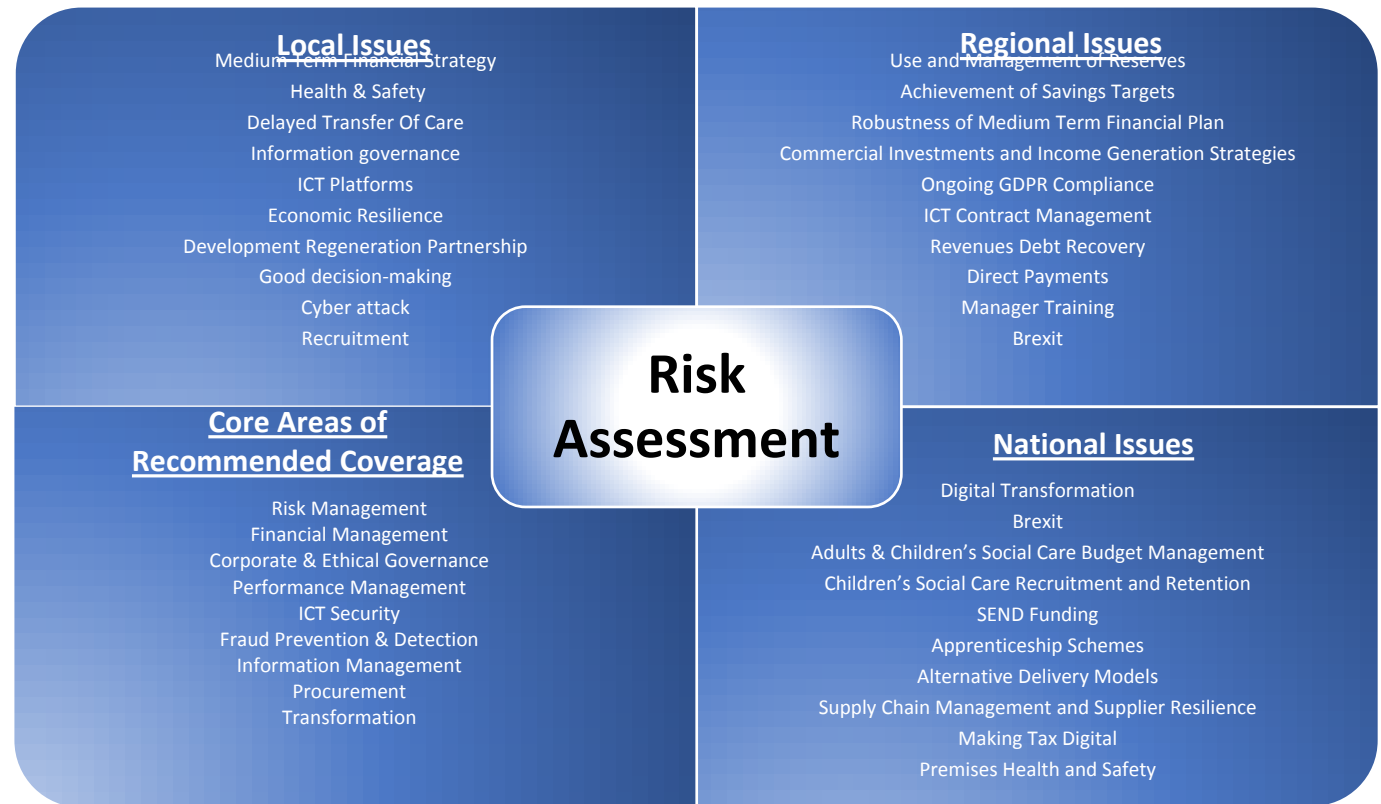
As above, it is the responsibility of the Authority's Leadership Team, and the Audit and Governance Committee to ensure that, following our risk assessment, the proposed plan contains sufficient and appropriate coverage.



Internal Audit Annual Risk Assessment

Our 2019/20 internal audit programme of work is based on a documented risk assessment, which SWAP will re-visit regularly, but at least annually. The input of senior management as well as review of the Authority's risk register will be considered in this process.

Below we have set out a summary of the outcomes of the risk assessment for Herefordshire Council.



The Internal Audit Plan

SWAP Internal Audit Services Ltd is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes 26 public sector partners, crossing eight Counties, but also providing services throughout the UK.

As a company, SWAP has adopted the following values, which we ask our clients to assess us against following every piece of work that we do:

- Candid
- Relevant
- Inclusive
- Innovative
- Dedicated



Your Internal Audit Service

Audit Resources

The 2019/20 internal audit programme of work will be equivalent to 900 days. The current internal audit resources available represent a sufficient and appropriate mix of seniority and skill to be effectively deployed to deliver the planned work. The key contact in respect of your internal audit service is:

Jacqui Gooding, Assistant Director – Jacqui.gooding@swapaudit.co.uk, Tel: 07872500675

Conformance with Public Sector Internal Audit Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Every three years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in March 2016 which confirmed conformance with the Public Sector Internal Audit Standards.

Conflicts of Interest

We are not aware of any conflicts of interest within Herefordshire Council that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, & Competency.

Consultancy Engagements

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion and will be included in our plan of work.

Approach to Fraud

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have dedicated counter fraud resource available to undertake specific investigations if required. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

The Internal Audit Plan

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- Regular newsletters and bulletins containing emerging issues and risks
- Communication of fraud alerts received both regionally and nationally
- Annual Member training sessions
- Benchmarking and sharing of best-practice between our public-sector Partners

Our Reporting

A summary of internal audit activity will be reported quarterly to senior management and the Audit and Governance Committee. This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit and Governance Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

Internal Audit Performance:

As part of our regular reporting to senior management and the Audit and Governance Committee, we will report on internal audit performance. The following performance targets will be used to measure the performance of our audit activity:

Performance Measure	Performance Target
<p style="text-align: center;"><u>Delivery of Annual Internal Audit Plan</u> Completed at year end</p>	>95%
<p style="text-align: center;"><u>Quality of Audit Work</u> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i></p>	>95%

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It should be noted that the audit titles below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.

Audit Type	Areas of Coverage	Directorate
Key Financial Controls	Accounts Payable – follow up	Corporate Services- Finance, Legal and Democratic Services
	Main Accounting – full key control audit	
	Payroll – follow up	
	Accounts Receivable – follow up	
	Capital Accounting – follow up	
	Council Tax -follow up	
	NNDR – audit to include exemptions, discounts, suspended accounts	
	Treasury Management – full key control audit	
	Housing and Council Tax Benefits – follow up	
Operational	Housing	Economy and Place
Governance	Grant Funding	
Operational	Coroners/Registrars	
Operational	Income Charging	
Operational	Development Regeneration Programme	
Operational	Transport / Highways policy setting	
Operational	Environmental Health / Trading Standards	
Governance	South Wye Transport package – Governance and contractor payments	
Operational	Cemeteries / Crematoriums	
Operational	Property Maintenance – Schools (Deferred from 2018-19)	

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Audit Type	Areas of Coverage	Directorate
Operational	Integrated Short-Term Support and Care Pathway - Carers Assessment	Adults and Communities
Operational	Integrated Short-Term Support and Care Pathway - DToC plan	
Operational	Development of Community Strategy	
Operational	Integrated Short-Term Support and Care Pathway phase 4 Housing Pathway	
Operational/ICT	Client finance System - Interface between all systems	
Operational	Continuing Health Care Funding	
Operational	Workforce Development	
Operational	Quality Assurance Panel Process	
Operational	Homepoint - Review of new provider (Deferred from 2018-19)	
Grant Certification	Troubled Families	Children and Families
Operational	Independent review officer services	
Operational	Schools Exclusion Policy	
Schools	Prevention of Fraud (Schools)	
Operational	Children’s centres – Governance and Financial Controls (Deferred from 2018-19)	
Schools	Schools Financial Value Standard	
Operational	Section 20 – Children accommodated by the Local Authority	
Governance	Members Expenses	Corporate Services – Corporate Support
Operational	Facilities Management	
Governance	Compliance with Financial Regulations	
Operational	Strategic Partnerships	
ICT	ICT Applications	
ICT	Data Centres	
ICT	Incident Management to include Ransomware	

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Audit Type	Areas of Coverage	Directorate
Operational	Mandatory Training (Deferred from 2018-19)	Corporate Services - People and Performance
Operational	Project Delivery/project management	
Operational	Disclosure and Barring Service	
Operational	Service Planning	
Governance	NMITE Project	Corporate Services- Finance, Legal and Democratic Services
Grant Certification	Bus Subsidy grant	
Governance	Reserves	
Governance	Savings Targets	
Governance	Brexit Preparedness	
Operational	Contracts - Public Realm, Waste and Balfour Beatty (1 year FM contract)	
Operational	RNIB Site for HE College	
Governance	Local Transport Block Funding	
Governance	Follow Up audits – Partial Assurance in 2018-19	
Management	Corporate/ General Advice	
Management	Committee Reporting and attendance	
Management	Planning /Client Liaison/Team Development	
Management	External Audit liaison	

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The 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 last approved by the Audit & Governance Committee on 21st March 2018 and is presented to the Committee today 19th March 2019 to confirm it remains accurate and up to date.

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 Head of Internal Audit, Chief Financial Officer (as s151 Officer) 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

Management¹

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 Council's Chief Executive and the Audit & 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.

Internal Audit

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

¹ In this instance Management refers to the Management Board

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. Members of SWAP who have transferred in to the department from other areas in 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 for SWAP, the Executive Director and Assistant Director also report to the Chief Finance Officer as Section 151 Officer, and report 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.

The Assistant Director will be the first and primary point of contact for Herefordshire Council for all matters relating to the Audit and Governance Committee, including the provision of periodic reports. The Assistant Director is also responsible for the design, development and delivery of audit plans, subject to the agreement of the partner or client.

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 auditor's 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 & 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 two 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 Head of Internal Audit, Chief Financial Officer (as s151 Officer) and to other relevant line management.

The Assistant Director 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 SWAP Directors and Assistant Directors 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 Officer or the External Audit Manager.

March 2019



Meeting:	Audit and governance committee
Meeting date:	Tuesday 19 March 2019
Title of report:	Annual Governance Statement 2018/19
Report by:	Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

To seek the views of the committee as to whether the draft annual governance statement 2018/19 properly reflects the risk environment the council is operating in and the appropriateness of any actions required to improve it.

