

**HEREFORDSHIRE COUNCIL
ANNUAL AUDIT ASSURANCE REPORT 2003/04**

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1. INTRODUCTION

- 1.1 The Accounts and Audit Regulations 2003 established requirements related to systems of internal control, and the review and reporting of those systems. Regulation 4 of the Accounts and Audit Regulations 2003 requires that from 1st April 2003 ‘*The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk*’.
- 1.2 Herefordshire Council also has an obligation to include in their Statement of Accounts a statement on the system of internal financial control. The statement should set out the framework within which financial control is managed and reviewed and the main components of the system, including arrangements for internal audit. This statement reports on significant identified weaknesses and the actions undertaken to rectify them.
- 1.3 The Herefordshire Council Corporate Plan sets out how the Council will direct its corporate activity to the achievement of the ambitions of the Herefordshire Plan. Audit Services ensures that Directorates and Departments achieve their objectives with in a robust internal control environment.
- 1.4 Regular updates on audit work progress are sent to both Directors and Heads of Department, which enables issues at Directorate/Department level to be dealt with as they arise.
- 1.5 The Annual Audit Assurance report summarises the more important matters arising from Audit Services work for the financial year ending 31st March 2004. Audit opinion definitions ranging from Good to Unsound are contained in Appendix II.
- 1.6 The Audit Service would like to take this opportunity to thank all staff for their help and co-operation during audit visits.

2 INTERNAL AUDIT

- 2.1 Internal Audit is the independent appraisal function established by Management to review the internal control system as a service to the Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
- 2.2 The four-year strategic plan is based on a risk assessment evaluation, which utilises a ‘Traffic Lights’ Methodology, with Red being high risk, Amber being medium risk and Green being low risk. Within each risk area consideration is also given to residual risk for specific functions or establishments based upon their last Audit opinion and current knowledge.
- 2.3 The Annual Plan emanates from the four year Strategic Plan. To ensure that Directorate and Department priorities are considered the Annual Plan is developed in consultation with Directors, Heads of Departments and Heads of Service.

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- 2.4 Audit Service's terms of reference has been formally agreed by Cabinet in the form of an Audit Charter (Appendix I), which outlines the independence of Audit Services, and its reporting protocols.
- 2.5 The Audit Commission has completed their review of Audit, which involved comparing audit activity with the CIPFA Code of Practice. The review has confirmed their reliance on the work of Audit Services.
- 2.6 The actual cost for Internal Audit Services amounted to £384,772 compared to a budget of £392,435. The underspend was due to staff vacancies during the year.

3 ACTION TAKEN ON 2002/03 KEY ISSUES

- 3.1 There were six key issues identified in 2002/3 that required attention:-

- **Improvement in ICT security arrangements to comply with BS7799**

There has been considerable progress relating to the work undertaken by the Information Security unit. This has resulted in an increase in the number of the objectives 'partially met' from 23 to 63, and a reduction in the number of objectives with 'no or limited control' from 93 to 43. An Information Policy, Information Security Procedures and a number of related policies have been produced and issued.

As a result the audit opinion moved from unsatisfactory in 2002/3 to marginal in 2003/4.

- **Improved data collection procedures for performance indicators.**

Although progress is being made in this area improvements are still required.

- **The Cashiers to improve documentation in relation to the Cash and Deposit Book.**

Improved documentation has contributed to the audit opinion moving from unsatisfactory in 2002/3 to satisfactory in 2003/4.

- **Risk Management to be developed and embedded across the Council.**

Risk Management was not fully embedded across the Council in 2003/4 however the County Treasurer has confirmed that he has now received from Directorates/Departments their identified risks, which have been analysed to identify themes and incorporated within a corporate risk register.

- **The publication of up to date Accounting Guidelines.**

Theses should have been published by the 31st March 2004, at the time of this report they still had not been published. They have however been

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reviewed by the Finance Managers Group. The Assistant County Treasurer has agreed a rolling timetable for publication with the County Treasurer.

- **Regular reconciliation of local management systems to Cedar.**

This was in relation to the Housing and Highways Divisions. Housing Services have now been transferred to Herefordshire Housing. With regards to the Highways Division improvements have ensured that commitment values on their local system are more accurate and actual figures are more comparable with payments made. However, there was a need to ensure the reconciliation with Cedar was up to date.