The council is required to publish a statement annually which explains to the community, service users, tax payers and other stakeholders our governance arrangements and how the controls we have in place manage risks of failure in delivering our outcomes and reflecting our particular features and challenges. The draft statement is attached at appendix 1 and sets out the arrangements we have in place, the outcome of an initial review of their effectiveness, and actions we are taking to make improvements; a more detailed action plan in relation to these proposed actions will accompany the final draft.

The draft will be published with our draft statement of accounts in May. A final draft will be presented to the committee for approval in July once the internal and external auditors' opinions in respect of 2018/19 are available.

Recommendation(s)

That:

- (a) **the committee determines whether the draft annual governance statement at appendix 1 properly reflects the risk environment the council is operating in and that**

Further information on the subject of this report is available from
Annie Brookes, Tel: 01432 260605, email: ab1@herefordshire.gov.uk

actions identified are an appropriate response.

Alternative options

1. There are no alternatives to publishing an annual governance statement, which is a requirement of the Accounts and Audit Regulations 2015.
2. It is open to the committee to propose amendments to the draft statement to ensure it accurately reflects the council's governance arrangements and their effectiveness, and to ensure that proposed actions are appropriate.

Key considerations

3. The council is required to publish a statement annually which explains to the community, service users, tax payers and other stakeholders our governance arrangements and how the controls we have in place manage risks of failure in delivering our outcomes and reflecting our particular features and challenges.
4. The preparation and publication of the annual governance statement has been carried out in accordance with the guidance produced by the Chartered Institute of Public Finance and Accountancy: 'Delivering Good Governance in Local Government'.
5. The guidance advises that statements should be meaningful but brief, high level, strategic and written in an open and readable style, and should include:
 - an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance
 - reference to and assessment of the effectiveness of key elements of the governance framework (set out in the code of corporate governance) and the role of those responsible for the development and maintenance of the governance environment, such as the council, the executive, the audit committee, internal audit and others as appropriate
 - an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework
 - an agreed action plan showing actions taken, or proposed, to deal with significant governance issues
 - reference to how issues raised in the previous year's annual governance statement have been resolved
 - a commitment to monitoring implementation as part of the next annual review
6. The timetable for production and publication of the statement is provided below:

Draft statement considered by Audit and Governance Committee	19 March
Manager checklists to be completed	By 13 April
Director and statutory officer assurance statements to be completed.	By 30 April

Draft revised having regard to director and statutory officer assurance statements and any views expressed by the Audit and Governance Committee	Early May
Draft statement published with draft accounts	By end May
Draft reviewed in light of external auditor and head of internal audit opinion, and any further views of independent person	July
Final draft statement approved by Audit and Governance Committee	30 July
Approved statement published with statement of accounts	By end July

7. The committee received a report on progress made delivering the action plan in response to last year's statement at its meeting on 23 January; a further report on that action plan will be provided to the committee in July and any continuing actions will be reflected in the 2019/20 action plan.
8. The draft statement is provided at appendix 1, and shown with tracking in appendix 2 to show where changes have been made since the 2017/18 statement. Where data for the year is to be supplied these areas are identified as to be completed at year end.

Community impact

9. Corporate governance is the term used to describe the systems, processes, culture and values the council has established to ensure we provide the right services, to the right people in a timely, open, and accountable way. Good corporate governance encourages better informed longer-term decision making using resources efficiently, and being open to scrutiny with a view to improving performance and managing risk.
10. The annual review ensures that our arrangements are effective in supporting achievement of the council's vision and corporate plan priorities

Equality duty

11. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:
A public authority must, in the exercise of its functions, have due regard to the need to -
 - (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
12. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate

that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. Compliance with our code of corporate governance ensures that we demonstrate how we are fulfilling this duty.

Resource implications

13. None associated with the recommendations. If the committee proposes further actions, the resource implications of implementing those actions will need to be considered.

Legal implications

14. The Accounts and Audit Regulations 2015 include a requirement for all councils to produce an annual governance statement, and set out the timescales by which they must be published. The draft statement ensures that the council will comply with these requirements.

Risk management

15. The statement itself identifies any high level or strategic governance risks and the action plan provides mitigation to those risks.

Consultees

16. The draft has been informed by the views of both the external auditor and head of internal audit; the final draft will reflect their opinions for the relevant year once these are available in July.
17. The views of the council's Independent Person have also been sought in relation to standards. Mr Stow raised the following issues:
18. *Appeals*. Mr Stow noted that an appeals process for code of conduct complaints is now in place and procedures to support this have been improved and suggested that the feedback from those involved in appeals should continue to be monitored. This is already part of the operational practice, and data collected will inform the annual code of conduct report which is received by the committee.
19. *Joint protocol with the police regarding Disclosable Pecuniary Interests*. Noting that a draft protocol is with the police Mr Stow would wish to see this expedited, commenting: "In the absence of an agreed protocol, the governance risk is low likelihood but potentially high impact in terms of possible reputational damage (for instance, if the Police prosecute a member after the Council has rejected a complaint against them)". This issue continues to be reflected in the draft statement.
20. *Failure to comply with a sanction*. Mr Stow expressed concern that the committee had not acted on his previous recommendation to amend the arrangements to provide explicit reference to action to be taken to enforce compliance with a sanction. He proposed that the arrangements be amended to include: "If necessary, sanctions imposed on Herefordshire Councillors for code breaches will be enforced by removal from committees and external appointments, and by publicity including a motion of censure at full Council". At its November meeting, the committee noted that compliance was routinely monitored and agreed that the arrangements should make clear that in the event of non-compliance the matter should be referred to the Standards Panel. The sanctions open to the Standards Panel include those proposed by Mr Stow. The revised arrangements taking

account of this change and those changes reported to the committee in January have recently been published and the statement reflects this improvement.

21. *Monitoring Officer rejection of complaints against a Herefordshire Council member.* Mr Stow remains concerned that the arrangements enable the Monitoring Officer to reject a complaint against a Herefordshire Council member without reference to the Independent Person raising a reputational risk that the Monitoring Officer could be perceived by the public not to be acting independently. In practice, the rejection of a complaint against a Herefordshire Council member without reference to the Independent Person is exceptional (there have been no instances in the current year), and such a decision is taken only where there is clear verifiable evidence, such as an audio recording, to support such a decision. Additional safeguards and protections also exist in law to support the maintenance of the independence of the Monitoring Officer and other specified statutory officers.

Appendices

Appendix 1 – Draft Annual Governance Statement 2018/19

Appendix 2 – Draft Annual Governance Statement 2018/19 (showing tracked changes from 2017/18)

Background papers

None identified.

Annual governance statement 2018/19

What is governance?

1. Governance determines who has authority, who makes the decisions and how the council is kept accountable. It is how the council ensures we provide the right services, to the right people in a timely, open, and accountable way. Good corporate governance encourages better informed longer-term decision making using resources efficiently, and being open to scrutiny with a view to improving performance and managing risk.

What is the annual governance statement?

2. The council is required by the Accounts and Audit Regulations 2015 to prepare and publish an annual governance statement, in order to report publicly on the extent to which we comply with our own [code of corporate governance](#), including how we have monitored the effectiveness of our arrangements in year and on any planned changes to our governance arrangements in the coming year.
3. In this document the council:
 - acknowledges its responsibility for ensuring that there is a sound system of governance;
 - summarises the key elements of the governance framework and the roles of those responsible for the development and maintenance of the governance environment;
 - describes how the council has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period;
 - provides details of how the council has responded to any issue(s) identified in last year's governance statement; and
 - reports on any key governance matters identified from this review and provides a commitment to addressing them.
4. The annual governance statement reports on the governance framework that has been in place for the year ended 31st March 2019.
5. It should be noted however, that any system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Scope of responsibility

6. Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and efficient and effective services.
7. To meet these responsibilities the council has put in place proper arrangements for overseeing what we do. These arrangements are intended to make sure that we have the right people, doing the right things, at the right time, for the right reasons, and in the right way, in an open, inclusive and accountable manner.
8. The council has adopted a code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (“CIPFA”)/Society of Local Authority Chief Executives (“SOLACE”) framework for delivering good governance in local government (2016).

The purpose of the governance framework

9. The governance framework comprises the systems, processes, culture and values by which the council is controlled, and also sets out how the council accounts to, engages with and leads the community.
10. The governance framework enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
11. The system of internal control is a significant part of that framework and is based on an ongoing process designed to:
 - identify and prioritise the risks to the achievement of the council’s policies, aims and objectives;
 - assess the likelihood and impact of the risks should they be realised; and
 - manage the risks efficiently, effectively and economically.
12. The framework operates at three levels:

Level 1 - Business and operational management. Operational management and staff delivering objectives, Identifying risks and improvement actions, implementing controls, reporting progress, providing management assurance, and ensuring compliance: supported by

Level 2 - Oversight and support. Portfolio holders, scrutiny and audit and governance committees, senior managers and statutory officers provide strategic, policy and direction setting, decision-making, and assurance oversight; validated by

Level 3 - Independent assurance. Internal and external audit, inspection and review agencies, and regulators provide independent challenge and audit, reporting assurance, and audit opinion in relation to assurance levels.

How has the annual governance statement been prepared?

13. The process, jointly led by the section 151 officer and the monitoring officer, has:
- a) reviewed our existing governance arrangements against the guidance included in CIPFA/SOLACE ‘Delivering Good Governance in Local Government’ framework - 2016;
 - b) reviewed our code of corporate governance to ensure it reflects this guidance and includes the recommended seven principles of good governance; and
 - c) assessed the effectiveness of our governance arrangements against the code of corporate governance. The key sources of assurance that inform this review are set out in the following table.

What we are seeking assurances on	What sources of assurance we will use
<ul style="list-style-type: none"> ○ Delivery against corporate and service delivery plans whilst observing the principles of good governance ○ Delivery of sustainable economic, social and environmental benefits ○ Design and effectiveness of internal controls, risk management and counter fraud measures ○ Strong commitment to ethical values ○ Compliance with laws, regulations, and the council’s constitution, strategies, policies and procedures ○ Key governance tools (e.g. financial, performance and risk management and reporting) are fit for purpose ○ Direction of travel of previously identified governance issues 	<ul style="list-style-type: none"> ○ Management assurances re compliance with laws and regulations, corporate strategies, policies, plans and arrangements e.g. constitution, financial and performance monitoring and reporting, and risk management ○ Statutory officers’ declarations ○ Significant partnerships’ governance risk assessments ○ Internal audit reports and opinions ○ Findings from Audit & Governance and scrutiny committees ○ External bodies and inspectorates reports ○ Views of the council’s appointed Independent Person(s)

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Review of effectiveness

14. The tables below set out the findings of the review.

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- In May 2017 the council agreed a new [constitution](#) which sets out the council's [values](#), how the council operates, how decisions are made and the procedures to be followed to ensure adherence to these principles. The constitution is reviewed biennially by the council's Audit and Governance Committee, and during 2018/19 the constitution was subject to a working group review with council adopting revisions to the constitution in May 2018. Revised financial and contract procedure rules were approved in November 2018, and training sessions are provided monthly on procurement and commissioning.
- Councillors are expected to follow the council's adopted [code of conduct](#). The Monitoring Officer provides advice to members on the code and reports on its effectiveness to the Audit and Governance Committee who regularly review the code. The council has an Independent Person to assist the council in promoting high standards of conduct by elected and co-opted members of Herefordshire Council and town and parish councils. During 2018/19 maintained recruitment campaign was undertaken resulting in the appointment in February 2019 of a further eight independent persons, providing resilience to the arrangements. Registers of interest are maintained and regularly reviewed and declarations of interest are routinely sought and recorded at the start of meetings. The [standards procedure](#) supporting the code of conduct and the appeals procedure introduced in May 2018 have been reviewed and a number of changes made to improve clarity and provide consistency of approach. Responding to concerns raised by the Independent Person the development of a formal protocol between the Monitoring Officer and the police continues to be explored and there is ongoing dialogue between the two parties to ensure that there is a clear and shared understanding of the issues.
- During the year the report "Local Government Ethical Standards" was published by the government's Committee on Standards in Public Life. Whilst the government's response to the review findings is awaited, the report identifies a number of areas of good practice. Local practice is being mapped against that recommended good practice, some of which is already in place in Herefordshire. As part of the annual code of conduct report scheduled for consideration by the Audit & Governance Committee in July 2019, options for implementation of remaining good practice recommendations will be set out.
- Employees are expected to follow the council's [employee code of conduct](#). A review of this code was undertaken in 2017 and a revised code was consulted on. Approval of a new code was given in July 2018, but implementation has been delayed pending development of an online reporting system to support the declarations process and will be effective from 1 April 2019. The revised code provides greater clarity about the standards of behaviour expected of employees, supported by improved processes for maintaining a register of employees' interests and a programme of communication and training for all employees.
- The required leadership employee behaviours and values are embedded into the council's employee Performance and Development Plan process which has been reviewed and refreshed during the year.

- A [member and officer relations code](#) is in place which provides guidance so that relationships are maintained in such a way as to ensure the smooth running of the council, that members receive impartial and objective advice, and officers are protected from accusations of bias or undue influence from councillors. Training has been provided to managers and offered to political groups to support the maintenance of effective member officer relationships; this will continue.
- The council has an [Anti-Fraud, Bribery and Corruption Policy](#) which is reviewed every two years to ensure it remains fit for purpose.
- The council has processes in place to [make a complaint](#), and to ensure complaints are investigated appropriately. All council members and employees are expected to deal with members of the public with dignity and respect at all times. This is embedded in the council's values, and codes of conduct. We also expect all members of the public to behave in a reasonable manner when dealing with representatives of the council, and has in place an [unreasonable behaviour policy](#).
- The council has a [Whistleblowing Policy](#) in place which has been reviewed and a revised policy and procedure was approved by the Audit and Governance Committee in May 2018. The revised policy and procedure has been widely communicated to all employees and managers; numbers of issues raised under the policy have [to be updated at year end when numbers and trends known].
- The constitution sets out clearly who fulfils the various roles and responsibilities of the council including decision making authority. The council ensures that advice is provided to decision makers to ensure compliance with the law and that the council can demonstrate how our decisions can support fulfilment of our public sector equality duty.
- There are processes in place to ensure that policies and procedures comply with the statutory requirements, and a programme of periodic review has been established to ensure that they remain compliant and fit for purpose, although this programme has not been progressed at the pace expected and an improvement in the implementation of this review programme will be sought in the coming year.
- During 2017/18 a high court judgement found that some historic children's social care practice in relation to the application of s20 of the Children's Act 1989 had not been in compliance with the current application of law. Whilst the findings noted that improvements in practice had already been made it was also acknowledged that a number of further cases relating to the same period were likely. Two further judgements were issued in 2018/19, and the issues identified were subject to debate at an extraordinary meeting of Council. Improvement actions are being implemented and the Children and Young People's Scrutiny Committee has continued to provide challenge and focus for the improvement activity.
- Following a high profile legal ruling against another council relating to deprivation of liberty (DoL) a significant rise in DoL assessments nationally was reflected in Herefordshire. Although resource for this service was increased demand remains at a high level and, pending anticipated legislative changes, assessments are being prioritised on a risk basis.

Summary

The council complies with this principle by ensuring its members and officers behave in ways that exemplify high standards of conduct and effective governance and that its organisational values are put into practice. The following activities are planned to ensure these standards and values are maintained:

- Implement the revised employee code of conduct
- Provide code of conduct training to all members after the election in May 2019.
- Develop options for implementation of the good practice recommended by the Committee on Standards in Public Life report “Local Government Ethical Standards”
-

Principle B: Ensuring openness and comprehensive stakeholder engagement

- The council has adopted openness as one of the values on which our culture is shaped and which underpin our work.
- The constitution includes a guide to [public participation](#) and provides opportunities for members of the public to ask questions at a public meeting of the council.
- The council's planning and decision-making processes are designed to include consultation with stakeholders, and we have adopted government's consultation principles within our [communications protocols](#)
- In order to achieve our vision for the county, the council works with a range of partners and has adopted a [partnerships' governance framework](#) which sets out how we promote high governance standards in the partnerships we enter into and how we monitor the effectiveness of partnership governance arrangements.
- The [corporate peer challenge](#) undertaken in February 2018 identified that whilst the council recognised the importance of developing effective working relationships with key partners and communities, it would benefit from supporting this work in a more strategic and co-ordinated way. The recommendations of the peer challenge team were considered by Cabinet on 28 June 2018 and a [response](#) to the recommendations was agreed which ensures that the recommendations inform future planning and improvement. The council has instigated a series of 'summit' meetings with parish councils to facilitate improved engagement and communications between the two tiers of local government in the county.

Summary

The council complies with this principle by engaging with local people, stakeholders and partners. Although engagement could be strengthened further through the development of a more strategic and co-ordinated approach, no significant governance weaknesses are identified.

Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits

- Herefordshire Council has agreed a four year [Corporate Plan](#) that sets out our priorities and the outcomes we expect to achieve; the plan is scheduled for review in 2019/20 following the local government elections in May 2019.
- In addition, a [register](#) is maintained of council strategies, policies and procedures. A programme of review is in place to ensure that all strategies and plans on the register are fit for purpose, and are clear about their intended outcome, although this programme has not been progressed at the pace expected and an improvement in the implementation of this review programme will be sought in the coming year.
- The council's planning and decision making processes are designed to ensure that expected outcomes and impacts are clear and that there are processes in place to measure how well they are achieved.

- The council has adopted a [performance, risk, and opportunity management framework](#) that provides the basis for the council to plan, monitor, and manage our performance to ensure we deliver the best service we can. It supports members and officers across the council to take responsibility for their own performance and lead the delivery of improved outcomes for residents.
- Social value is evaluated as part of our procurement arrangements.

Summary

The council complies with this principle by developing and communicating its intended outcomes. Although some older strategies and plans have less clearly defined outcomes there is a process in place for reviewing these, although the pace of review requires improvement. The following activity is planned:

- Improve pace of implementing the programme of strategy, policy and procedure reviews.

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

- An annual [corporate delivery plan](#) sets out the key activities we will undertake to achieve the corporate plan priorities.
- The [medium term financial strategy and annual budget](#) demonstrate how the council's financial resources will be deployed to deliver the intended outcomes.
- The council's decision making processes, including input from the scrutiny committees, ensure that decision makers receive objective and robust analysis of a variety of options indicating how intended outcomes will be achieved.
- The council's framework for partnerships' governance prompts consideration of the added value to be gained from working in partnership, and has been used to assess the effectiveness of delivery options during the year, for example informing the decision to enter into a joint venture with the University of Wolverhampton to deliver a cyber security centre.
- The 2018 [corporate peer challenge](#) identified that a strategic review of resources, and a more cross-council rather than directorate-led approach, may be beneficial to ensure that the potential to resource achievement of the council's vision and priorities over the medium term could be maximised. As a result the chief executive has reviewed and revised the structure of the organisation to establish a corporate centre to assist in driving cultural change. A review of base budgets has been undertaken to inform the setting of the 2019/20 budget and a further review will be undertaken in association with the planned corporate plan review in 2019/20.

- The council's report templates, guidance and training for report authors and decision makers are designed to ensure that the principles of good decision making are upheld. The s151 officer has identified the need for a consistent approach to demonstrating value for money, particularly in relation to 'cost plus' contracts and work is planned for the forthcoming year to address this.

Summary

The council complies with this principle by ensuring that decision makers are informed of alternative options and have objective and professional advice on the implications of those options. No significant governance weaknesses are apparent. The following activity is planned to continue improvement:

- A best practice review of establishing value for money will be undertaken to inform the council's approach.

Principle E: Developing the organisation's capacity including the capability of its leadership and the individuals within it

- Herefordshire Council works with a wide range of partners to deliver our vision for the county and our corporate plan priorities. Partnership arrangements are entered into where appropriate and when they have the potential to deliver the desired outcomes.
- Following a period of limited investment in training and development a programme for manager development was implemented during 2018/19. Staff induction has been reviewed and a new programme was introduced in 2018/19. Mandatory training compliance is monitored by management and appropriate management action taken to address any individuals' non-compliance.
- Member induction arrangements have been reviewed and a revised programme agreed and implemented. All members have completed the identified mandatory training requirements. A draft member development programme had been developed for adoption in 2018/19, and is now scheduled for adoption following elections in May 2019.
- Having regard to the need to improve capacity in children's social work and legal services additional resources were made available during the year. In addition, having regard to the recommendations of the corporate peer challenge a corporate workforce and organisational development strategy has been developed to ensure that workforce resource is appropriately aligned to deliver the council's priorities. This strategy will be adopted and implemented early in the coming year. During 2018/19, Ofsted carried out a focussed visit and noted the improvements made regarding reductions in workload and increased stability since their previous visit; improvement activity in this regard continues.