4 AUDIT ACTIVITY

4.1 Financial Standing

An element of the Council's financial standing is the level of assurance given by its fundamental systems. Fundamental systems are systems whose failure could cause major disruption or loss of financial control to the council.

Eleven fundamental systems were assessed; the outcomes are analysed in table 1 below: -

Table 1 Analysis of Fundamental Audit Opinions					
System	Good	Satisfactory	Marginal	Un-satisfactory	Unsound
Salaries & Wages Edn		✓			
Salaries & Wages		✓			
FMS- Financial Reporting and Control		✓			
FMS- Budget Creation and Monitoring		✓			
Creditors Payments			✓		
Bank Reconciliation			✓		
Sundry Debtors		✓			
NNDR		✓			
Council Tax		✓			
Housing Benefit		✓			
Cash and Deposit		✓			
TOTAL	0	9	2	0	0

The overall management of the Bank Reconciliation function was found to be satisfactory. Great efforts have been made by management and staff within the section to improve areas identified for improvement at the last audit. However there was a need for improved co-operation from feeder services. The Assistant County Treasurer is liaising with relevant sections to ensure that action is taken.

The marginal opinion given to Creditor Payments was based upon the level of implementation of previous recommendations. Also, weaknesses were identified in the release of payments exceeding £35,000 before authorising

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staff verified them. Improvements were required in the control and management of cheque stocks and related documentation.

Where fundamental systems have a marginal or worse opinion, it is likely that the Audit Commission will make reference to them in their management letter.

4.2 Systems of Internal Control

These are systems put in place by management to ensure adherence to policies, safeguard assets, ensure relevance, reliability and integrity of information and compliance with statutory requirements. In addition to the eleven fundamental systems, twelve system audits were undertaken during the year; their audit opinion is summarised in table 2

Directorate/Dept	Good	Satisfactory	Marginal	Un-satisfactory	unsound
Corporate			1		
County Secretary and Solicitors		1			
Education	1		1		
Environment	1	1	2		
Social Care and Strategic Housing		1	1	1	1
TOTAL	2	3	5	1	1

The unsound system relates to the computerised Fairer Charging System. This was written with a view to providing a system quickly and at a low cost, and was intended to be a temporary solution pending council-wide developments. Structurally the system is well written, but it lacks controls and facilities to provide a robust, secure and efficient operating mechanism. The requirements of the charging policy are very complex and there is heavy reliance upon other sections

Management were aware of the weaknesses in the system and arrangements were being made to replace it, however, there is still much work required on the current system to ensure as far as possible the data is correct and complete prior to a transfer. Additionally, certain simple controls have been recommended to prevent the occurrence of further errors and omissions before the new system comes into operation.

The unsatisfactory system relates to the Home Care Assistants Payroll. Although a great deal of effort was put in by staff, aiming to produce accurate information within a tight timescale, there were poor management controls, cumbersome contractual arrangements and systems, in addition to poor data verification procedures. Audit has made recommendations for improvements and will be following up action taken during the 2004/5 financial year.

4.3 The Prevention and Detection of Fraud and Corruption

As part of its Ethical framework, the Council has established a Standards Committee, and has adopted a Code of Conduct for members incorporating the mandatory requirements of the model Code. In addition, members have signed a formal declaration accepting the terms of the Code.

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The Standards Committee meet four times during the year, which ensured that members are able to monitor and test the operation of the ethical framework.

Table 3 highlights the main corporate documents and their availability.

Table 3 Schedule of Corporate Governance Arrangements Documents					
Date	Policy/Document	Availability			
		Public	Partners	Staff	Members
Jan 04	Standing Orders	✓	X	✓	✓
Jan 04	Financial Standing Orders and Regulations	✓	X	✓	✓
Jan 04	Scheme Of Delegations	✓	X	✓	✓
July 01	Whistle-Blowing Policy	✓	X	✓	✓
Table 3 Schedule of Corporate Governance Arrangements Documents					
Date	Policy/Document	Availability			
		Public	Partners	Staff	Members
October 02	Anti-fraud and Corruption Policy	✓	X	✓	✓
July 04	Complaints Procedure	✓	X	✓	✓
Jan 04	Code of Conduct for Employee	✓	X	✓	✓
July 01	Standing Orders for the Regulation of Contracts	✓	X	✓	✓

With regards to availability to staff, the Anti-fraud and Corruption Policy, Financial Standing Orders and Regulations, Complaints Procedures and Code of Conduct are on the Council's Intranet. The other documents have limited circulation. In addition, the Anti-fraud and Corruption Policy is available to the public through the Council's Website. The remaining documents are available at Info Shops and Libraries, while the Complaints Procedure is available at all Council receptions as well.