- There is a continuous performance improvement programme in place which enables employees to put forward ideas, and embed continuous improvement as a culture in all our services.
- The council's performance and development plan process, which has been reviewed and revised, ensures that development needs are identified including those relating to leadership, and behaviours.

Summary

The council complies with this principle by ensuring that members and officers receive a basic level of mandatory training. The following improvements are planned:

- Adopt and implement a member development strategy and plan
- Adopt and implement a corporate workforce strategy

Principle F: Managing risks and performance through robust internal control and strong public financial management

- The council has adopted a performance risk and opportunity management framework that provides the basis for the council to plan, monitor, and manage our performance and risks to that performance. The framework is periodically reviewed by Cabinet, and further improvements to the framework are being considered to ensure that risks are appropriately considered and escalated.
- Risk registers are maintained at project, service, and directorate levels as well as corporately and the Audit and Governance Committee monitors the effectiveness of the risk management arrangements.
- Performance (including financial management) is reported formally to Cabinet on a quarterly basis and published on the website. The council also published an [annual performance report](#). In addition there are regular directorate performance challenge sessions which cabinet members, scrutiny chairs and political group leaders attend.
- The council is the accountable body for public funding directed to support the establishment of a new higher education institution in the county. Robust internal control arrangements agreed by the council's s151 officer are in place overseen by a robust partnership arrangement, to ensure effective oversight and management; these partnership arrangements are in the process of being reviewed to ensure they remain fit for purpose. During 2018/19 the Audit and Governance Committee received assurance reports regarding Hoople governance arrangements and NMiTE.

- The council has entered into a development partnership arrangement. The contractual arrangements include robust governance and reporting arrangements and as each project will be subject to its own governance approval before any commitment is entered into through the partnership arrangement, accountability and transparency will be evident.
- Responding to an identified need for additional project management capacity to support effective delivery of major capital projects such as those within the development partnership and major transport schemes including the component parts of the Hereford bypass, and transformation projects such as implementation of the Ofsted improvement plan, additional dedicated project management resource has been secured within the corporate centre and is deployed as required across the organisation.
- Business continuity arrangements are in place for critical services and resilience arrangements regularly tested. The council has worked with regional and national resilience networks to prepare for the United Kingdom's departure from the European Union.
- The Audit and Governance Committee has monitored and overseen the implementation of an improvement plan to address identified weaknesses in internal controls relating to capital project management and reporting. Whilst improvements in the project management lifecycle and resourcing of project management support have been made it is too early to be assured that they have been consistently embedded across the council.
- The council has appointed a senior information risk officer who is responsible for ensuring arrangements are in place to maintain security of the council's information assets.
- The council's internal audit function provides an independent view on the adequacy and effective operation of the council's internal control environment. They have identified improvement areas during the course of their work and action plans have been agreed with management to address them. Implementation of these actions is tracked and reported to the Audit and Governance Committee. The internal audit opinion for 2018/19 [to be added once received].
- A thread remains in internal audit findings, that there are some instances of policies and procedures either not being followed or being applied inconsistently. The council has a [register](#) of council strategies, policies and procedures. There is now an agreed programme, owned by each directorate, to review the documents and ensure they are fit for purpose, that there is a communication plan to support each document, and measures are in place to monitor compliance with and effectiveness of the policy , although this programme has not been progressed at the pace expected and an improvement in the implementation of this review programme will be sought in the coming year.
- The council had robust arrangements in place to prepare for the implementation of GDPR, identified risk areas, and agreed plans to mitigate those risks. Overarching data sharing agreements are in place with key partners. Data sharing requirements are included in relevant contract

and procurement documentation and a rolling programme is in place linked to contract renewal to ensure data sharing arrangements are documented.

- During the year a misdirected treasury management investment was placed with an institution that was not on the council's approved counter party list. Although the investment in question, has been reviewed by the Chief Finance Officer and considered not a risk to the council, controls in place at the time did not prevent this investment from being actioned, despite all staff being aware that this should not be done. A review of processes has been carried out by internal audit to ascertain where controls need to be enhanced to prevent a repeat of this type of investment from being actioned in future.
- The council is committed to reviewing its performance and actively pursues opportunities to gain external input into that process.

Summary

The council has appropriate processes in place through which it manages risk and performance. However there is evidence of the need to strengthen some internal controls and to ensure that policies and procedures are clear, effective and being followed. The following improvements are planned:

- Complete implementation and embed actions in response to the Internal Audit findings re Blueschool House.
- Strengthen internal controls in respect of treasury management investments.

Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- The council publishes information about the [decisions](#) it takes on its website; where there is a justification for withholding information or excluding the public from a meeting of the council in accordance with the [access to information rules](#) the reason for doing this is explained. During 2017/18 there were no meetings of cabinet from which the public were excluded.
- We explain what information we hold and how to [access](#) that information on our website, including publication of [open data](#) in accordance with the local government transparency code.
- The council has a performance challenge process through which directorate performance is regularly reviewed and challenged by senior managers and elected members including cabinet members, scrutiny chairmen and political group leaders.
- An annual review of the adequacy of the council's governance arrangements is undertaken and reported to senior managers and to the Audit and Governance Committee. A checklist for service managers to complete to inform the assessment and to inform directors assurance

statements and service improvement plans was implemented last year. To improve the efficiency of this process and enable compliance monitoring this process has been digitalised for 2018/19.

- The council has strengthened its scrutiny function by moving from two to three committees enabling additional focus to be given to the children and young people area of activity. Each committee determines its own workplan. All executive decisions, including those taken by officers under delegation are subject to the council's call in procedures. Of the [TBC] recommendations made to the executive which have been considered in 2018/19 [TBC] have been rejected, demonstrating the value of scrutiny input to policy development, performance challenge, and robust decision making.
- In their annual finding report for 2018/19 the External Auditor identified[to be added when received]
- A specific historic issue has prevented the external auditor from issuing the certificate of accounts since 2016/17; this has not affected the external auditor's opinion of the accounts in any year. The external auditor continues to work with the council to bring the matter to a resolution.
- Financial reporting arrangements are sound in relation to revenue but less well developed in relation to capital projects. Under the leadership of the council's s151 officer a programme of improvements to capital reporting has been led by the Strategic Capital Finance Manager. This post is working closely with capital project budget managers and capital project managers providing advice, support and challenge. The Council adopted a capital strategy in February 2019.
- The council's framework for partnerships governance requires a periodic assessment of the effectiveness of the governance arrangements for partnerships. Following reviews undertaken during 2017/18 that highlighted some potential to provide greater transparency of decisions taken by a small number of partnerships; we have secured improved transparency in relation to decisions taken by our partner Hoople; work with health partners continues to evolve with the changing national health and social care environment. Discussions are ongoing with partners regarding the transparency of West Mercia Energy decision-making.
- The process of assessing the effectiveness of partnership arrangements has not been consistently applied; to improve consistency the process is being moved from paper-based to digital in early 2019/20.
- In line with government requirements, changes in the governance arrangements for Local Enterprise Partnerships (LEP) must be implemented by May 2019, with the establishment of the Marches LEP as a stand alone legal entity. The Marches LEP will continue to be invited to attend the relevant scrutiny committee to account for its performance and to enable the committee to inform policy development.
- Internal audit undertook a 'Healthy Organisation' review to provide an objective assessment of the management control framework. The review looked at eight thematic areas and provided a high level of assurance in relation to financial, risk and information management, and medium

assurance overall; there were no areas of low assurance. The areas for attention identified in the review are informing senior managers improvement plans.

Summary

The council complies with this principle by having robust arrangements in place which ensure transparency over how decisions are taken and reported and who is accountable for them. Scrutiny and audit support adherence to this principle. However improvements are required to strengthen capital financial reporting and to further improve the transparency of some partnerships' decision-making.

- Adopt and implement a revised process to close down the annual accounts including improving the processes for valuation of assets.
- Continue to implement improvements to capital reporting processes to improve transparency.
- Agree and implement arrangements to provide greater transparency of partnership decision-making by West Mercia Energy, and arrangements with health bodies
- Improve consistency of assessments regarding effectiveness of partnership arrangements

Progress against actions agreed in response to the 2017/18 annual governance statement

15. The table below shows progress made as reported to the Audit and Governance Committee in January 2019. [to be updated for final report]

	Improvement required	Action planned	By when	Owner	Progress
1.	Members and officers modelling the values and behaviours expected and clear about the processes to follow if they have concerns.	Deliver a programme of training and awareness raising to support implementation of the revised employee code of conduct.	end August 2018 Revised date end March 2019	Head of HR and OD	This has been delayed so that the launch of the code of conduct can be supported by a new electronic process for declaring gifts, hospitality and interests via business world. The business world build is complete and is currently being tested for launch in the new year. The completion of the business world declaration will be mandatory for all employees and in completing it they must confirm they have read and understood the new code of conduct. This will be supported by an online mandatory training module in the code of conduct and communications throughout the council. Project management support to launch the new products has been identified to ensure future timescales are met.
		Promote the revised whistleblowing policy and procedure	September 2018	Solicitor to the Council	Completed. Management Board advised and cascaded to their own teams. Corporate communication via newscore and posters in council offices.
		Promote the member and officer relations code through development sessions with members and employees	October 2018 Revised date for employees end February 2019 and members	Head of HR and OD and Head of Corporate Governance	The implementation date has been delayed to accommodate finalisation of the manager development programme and revised employee code of conduct. Development sessions for employees are now scheduled in January and February 2019. Development sessions for members have been built into the planned member

	Improvement required	Action planned	By when	Owner	Progress
			end June 2019		induction programme to be implemented following the May 2019 elections and political group leaders have been offered briefings/development sessions on this subject for their groups, on request.
		a) Implement and promote a revised standards procedure for complaints against councillors. b) re engage with the police regarding a joint protocol.	September 2018	Solicitor to the Council	a) Completed. Revised procedure implemented and promoted. Following first six months of operation and having regard to the views of a working group of Audit and Governance Committee members and the Independent Person(s) further refinement of the procedure will be undertaken to ensure it is clear and operating as intended. b) In progress. Draft protocol is with West Mercia police
2.	Links between the various visions, budget and service planning and commissioning, risk management, performance and value for money are not consistently demonstrated or measured	Revised commercial and commissioning strategy adopted, communicated and monitored to ensure contractual arrangements reflect the council's priorities and can demonstrate value for money.	July 2018	Assistant Director Corporate Support	Completed. The revised procurement and commissioning strategy decision in July 2018 (link), and strategy posted on the council webpages. Promoted in News Core with training in procurement taken place in 2018 and monthly in 2019 including outlining the requirements of the strategy.
		Options appraisal to establish whether a course of action represents best use of resources, to be a consistent element of business cases informing decisions	June 2018	Chief Finance Officer	Completed. The business case templates have been revised to incorporate a number of issues including value for money and best value.
3.	The level of awareness of fraud risk and potential mitigation is low in areas outside of financial transaction service areas.	Communication and training of the revised Anti-fraud, bribery and corruption policy will be delivered	June 2018	Chief Finance Officer	Initial training completed now an ongoing programme. On line training has been completed by the customer services team. Financial management training includes a section on "Serious and Organised Crime – your prevention role" confirming the council's policy along with confirming the single point of contact details. A rolling

	Improvement required	Action planned	By when	Owner	Progress
					programme of awareness raising communications for all staff is being implemented.
4.	Further develop the capacity of the organisation and individuals within it	Adopt and implement a member development strategy and plan	March, 2019	Democratic Services Manager	In progress. As part of phase 1 of this work an induction and role specific training plans have been produced and will be deployed after local elections in May. As part of a phase two development of the strategy democratic services will set out the ways in which councillors will be supported, including the types of training given, the variety of methods used and how the training programme will be evaluated.
		Adopt and implement a manager development programme	October 2018	Head of HR and OD	Completed. A management development programme has been designed and procured. The programme has been launched in the council and the first two cohorts have been nominated by the leadership team. The delegates have now received their joining instructions.
		Adopt and implement a corporate workforce strategy	March 2019	Head of HR and OD	On target. The workforce strategy is in draft and has been thorough consultation with directors and the leadership team. It is on course to be implemented by the end of March 2019
5.	Strengthen internal controls and financial management	Implement the actions in response to internal audit's recommendations re Blueschool House	March 2019	Chief Finance Officer	A series of changes have been made in response to the internal audit recommendations in respect of the joint services hub. At the request of the Audit & Governance Committee a follow up review is scheduled to be completed by the end of March 2019, In addition a range of reviews have been scheduled in the internal audit work plan.

	Improvement required	Action planned	By when	Owner	Progress
		Implement improvements to capital reporting	July 2018	Chief Finance Officer	Completed. A revised reporting process has been implemented that brings greater transparency to financial reporting of capital schemes.
6.	Enhance transparency in relation to significant partnerships	Review joint committee governance where governance support is not provided by Herefordshire Council	TBC	Solicitor to the Council	Ongoing. The implementation date has been delayed; meetings with relevant partner councils' monitoring officers are to be rescheduled in 2019.
Review and publish schemes of delegation in respect of decisions to be taken by Hoople employees, and in discussion with the Hoople Board review the processes in place to support effective transparency and communication.		October 2018	Acting Director Economy and Place	Completed. Schemes of delegation for Economy and Place and Corporate Support have been reviewed following corporate restructure and reference decisions taken by Hoople employees. Schemes of Delegation will continue to be kept under review to ensure they remain up to date. The Hoople Board considered a report in relation to transparency and communications at its meeting in September 2018. The Board decided to publish minutes of its meetings on the Hoople website starting with those of the meeting in September 2018.	
In consultation with health partners review the governance arrangements in place to ensure they support effective transparency and communication whilst respecting the respective partners distinctive governance processes		November 2018	Director for Adults and Communities	Ongoing - governance arrangements for partnership boards are reviewed annually. Current board structures and arrangements have been considered and the role of council representation in terms of decision making recognises distinctive governance process. Council officers who make representation at partnership boards have also been briefed to ensure that effective transparency and communications are in place and are fed back through appropriate council governance arrangements	

Key governance actions planned

16. In response to the issues identified during the review of effectiveness, the following action plan has been developed which includes outstanding actions from the previous year's plan (above). The Audit and Governance Committee will receive a six-monthly report in order on progress made in delivering this action plan.

Table to be inserted

Statement

To the best of our knowledge, the governance arrangements, as set out above and within the council’s Code of Corporate Governance, have been effectively operating during the year with the exception of those areas identified in the table following paragraph 14 above. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation during the year and as part of our next annual review.

Signed:

**Councillor
Leader of the Council**

Date:

Chief Executive

Date:

Annual governance statement 201~~8~~⁷/1~~9~~⁸

What is governance?

1. Governance determines who has authority, who makes the decisions and how the council is kept accountable. It is how the council ensures we provide the right services, to the right people in a timely, open, and accountable way. Good corporate governance encourages better informed longer-term decision making using resources efficiently, and being open to scrutiny with a view to improving performance and managing risk.

What is the annual governance statement?

2. The council is required by the Accounts and Audit Regulations 2015 to prepare and publish an annual governance statement, in order to report publicly on the extent to which we comply with our own- ~~code of corporate governance~~^{Code of Corporate Governance}, including how we have monitored the effectiveness of our arrangements in year and on any planned changes to our governance arrangements in the coming year.
3. In this document the council:
 - acknowledges its responsibility for ensuring that there is a sound system of governance;
 - summarises the key elements of the governance framework and the roles of those responsible for the development and maintenance of the governance environment;
 - describes how the council has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period;
 - provides details of how the council has responded to any issue(s) identified in last year's governance statement; and
 - reports on any key governance matters identified from this review and provides a commitment to addressing them.
4. The annual governance statement reports on the governance framework that has been in place for the year ended 31st March 201~~9~~⁸.
5. It should be noted however, that any system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Scope of responsibility

6. Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and efficient and effective services.
7. To meet these responsibilities the council has put in place proper arrangements for overseeing what we do. These arrangements are intended to make sure that we have the right people, doing the right things, at the right time, for the right reasons, and in the right way, in an open, inclusive and accountable manner.
8. The council has adopted a code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (“CIPFA”)/Society of Local Authority Chief Executives (“SOLACE”) framework for delivering good governance in local government (2016).

The purpose of the governance framework

9. The governance framework comprises the systems, processes, culture and values by which the council is controlled, and also sets out how the council accounts to, engages with and leads the community.
10. The governance framework enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
11. The system of internal control is a significant part of that framework and is based on an ongoing process designed to:
 - identify and prioritise the risks to the achievement of the council’s policies, aims and objectives;
 - assess the likelihood and impact of the risks should they be realised; and
 - manage the risks efficiently, effectively and economically.
12. The framework operates at three levels:

Level 1 - Business and operational management. Operational management and staff delivering objectives, Identifying risks and improvement actions, implementing controls, reporting progress, providing management assurance, and ensuring compliance: supported by

Level 2 - Oversight and support. Portfolio holders, scrutiny and audit and governance committees, senior managers and statutory officers provide strategic, policy and direction setting, decision-making, and assurance oversight; validated by

Level 3 - Independent assurance. Internal and external audit, inspection and review agencies, and regulators provide independent challenge and audit, reporting assurance, and audit opinion in relation to assurance levels.

How has the annual governance statement been prepared?

13. The process, jointly led by the section 151 officer and the monitoring officer, has:
- a) reviewed our existing governance arrangements against the guidance included in CIPFA/SOLACE ‘Delivering Good Governance in Local Government’ framework - 2016;
 - b) reviewed our code of corporate governance to ensure it reflects this guidance and includes the recommended seven principles of good governance; and
 - c) assessed the effectiveness of our governance arrangements against the code of corporate governance. The key sources of assurance that inform this review are set out in the following table.

What we are seeking assurances on	What sources of assurance we will use
<ul style="list-style-type: none"> ○ Delivery against corporate and service delivery plans whilst observing the principles of good governance ○ Delivery of sustainable economic, social and environmental benefits ○ Design and effectiveness of internal controls, risk management and counter fraud measures ○ Strong commitment to ethical values ○ Compliance with laws, regulations, and the council’s constitution, strategies, policies and procedures ○ Key governance tools (e.g. financial, performance and risk management and reporting) are fit for purpose ○ Direction of travel of previously identified governance issues 	<ul style="list-style-type: none"> ○ Management assurances re compliance with laws and regulations, corporate strategies, policies, plans and arrangements e.g. constitution, financial and performance monitoring and reporting, and risk management ○ Statutory officers’ declarations ○ Significant partnerships’ governance risk assessments ○ Internal audit reports and opinions ○ Findings from Audit & Governance and scrutiny committees ○ External bodies and inspectorates reports ○ Views of the council’s appointed Independent Person(s)

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Review of effectiveness

14. The tables below set out the findings of the review.

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- In May 2017 the council agreed a new [constitution](#) which sets out the council's [values](#), how the council operates, how decisions are made and the procedures to be followed to ensure adherence to these principles. The constitution is ~~regularly~~ reviewed [biennially](#) by the council's Audit and Governance Committee, ~~and during 2018/19 the constitution was subject to a working group review with council adopting revisions to the constitution in May 2018. Revised financial and contract procedure rules were approved in November 2018 and training sessions are provided monthly on procurement and commissioning.~~
- Councillors are expected to follow the council's adopted ~~code of conduct~~ [code of conduct](#). The Monitoring Officer provides advice to members on the code and reports on its effectiveness to the Audit and Governance Committee who regularly review the code. The council has an Independent Person to assist the council in promoting high standards of conduct by elected and co-opted members of Herefordshire Council and town and parish councils. During ~~2017/18~~ [2018/19](#) ~~a second Independent Person retired and it has proved difficult to recruit eligible volunteers; consideration is being given to alternative collaborative arrangements with neighbouring councils to ensure the resilience of this independent support is maintained~~ [maintained recruitment campaign was undertaken resulting in the appointment in February 2019 of a further eight independent persons, providing resilience to the arrangements](#). Registers of interest are maintained and regularly reviewed and declarations of interest are routinely sought and recorded at the start of meetings. ~~The Independent Person has expressed the view that t~~ [The standards procedure](#) supporting the code of conduct ~~and the appeals procedure introduced in May 2018 have been reviewed and a number of changes made to improve clarity and provide consistency of approach. would be strengthened by greater clarity on the sanctions which may be applied and how they may be enforced, inclusion of an appeal process, and clarification of the basis on which a breach of the code relating to declaration of a schedule 1 interest may be referred to the police. The annual constitution review took account of these issues a revised procedure was approved by the Audit and Governance Committee on 8 May which included provisions for an appeals process and clarity regarding the steps to be taken by the Monitoring Officer regarding referral to the police. Responding to concerns raised by the Independent Person the development of~~ [Although](#) a formal protocol between the Monitoring Officer and the police ~~is not in place this will continue~~ [continues](#) to be explored and there is ongoing dialogue between the two parties to ensure that there is a clear and shared understanding of the issues.
- ~~During the year the report "Local Government Ethical Standards" was published by the government's Committee on Standards in Public Life. Whilst the government's response to the review findings is awaited, the report identifies a number of areas of good practice. Local practice is being mapped against that recommended good practice, some of which is already in place in Herefordshire. As part of the annual code of conduct report scheduled for consideration by the Audit & Governance Committee in July 2019, options for implementation of remaining good practice recommendations will be set out.~~
- Employees are expected to follow the council's ~~employee code of conduct~~ [Employee Code of Conduct](#). A review of this code was undertaken in 2017 and a revised code was consulted on. Approval of a new code was ~~expected in 2017/18 but was delayed to allow for further~~

~~consideration of the consultation responses; it was approved~~ given in July 2018, ~~but implementation has been delayed pending development of an online reporting system to support the declarations process and will be effective from 1 April 2019.~~ The revised code provides greater clarity about the standards of behaviour expected of employees, ~~and will be~~ supported by improved processes for maintaining a register of employees' interests and a programme of communication and training for all employees.