There is now a need for the Whistle- Blowing Policy, and Anti-fraud and Corruption Policy in addition to Standing Orders for the Regulation of Contracts to be reviewed.

Although Members receive training and guidance on some of the above key documents, there needs to be a review of training requirements on key corporate documents such as Standing Orders and Financial Regulations. However, induction delegates are requested to look at the Personnel Employment pack that can be found on the Council's Intranet.

The Council continues to have a satisfactory ethical framework. However improvements are needed to arrangements for the prevention and detection of fraud. Audit Services has developed a specific programme of work as part of the annual operational plan for 2004/5. This programme includes audit reviews of car mileage, travel and subsistence, contract and contract monitoring in addition to Renovation Grants. Staff should bear in mind that Herefordshire Council has a firm belief in the integrity of all its employees.

The Council took part in the National Fraud Initiative (NFI) data matching exercise for 2002. The large number of matches generated (1365) caused a

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significant peak in workload for the sections involved. The need to liaise with other Authorities meant long delays in finalising investigations. The total number of matches leading to full investigations was quite small at 2.5% of matches (25 Benefits, 9 Audit). The final position following all investigations for Housing Benefits there were four successful prosecutions and some £15,500 worth of fraudulent claims were identified. In addition Audit Services investigated nine payroll cases none of which were fraudulent.

4.4 **Best Value Performance Indicators (BVPIs)**

As part of the Council's ongoing quest to ensure that BVPIs and Local PIs are adequately supported and accurate, Audit Services reviewed fifteen indicators; nine have been completed, with the remaining six being work in progress.

The table below shows the position those completed

Table 4 Analysis of PI Audit Opinions					
	Audit Opinion				
	Good	Satisfactory	Marginal	Unsatisfactory	Unsound
Corporate Health		1	4	2	
Waste		2			
Total	0	3	4	2	0

Last year concerns were raised in relation to the Corporate Health Performance Indicator BV157- the number of types of interactions that are enabled for electronic delivery. It is pleasing to note that this year's review was given a satisfactory audit opinion. However across the performance indicators there continues to be a need for improved data capture procedures and better verification protocols.

The unsatisfactory audit opinions relate to the BVPI 8- Percentage of creditor invoices paid with in 30 days and BVPI 12 - the number of working days/shifts lost due to sickness absence. For both these indicators verification errors were found, an example being that sickness absence had been overstated with half days being entered as full days. A system upgrade has been purchased, which has overcome this problem. Both systems are reliant on data from across the council, which increases the likelihood of verification issues.

4.5 **Risk Management**

A review of the Council's Risk Management structure was planned for 2003/4. This was deferred, until after the Cabinet approval of the Council's Risk Strategy on 15th April 2004. Service Plans for 2004/5 are taking account of Risk Management and the Corporate Risk Register is being developed. The Head of Performance Management is attending Directorate and Department Management Team Meetings to give advice and help further embed Risk Management across the Council. An Audit Review of the Council's Risk Management Process is within the Audit Plan for 2004/5.

4.6 **ICT**

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During the year there were thirteen audit reviews, table 5 summarises the audit opinions.

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Table 5 Analysis of ICT Audit Opinions					
System	Good	Satisfactory	Marginal	Unsatisfactory	Unsound
GAP – Analysis BS7799 Follow up			✓		
Supporting People IT Control Review- Follow up		✓			
Access Controls- DMS		✓			
Disaster Planning				✓	
Access to Service Project and CRM			✓		
E-Gateway- Project Management Document Review				✓	
Smart Card Pilot Review				✓	
Access Controls Creditors		✓			
Internet Firewall Security			✓		
Access Controls- CT/NDR/HB			✓		
Payroll System Access				✓	
Email and Internet Security		✓			
E-Financials – Security Review		✓			
TOTAL	0	5	4	4	0

ICT plays a key part in the Council's drive for improvement in service delivery. To ensure a secure ICT environment, the minimum level of security is set out in BS 7799 the Code of Practice for Information Security Management. The opinion has moved from unsatisfactory last year to marginal this year. With regards to disaster planning, an action plan has been developed and agreed with the Head of ICT. Audit Services will be carrying out a follow up review later in the 2004/5 financial year.