- The required leadership employee behaviours and values are embedded into the council's employee ~~Personal~~ Performance and Development Plan process ~~which has been reviewed and refreshed during the year.~~
- A ~~member and officer relations code member and officer relations code~~ is in place which provides guidance so that relationships are maintained in such a way as to ensure the smooth running of the council, that members receive impartial and objective advice, and officers are protected from accusations of bias or undue influence from councillors. ~~Training has been provided to managers and offered to political groups to support the maintenance of effective member officer relationships; this will continue.~~
- ~~During 2017, t~~he council has ~~reviewed its~~an [Anti-Fraud, Bribery and Corruption Policy](#) ~~which is reviewed every two years~~ to ensure it remains fit for purpose.
- The council has processes in place to [make a complaint](#), and to ensure complaints are investigated appropriately. All council members and employees are expected to deal with members of the public with dignity and respect at all times. This is embedded in the council's values, and codes of conduct. We also expect all members of the public to behave in a reasonable manner when dealing with representatives of the council, and has ~~reviewed its~~in place an [unreasonable behaviour policy](#) ~~to ensure it remains proportionate and fit for purpose.~~
- The council has a ~~Whistleblowing Policy~~[Whistleblowing Policy](#) in place. ~~During the year an increase in its use highlighted the need to review the policy and supporting procedures to ensure it is working effectively and promoted consistently. A~~ ~~which has been reviewed and a~~ revised policy and procedure was approved by the Audit and Governance Committee in May 2018. ~~The revised policy and procedure has been widely communicated to all employees and managers; numbers of issues raised under the policy have~~ [to be updated at year end when numbers and trends known].
- The constitution sets out clearly who fulfils the various roles and responsibilities of the council including decision making authority. The council ensures that advice is provided to decision makers to ensure compliance with the law and that the council can demonstrate how our decisions can support fulfilment of our public sector equality duty.
- There are processes in place to ensure that policies and procedures comply with the statutory requirements, and a programme of periodic review has been established to ensure that they remain compliant and fit for purpose, ~~although this programme has not been progressed at the pace expected and an improvement in the implementation of this review programme will be sought in the coming year.~~
- During 2017/18 a high court judgement found that some historic children's social care practice in relation to the application of s20 of the Children's Act 1989 had not been in compliance with the current application of law. Whilst the findings noted that improvements in practice had already been made it was also acknowledged that a number of further cases relating to the same period were likely. ~~The Children and Young People Scrutiny Committee is undertaking some task and finish work during 2018/19 to assure themselves of the robustness of current~~

~~practice.~~ Two further judgements were issued in 2018/19, and the issues identified were subject to debate at an extraordinary meeting of Council. Improvement actions are being implemented and the Children and Young People's Scrutiny Committee has continued to provide challenge and focus for the improvement activity.

- Following a high profile legal ruling against another council relating to deprivation of liberty (DoL) a significant rise in DoL assessments nationally was reflected in Herefordshire. Although resource for this service was increased demand remains at a high level and, pending anticipated legislative changes, assessments are being prioritised on a risk basis.

Summary

The council complies with this principle by ensuring its members and officers behave in ways that exemplify high standards of conduct and effective governance and that its organisational values are put into practice. The following ~~improvements-activities~~ are planned to ensure these standards and values are maintained:

- ~~Adopt and i~~Implement a the revised employee code of conduct
- Provide code of conduct training to all members after the election in May 2019.
- Develop options for implementation of the good practice recommended by the Committee on Standards in Public Life report "Local Government Ethical Standards"
- ~~Implement a revised whistleblowing policy and procedure~~
- ~~Promote the member and officer relations code through development sessions with members and employees~~
- ~~Implement a revised standards procedure for complaints against councillors~~

Principle B: Ensuring openness and comprehensive stakeholder engagement

- The council has adopted openness as one of the values on which our culture is shaped and which underpin our work.
- ~~As part of the new~~The constitution ~~the council produced~~includes a guide to [public participation](#) and ~~extended the~~provides opportunities for members of the public to ask questions at a [public](#) meeting of the council.
- The council's planning and decision-making processes are designed to include consultation with stakeholders, and we have adopted government's consultation principles within our [communications protocols](#)
- In order to achieve our vision for the county, the council works with a range of partners and has adopted a [partnerships' governance framework](#) which sets out how we promote high governance standards in the partnerships we enter into and how we monitor the effectiveness of partnership governance arrangements.
- The ~~recent-~~ [corporate peer challenge undertaken in February 2018](#) identified that whilst the council recognised the importance of developing effective working relationships with key partners and communities, it would benefit from supporting this work in a more strategic and co-ordinated way. The recommendations of the peer challenge team were considered by Cabinet on 28 June 2018 and a [response](#) to the recommendations was agreed which ensures that the recommendations inform future planning and improvement. ~~The council has instigated a series of 'summit' meetings with parish councils to facilitate improved engagement and communications between the two tiers of local government in the county.~~

Summary

The council complies with this principle by engaging with local people, stakeholders and partners. Although engagement could be strengthened further through the development of a more strategic and co-ordinated approach, no significant governance weaknesses are identified.

Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits

- Herefordshire Council has agreed a four year ~~Corporate Plan~~ [Corporate Plan](#) that sets out our priorities and the outcomes we expect to achieve; ~~the plan is scheduled for review in 2019/20 following the local government elections in May 2019.~~
- In addition, a [register](#) is maintained of council strategies, policies and procedures. A programme of review is in place to ensure that all strategies and plans on the register are fit for purpose, and are clear about their intended outcome. ~~although this programme has not been progressed at the pace expected and an improvement in the implementation of this review programme will be sought in the coming year.~~
- The council's planning and decision making processes are designed to ensure that expected outcomes and impacts are clear and that there are processes in place to measure how well they are achieved.

- The council has adopted a ~~performance, risk, and opportunity management framework~~ performance risk and opportunity management framework that provides the basis for the council to plan, monitor, and manage our performance to ensure we deliver the best service we can. It supports members and officers across the council to take responsibility for their own performance and lead the delivery of improved outcomes for residents.
- Social value is evaluated as part of our procurement arrangements.

Summary

The council complies with this principle by developing and communicating its intended outcomes. Although some older strategies and plans have less clearly defined outcomes there is a process in place for reviewing these, although the pace of review requires improvement. The following activity is planned:

- Improve pace of implementing the programme of strategy, policy and procedure reviews. No significant governance weaknesses are apparent.

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

- An annual ~~corporate delivery plan~~ corporate delivery plan sets out the key activities we will undertake to achieve the corporate plan priorities.
- The medium term financial strategy and annual budget demonstrate how the council's financial resources will be deployed to deliver the intended outcomes.
- The council's decision making processes, including input from the scrutiny committees, ensure that decision makers receive objective and robust analysis of a variety of options indicating how intended outcomes will be achieved.
- The council's framework for partnerships' governance prompts consideration of the added value to be gained from working in partnership, and has been used to assess the effectiveness of delivery options during the year, for example informing the decision to enter into a joint venture with the University of Wolverhampton to deliver a cyber security centre.
- The ~~recent~~ 2018 corporate peer challenge identified that a strategic review of resources, and a more cross-council rather than directorate-led approach, may be beneficial to ensure that the potential to resource achievement of the council's vision and priorities over the medium term could be maximised. As a result the chief executive has reviewed and revised the structure of the organisation to establish a corporate centre to assist in driving cultural change. A review of base budgets has been undertaken to inform the setting of the 2019/20 budget and a further review will be undertaken in association with the planned corporate plan review in 2019/20.

- The council's report templates, guidance and training for report authors and decision makers are designed to ensure that the principles of good decision making are upheld. The s151 officer has identified the need for a consistent approach to demonstrating value for money, particularly in relation to 'cost plus' contracts and work is planned for the forthcoming year to address this.

Summary

The council complies with this principle by ensuring that decision makers are informed of alternative options and have objective and professional advice on the implications of those options. No significant governance weaknesses are apparent. The following activity is planned to continue improvement:

- A best practice review of establishing value for money will be undertaken to inform the council's approach.

~~At its meeting on 28 June Cabinet agreed its approach to taking forward the findings from the corporate peer challenge to ensure achievement of intended outcomes is optimised.~~

Principle E: Developing the organisation's capacity including the capability of its leadership and the individuals within it

- Herefordshire Council works with a wide range of partners to deliver our vision for the county and our corporate plan priorities. Partnership arrangements are entered into where appropriate and when they have the potential to deliver the desired outcomes.
- ~~➤ In light of the significant reduction in council resources over recent years there has been little investment in formal training and development either for members or employees, although in house training has been provided for mandatory areas and limited external training and development has been accessed.~~
- ~~A~~Following a period of limited investment in training and development a programme for manager development ~~is being developed for introduction was implemented~~ during 2018/19 ~~and a draft member development programme has been developed for adoption in 2018/19.~~ Staff induction has been reviewed and a new programme was introduced in 2018/19. Mandatory training compliance is monitored by management and appropriate management action taken to address any individuals' non-compliance.
- Member induction arrangements have been reviewed and a revised programme agreed and implemented. All members have completed the identified mandatory training requirements. A draft member development programme had been developed for adoption in 2018/19, and is now scheduled for adoption following elections in May 2019.
- ~~➤ Staff induction has been reviewed and a new programme is being introduced for 2018/19.~~

- ~~A Local Government Association peer review of~~ Having regard to the need to improve children's safeguarding noted some improvement required to capacity in children's social work and legal services capacity, additional resources were made available during the year. In addition, and having regard to the recommendations of the corporate peer challenge drew attention to the advantages of adopting a corporate transformation plan to ensure that a corporate workforce and organisational development strategy has been developed to ensure that workforce resource ~~was~~ is appropriately aligned to deliver the council's priorities. This strategy will be adopted and implemented early in the coming year. During 2018/19, Ofsted carried out a focussed visit and noted the improvements made regarding reductions in workload and increased stability since their previous visit; improvement activity in this regard continues.
- There is a continuous performance improvement programme in place which enables employees to put forward ideas, and embed continuous improvement as a culture in all our services.
- The council's ~~personal~~ performance and development plan process, which has been reviewed and revised, ensures that development needs are identified including those relating to leadership, and behaviours.