Unsatisfactory audit opinions were raised for four audits. With regards to the E-Gateway Project Management Document Review, it was found that the requirements of PRINCE 2 standards were not met, and that the project did not proceed to the original timetable.

In relation to the Smart Card Pilot there was little documentation to evidence project control or effective use of the budget.

The review of Payroll access controls identified that there was a need for a formal procedure for the setting up of new users and a full review of authority access, in addition to a detailed review of menu access. The new payroll system should help resolve these issues.

Finally the Disaster Planning audit found that there was no Disaster Plan nor formal documented Business Continuity Plan should an ICT Disaster occur,

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management are taking positive action and a follow up audit during 2004/5 will review progress.

4.7 Establishment Visits

Table 6 Analysis of Establishment Audit Opinions by Directorate					
Directorate	Good	Satisfactory	Marginal	Un-Satisfactory	Unsound
Education	0	6	1	3	0
Social Care and Strategic Housing	0	2	1	0	0
Policy and Community	0	1	4	1	0
TOTAL	0	9	6	4	0

The main themes identified related to the use of orders and the authorising of orders, and the need for improved documentation in relation to inventories and income. Findings at establishments, in particular those visited for the first time highlighted the need for up to date Accounting Guidelines, which set out the key financial and associated procedures that are good practice for establishments to have in place.

4.8 Contracts

On 1st September 2003 the Council's ten year partnership with Jarvis Plc began, the contract with Jarvis is worth some £135m. The Audit Opinion was un-satisfactory as the review identified a lack of clarity and consistency of interpretation of the contract conditions. Audit Services was unable to give assurance that the monthly application and invoices were correct prior to payment. There was poor control of workflow and programming and there was extensive use of resource/input methods of controlling jobs, preventing efficiency savings. Recommendations have been made for improvements and there will be a follow up review during 2004/5.

4.9 Verification

These audits relate to reviews where the main emphasis on ensuring that there is compliance with laid down procedures.

Table 7 Analysis of Verification Audit Opinions by Directorate					
Directorate/Department	Good	Satisfactory	Marginal	Un-Satisfactory	Unsound
Chief Executive				1	
Social Care and Strategic Housing		2			
Environment		1	1		
County Treasurer		1			
Education			1		
TOTAL	0	4	2	1	0

The unsatisfactory audit opinion related to the Computerised Human Resources Information System (CHRIS). The unsatisfactory opinion was due to the number of corrections required following testing on a sample of records from all directorates. However, action taken on the recommendations contained within the audit report should have a positive effect on any future audit opinion.

4.10 Follow Up Audits

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Recommendations made at previous audit reviews for all fundamental systems are followed up on an annual basis. In addition during the year five follow up audits were undertaken two had good audit opinions and two had a satisfactory audit opinion. The one with a marginal opinion related to Recycling Income. For 2004/5 a larger programme of follow up work has been planned.

5. RECOMMENDATIONS MADE IN 2003/4 AND ACTION TAKEN

Table 9 summarises the total number of recommendations made and accepted for the different types of audits.

Directorate/Department	Level 1 Recommendations		Level 2 Recommendations	
	Made	Accepted	Made	Accepted
Fundamental Systems	34	31	77	70
Systems	39	39	43	41
Computer Audits	24	24	47	42
Establishments	91	90	200	196
Contracts	12	12	4	4
Verification	22	22	19	19
Follow ups	4	4	41	41
TOTAL	226	222	431	413

Level 1 recommendations are due to statutory obligations, legal requirements, Council Policy, or major risk.

Level 2 recommendations are in order for sound internal control and confidence in the system to exist.

The percentage of recommendations accepted by management was 98.2% (98% in 2002/03) at level 1 and 95.8 (98%) at level 2. This maintains the high level of accepted recommendations as recorded last year.

It should be noted that formal recommendation acceptance on the following audits is overdue at the time of drafting and not included in the figures above.

Directorate/Department	Report Name	Level 1	Level 2
Policy and Community	E-mail & Internet Security	0	7
	BS7799 Gap Analysis	3	1
	Access to Services Project and CRM.	6	5
Strategic Housing and Social Care	Fairer Charging System	13	6

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6. COMPLIANCE WITH THE CIPFA CODE OF PRACTICE

6.1 Audit Performance

CIPFA issues a revised Code of Practice for Internal Audit in Local Government in 2003. This replaces the 2000 Code and reflects the Accounts and Audit Regulations 2003. The new code is intended to align Local Government more closely with standards in the National Health Service and Central Government.