Summary

The council complies with this principle by ensuring that members and officers receive a basic level of mandatory training. The following improvements are planned:

- Adopt and implement a member development strategy and plan
- ~~Adopt and implement a manager development programme~~
- Adopt and implement a corporate workforce strategy

Principle F: Managing risks and performance through robust internal control and strong public financial management

- The council has adopted a performance risk and opportunity management framework that provides the basis for the council to plan, monitor, and manage our performance and risks to that performance. The framework is ~~regularly~~ periodically reviewed by Cabinet, and further improvements to the framework are being considered to ensure that risks are appropriately considered and escalated.
- Risk registers are maintained at project, service, and directorate levels as well as corporately and the Audit and Governance Committee monitors the effectiveness of the risk management arrangements.
- Performance (including financial management) is reported formally to Cabinet on a quarterly basis and published on the website. The council also published an annual performance report ~~annual performance report~~. In addition there are regular directorate performance challenge sessions which cabinet members, scrutiny chairs and political group leaders attend.

- ~~During 2017/18 the council agreed to become a~~ The council is the accountable body for public funding directed to support the establishment of a new university higher education institution in the county. Robust internal control arrangements agreed by the council's s151 officer, are in place overseen by a robust partnership arrangement, to ensure effective oversight and management; these partnership arrangements are in the process of being reviewed to ensure they remain fit for purpose. During 2018/19 the Audit and Governance Committee received assurance reports regarding Hoople governance arrangements and NMiTE.-
- ~~During May 2018~~ The council has entered into a development partnership arrangement. The contractual arrangements include robust governance and reporting arrangements and as each project will be subject to its own governance approval before any commitment is entered into through the partnership arrangement, accountability and transparency will be evident.
- Responding to an identified need for additional project management capacity to support effective delivery of major capital projects such as those within the development partnership and major transport schemes including the component parts of the Hereford bypass, and transformation projects such as implementation of the Ofsted improvement plan, additional dedicated project management resource has been secured within the corporate centre and is deployed as required across the organisation.
- Business continuity arrangements are in place for critical services and resilience arrangements regularly tested. The council has worked with regional and national resilience networks to prepare for the United Kingdom's departure from the European Union.
- ~~During 2017/18 the council became aware of unauthorised expenditure in relation to a project to refurbish Blueschool House. Following an internal audit investigation a number of~~ internal controls improvements were identified as necessary. ~~Lead by the council's s151 officer and overseen by~~ The Audit and Governance Committee has monitored and overseen the implementation of an improvement plan ~~has been progressed throughout the year and will continue in 2018/19~~ to address identified weaknesses in internal controls relating to capital project management and reporting. Whilst improvements in the project management lifecycle and resourcing of project management support have been made it is too early to be assured that they have been consistently embedded across the council.
- The council has appointed a senior information risk officer who is responsible for ensuring arrangements are in place to maintain security of the council's information assets.
- The council's internal audit function provides an independent view on the adequacy and effective operation of the council's internal control environment. They have identified improvement areas during the course of their work and action plans have been agreed with management to address them. Implementation of these actions is tracked and reported to the Audit and Governance Committee. ~~The internal audit opinion for 2017/18~~ 2018/19 ... [to be added once received], reported to Audit and Governance Committee on 30 July 2018 provided a reasonable assurance opinion noting that "... there is generally a healthy system of internal control designed to meet the organisations objectives. However, some weaknesses have been identified in the inconsistent application of controls that put the achievement of a particular objective at risk in

~~some areas reviewed". Actions to address this issue are included in the action plan as part of implementing the actions in response to the Blueschool House internal audit findings.~~

- ~~A thread remains in their internal audit findings, and reflected in the assurance statements provided by managers, that there are some instances of policies and procedures either not being followed or being applied inconsistently. Internal audit have noted this has been a particular concern during 2017/18 in relation to ensuring compliance with the General Data Protection Regulations (GDPR) that came into force in May 2018 and the completeness of documentation supporting data sharing agreements. Action has been taken during 2017/18 to establish~~The council has a [register](#) of council strategies, policies and procedures. There is now an agreed programme, owned by each directorate, to review the documents and ensure they are fit for purpose, that there is a communication plan to support each document, and measures are in place to monitor compliance with and effectiveness of the policy, ~~although this programme has not been progressed at the pace expected and an improvement in the implementation of this review programme will be sought in the coming year.~~
- The council had robust arrangements in place to prepare for the implementation of GDPR, identified risk areas, and agreed plans to mitigate those risks. Overarching data sharing agreements are in place with key partners. Data sharing requirements are included in relevant contract and procurement documentation and a rolling programme is in place linked to contract renewal to ensure data sharing arrangements are documented.
- ~~During the year a misdirected treasury management investment was placed with an institution that was not on the council's approved counter party list. Although the investment in question, has been reviewed by the Chief Finance Officer and considered not a risk to the council, controls in place at the time did not prevent this investment from being actioned, despite all staff being aware that this should not be done. A review of processes has been carried out by internal audit to ascertain where controls need to be enhanced to prevent a repeat of this type of investment from being actioned in future.~~
- The council is committed to reviewing its performance and actively pursues opportunities to gain external input into that process. ~~as evidenced by participation in the Local Government Association peer review and corporate peer challenge processes.~~

Summary

The council has appropriate processes in place through which it manages risk and performance. However there is evidence of the need to strengthen some internal controls and to ensure that policies and procedures are clear, effective and being followed. The following improvements are planned:

- ~~Complete implementation of and embed~~ actions in response to the Internal Audit findings re Blueschool House.
- [Strengthen internal controls in respect of treasury management investments.](#)

Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- The council publishes information about the [decisions](#) it takes on its website; where there is a justification for withholding information or excluding the public from a meeting of the council in accordance with the [access to information rules](#)~~Access to Information Rules~~ the reason for doing this is explained. During 2017/18 there were no meetings of cabinet from which the public were excluded.
- We explain what information we hold and how to [access](#) that information on our website, including publication of [open data](#) in accordance with the local government transparency code.
- The council has ~~established~~ a performance challenge process through which directorate performance is regularly reviewed and challenged by senior managers and elected members including cabinet members, scrutiny chairmen and political group leaders.
- An annual review of the adequacy of the council's governance arrangements is undertaken and reported to senior managers and to the Audit and Governance Committee. ~~This review process has been strengthened this year through the introduction of a~~ checklist for service managers to complete to inform the assessment and to inform [directors assurance statements and service improvement plans](#) ~~was implemented last year. To improve the efficiency of this process and enable compliance monitoring this process has been digitalised for 2018/19.~~
- The council has strengthened its scrutiny function by moving from two to three committees enabling additional focus to be given to the children and young people area of activity. Each committee determines its own workplan. All executive decisions, including those taken by officers under delegation are subject to the council's call in procedures. Of the ~~46~~~~[TBC]~~ recommendations made to the executive which have been considered in 201~~87~~~~/198~~ ~~only two~~~~[TBC]~~ have been rejected, demonstrating the value of scrutiny input to policy development, performance challenge, and robust decision making.
- In their annual finding report for 201~~86~~~~/197~~ the External Auditor identified ~~a number of improvements needed to ensure the efficient and accurate closedown of accounts, and in particular advised that consideration be given to improving the process for classification and valuation of property, plant and equipment.....[to be added when received]~~
- ~~A specific historic issue has prevented the external auditor from issuing the certificate of accounts since 2016/17; this has not affected the external auditor's opinion of the accounts in any year. The external auditor continues to work with the council to bring the matter to a resolution. The council's Independent Person has expressed concern that the council's annual report on the code of conduct is insufficiently transparent because the individual parish councils concerned are not named. Following a review of the council's constitution by Audit and Governance Committee, Council approved changes to the constitution which make clear that individual parish councils will be named and, where a complaint has been upheld individual councillors will be named.~~
- Financial reporting arrangements are sound in relation to revenue but less well developed in relation to capital projects. Under the leadership of the council's s151 officer a programme of improvements to capital reporting, ~~accompanied by clear guidance to budget managers is being~~

pursued has been led by the Strategic Capital Finance Manager. This post is working closely with capital project budget managers and capital project managers providing advice, support and challenge. The Council adopted a capital strategy in February 2019.

- The council's framework for partnerships governance requires a periodic assessment of the effectiveness of the governance arrangements for partnerships. ~~The Following~~ reviews undertaken during 2017/18 ~~have that~~ highlighted some potential to provide greater transparency of decisions taken by a small number of partnerships; we ~~are working with relevant partners to secure improvement in 2018/19~~ have secured improved transparency in relation to decisions taken by our partner Hoople; work with health partners continues to evolve with the changing national health and social care environment. Discussions are ongoing with partners regarding the transparency of West Mercia Energy decision-making.
- The process of assessing the effectiveness of partnership arrangements has not been consistently applied; to improve consistency the process is being moved from paper-based to digital in early 2019/20.
- In line with government requirements, changes in the governance arrangements for Local Enterprise Partnerships (LEP) must be implemented by May 2019, with the establishment of the Marches LEP as a stand alone legal entity. The Marches LEP will continue to be invited to attend the relevant scrutiny committee to account for its performance and to enable the committee to inform policy development.
- Internal audit undertook a 'Healthy Organisation' review to provide an objective assessment of the management control framework. The review looked at eight thematic areas and provided a high level of assurance in relation to financial, risk and information management, and medium assurance overall; there were no areas of low assurance. The areas for attention identified in the review are informing senior managers improvement plans.

Summary

The council complies with this principle by having robust arrangements in place which ensure transparency over how decisions are taken and reported and who is accountable for them. Scrutiny and audit support adherence to this principle. However improvements are required to strengthen capital financial reporting and to further improve the transparency of some partnerships' decision-making.

- Adopt and implement a revised process to close down the annual accounts including improving the processes for valuation of assets.
- Adopt and ~~Continue to~~ implement improvements to capital reporting processes to improve transparency.
- Agree and implement arrangements to provide greater transparency of partnership decision-making by West Mercia Energy, ~~Hoople~~ and arrangements with health bodies
- Improve consistency of assessments regarding effectiveness of partnership arrangements.

Progress against actions agreed in response to the 2017/18 annual governance statement

15. The table below shows progress made as reported to the Audit and Governance Committee in ~~May~~ January 2019. [to be updated for final report]

	Improvement required	Action planned	By when	Owner	Progress
1.	Members and officers modelling the values and behaviours expected and clear about the processes to follow if they have concerns.	Deliver a programme of training and awareness raising to support implementation of the revised employee code of conduct.	end August 2018 Revised date end March 2019	Head of HR and OD	This has been delayed so that the launch of the code of conduct can be supported by a new electronic process for declaring gifts, hospitality and interests via business world. The business world build is complete and is currently being tested for launch in the new year. The completion of the business world declaration will be mandatory for all employees and in completing it they must confirm they have read and understood the new code of conduct. This will be supported by an online mandatory training module in the code of conduct and communications throughout the council. Project management support to launch the new products has been identified to ensure future timescales are met.
		Promote the revised whistleblowing policy and procedure	September 2018	Solicitor to the Council	Completed. Management Board advised and cascaded to their own teams. Corporate communication via newscore and posters in council offices.
		Promote the member and officer relations code through development sessions with members and employees	October 2018 Revised date for employees end February 2019 and members	Head of HR and OD and Head of Corporate Governance	The implementation date has been delayed to accommodate finalisation of the manager development programme and revised employee code of conduct. Development sessions for employees are now scheduled in January and February 2019. Development sessions for members have been built into the planned member

	Improvement required	Action planned	By when	Owner	Progress
			end June 2019		induction programme to be implemented following the May 2019 elections and political group leaders have been offered briefings/development sessions on this subject for their groups, on request.
		a) Implement and promote a revised standards procedure for complaints against councillors. b) re engage with the police regarding a joint protocol.	September 2018	Solicitor to the Council	a) Completed. Revised procedure implemented and promoted. Following first six months of operation and having regard to the views of a working group of Audit and Governance Committee members and the Independent Person(s) further refinement of the procedure will be undertaken to ensure it is clear and operating as intended. b) In progress. Draft protocol is with West Mercia police
2.	Links between the various visions, budget and service planning and commissioning, risk management, performance and value for money are not consistently demonstrated or measured	Revised commercial and commissioning strategy adopted, communicated and monitored to ensure contractual arrangements reflect the council's priorities and can demonstrate value for money.	July 2018	Assistant Director Corporate Support	Completed. The revised procurement and commissioning strategy decision in July 2018 (link), and strategy posted on the council webpages. Promoted in News Core with training in procurement taken place in 2018 and monthly in 2019 including outlining the requirements of the strategy.
		Options appraisal to establish whether a course of action represents best use of resources, to be a consistent element of business cases informing decisions	June 2018	Chief Finance Officer	Completed. The business case templates have been revised to incorporate a number of issues including value for money and best value.
3.	The level of awareness of fraud risk and potential mitigation is low in areas outside of financial transaction service areas.	Communication and training of the revised Anti-fraud, bribery and corruption policy will be delivered	June 2018	Chief Finance Officer	Initial training completed now an ongoing programme. On line training has been completed by the customer services team. Financial management training includes a section on "Serious and Organised Crime – your prevention role" confirming the council's policy along with confirming the single point of contact details. A rolling

	Improvement required	Action planned	By when	Owner	Progress
					programme of awareness raising communications for all staff is being implemented.
4.	Further develop the capacity of the organisation and individuals within it	Adopt and implement a member development strategy and plan	March, 2019	Democratic Services Manager	In progress. As part of phase 1 of this work an induction and role specific training plans have been produced and will be deployed after local elections in May. As part of a phase two development of the strategy democratic services will set out the ways in which councillors will be supported, including the types of training given, the variety of methods used and how the training programme will be evaluated.
Adopt and implement a manager development programme		October 2018	Head of HR and OD	Completed. A management development programme has been designed and procured. The programme has been launched in the council and the first two cohorts have been nominated by the leadership team. The delegates have now received their joining instructions.	
Adopt and implement a corporate workforce strategy		March 2019	Head of HR and OD	On target. The workforce strategy is in draft and has been thorough consultation with directors and the leadership team. It is on course to be implemented by the end of March 2019	
5.	Strengthen internal controls and financial management	Implement the actions in response to internal audit's recommendations re Blueschool House	March 2019	Chief Finance Officer	A series of changes have been made in response to the internal audit recommendations in respect of the joint services hub. At the request of the Audit & Governance Committee a follow up review is scheduled to be completed by the end of March 2019, In addition a range of reviews have been scheduled in the internal audit work plan.

	Improvement required	Action planned	By when	Owner	Progress
		Implement improvements to capital reporting	July 2018	Chief Finance Officer	Completed. A revised reporting process has been implemented that brings greater transparency to financial reporting of capital schemes.
6.	Enhance transparency in relation to significant partnerships	Review joint committee governance where governance support is not provided by Herefordshire Council	TBC	Solicitor to the Council	Ongoing. The implementation date has been delayed; meetings with relevant partner councils' monitoring officers are to be rescheduled in 2019.
Review and publish schemes of delegation in respect of decisions to be taken by Hoople employees, and in discussion with the Hoople Board review the processes in place to support effective transparency and communication.		October 2018	Acting Director Economy and Place	Completed. Schemes of delegation for Economy and Place and Corporate Support have been reviewed following corporate restructure and reference decisions taken by Hoople employees. Schemes of Delegation will continue to be kept under review to ensure they remain up to date. The Hoople Board considered a report in relation to transparency and communications at its meeting in September 2018. The Board decided to publish minutes of its meetings on the Hoople website starting with those of the meeting in September 2018.	
In consultation with health partners review the governance arrangements in place to ensure they support effective transparency and communication whilst respecting the respective partners distinctive governance processes		November 2018	Director for Adults and Communities	Ongoing - governance arrangements for partnership boards are reviewed annually. Current board structures and arrangements have been considered and the role of council representation in terms of decision making recognises distinctive governance process. Council officers who make representation at partnership boards have also been briefed to ensure that effective transparency and communications are in place and are fed back through appropriate council governance arrangements	

Key governance actions planned

16. In response to the issues identified during the review of effectiveness, the following action plan has been developed which includes outstanding actions from the previous year's plan (above). The Audit and Governance Committee will receive a six-monthly report in order on progress made in delivering this action plan.

| [Table to be inserted](#)

Statement

To the best of our knowledge, the governance arrangements, as set out above and within the council’s Code of Corporate Governance, have been effectively operating during the year with the exception of those areas identified in the table following paragraph 14 above. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation during the year and as part of our next annual review.

Signed:

**Councillor
Leader of the Council**

Date:

Chief Executive

Date:



Meeting:	Audit and governance committee
Meeting date:	19 March 2019
Title of report:	Future work programme for 2019/20
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 2019/20.

Recommendation(s)

THAT:

Subject to any updates made by the committee, the work programme for 2019/20 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.
- 3 The committee is asked to consider any further adjustments.

Key Considerations

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

- 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 chief finance officer and monitoring officer have contributed to the work programme

Appendices

Appendix 1 – draft audit and governance work programme 2019/20

Background papers

- None identified.

**Audit and Governance Work Programme
2019/20**

Function area	Report	Purpose
July 2019		
Governance	Annual governance statement	To approve the annual governance statement
Accounts (Annual)	Statement of account	To approve the statement of account and includes the signing of the letter of representation
External audit	External auditor report	Presentation of the Audit Findings Report for consideration by the Committee before approval of the statutory accounts. The report will contain the external audit draft opinion on the accounts, draft value for money conclusion and a summary of the key findings for the financial year.
Internal audit (Annual)	SWAP Internal audit annual opinion 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
Governance (Annual)	University Report	To act as the accountability body for the Department for Education funding for the University
Governance (Annual)	Accounting policies update	To approve any amendments to the accounting policies
Governance (Every two years)	Anti-fraud and corruption strategy	To maintain an overview and approve changes to the strategy
Code of conduct (Annual)	Code of Conduct complaints Annual Report	To receive the annual code of conduct report
Governance (every meeting)	Work programme	To note the current work programme of the committee
September 2019		
Internal audit	Progress report on 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)	Annual audit letter	To review the annual audit letter

**Audit and Governance Work Programme
2019/20**

Function area	Report	Purpose
Governance	Biennial review of constitution	To agree the arrangements for the review of the Constitution due in 2020.
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.
Governance (six monthly)	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 (Q4/end of year)
Internal and external audit (Six monthly)	Tracking of internal and external audit recommendations	To monitor implementation of action plans agreed in response to recommendations made by internal and external audit
Governance (every meeting)	Work programme	To note the current work programme of the committee
November 2019		
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.
Governance (every meeting)	Work programme	To note the current work programme of the committee
January 2020		
Internal audit	Progress report on 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
Governance (Annual)	Annual governance statement progress	Review of the effectiveness of the council's governance process and system of internal control. Update on the progress of the annual governance statement

**Audit and Governance Work Programme
2019/20**

Function area	Report	Purpose
External audit	Annual Certification Letter	Report on the grant claims completed in 2017/18 plus an update on fees.
External audit (Annual)	External auditors annual plan	Review and agree the external auditors annual plan, including the annual audit fee and annual letter.
Governance (Annual)	Contract procedure rules, finance procedure rules	Review of procedure rules and approve any amendments to the rules.
Internal and external audit (Every six months)	Tracking of internal and external audit recommendations	Monitor implementation of action plans agreed in response to recommendations made by internal and external audit
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 (Q2).
Governance (every meeting)	Work programme	To note the current work programme of the committee
March 2020		
External audit	External audit progress update	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 and includes interim audit findings and the informing the risk assessment document.
Internal audit (Annual)	Internal audit plan for 2020/21	To consider the internal audit plan for 2020/21.
Internal audit	Progress report on 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)	Internal audit charter	To approve the internal audit charter
Code of Conduct	Remuneration of independent persons	To consider whether or not the appointed independent persons should be remunerated
Governance (Annual)	Future work programme for 2020/21	To note the work programme for 2020/2021.