The Code sets minimum standards for Ethics, together with ten standards divided into organisational and operational aspects. The findings of the Audit Commission review are summarised in table 9

Table 11 Code of Practice Summary of Findings	
Standard	Satisfactory
Ethics	Yes
1 – Scope of Internal Audit	Yes
2 – Independence	No
3 – Audit Committees	Yes
4 – Relationship with others	Yes
5 – Staffing, Training and Development	Yes
6 – Audit Strategy	No
7 – Management of Audit Assignments	Yes
8 – Due Professional Care	Yes
9 – Reporting	Yes
10 – Quality Assurance	Yes

Regarding independence the Authority does not comply with the Code as the Head of Internal Audit reports to a lower organisational level than the Chief Executive's Management Team. The County Treasurer considers the current arrangements within the department to be more than adequate in achieving the right balance between the independence of the Principal Audit Manager and the overall strategic management and quality assurance function provided by the Assistant County Treasurer and the County Treasurer. The County Treasurer feels it should also be emphasised that the Principal Audit Manager has direct access to all officers and members of the Authority.

The Audit Strategy is a high level statement of how the Internal Audit service is to be delivered and developed, and sets out the relative allocation of audit resources. The Strategy must be approved by members. The Strategy is being developed by the Principal Audit Manager and will be put forward for approval soon.

7. KEY ISSUES IDENTIFIED THAT REQUIRE ATTENTION

- **Improvement in IT security arrangements to comply with BS 7799.**
- **Improved data collection procedures for performance indicators.**

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- Risk Management continues to be embedded across the Council.
- Improvements in relation to the Jarvis contract.
- The publication of up to date Accounting Guidelines.
- Improvements are needed to arrangements for the prevention and detection of fraud

8. AUDIT OPINION

I am of the opinion that the Council's overall level of financial control continues to be satisfactory (Appendix II). However the Council needs to continue its on going improvements in the areas of Risk Management, ICT, Performance Management and arrangements for the prevention and detection of fraud.

R. A. Ford
Principal Audit Manager
August 2004

AUDIT SERVICES CHARTER

INTRODUCTION

The purpose of this Charter is to establish the authority and responsibility conferred by the Council on the Audit Services Team with respect to carrying out internal audit functions.

STATUTORY BACKGROUND

The need to maintain an internal audit function is implied by Section 151 of the Local Government Act 1972 under which local authorities are required to make proper arrangements for the administration of their financial affairs and to delegate responsibility for those arrangements to one of their officers. The Accounts and Audit Regulations 1996 are explicit about the requirement to maintain an internal audit function and state that local authorities shall maintain an adequate and effective system on internal audit of their accounting records and control systems.

THE NATURE OF AUDIT SERVICES

The Audit Services Team is an independent and objective assurance and consulting function established by the Council to examine and evaluate its activities as a service to senior management (officers and Members as appropriate). It functions by examining the adequacy and effectiveness of internal controls.

INTERNAL CONTROLS

This is the whole system of controls, both financial and otherwise, established by the Council in order to provide reasonable assurance that: -

- business risks are identified, assessed and managed effectively
- operations are effective and efficient
- there are sound systems of internal financial control
- there is compliance with laws and regulations
- assets are safeguarded from unauthorised use
- proper accounting records are maintained and the financial information used for business purposes or for publication is reliable.

THE ROLE OF AUDIT SERVICES

The role of the Audit Services Team is to understand the key risks to which the Council is exposed and to contribute to the improvement of the internal control environment - it is not a substitute for it. The Audit Services Team is therefore not directly responsible for the ensuring that adequate and effective internal controls are established to manage the key risks – that responsibility lies with senior management.

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VALUES OF AUDIT SERVICES

The Council expects the Audit Services Team to carry out their function in accordance with the following operational values: -

- To be client focused at all times
- To offer constructive comments and practical solutions
- To be proactive in approach
- To adopt a professional attitude to all tasks
- To be responsive to requests for advice.

AIM OF AUDIT SERVICES

The Audit Services Team aims to add value by contributing towards the improvement of the Council's activities by promoting effective control at reasonable cost in relation to the identified risks.

OBJECTIVES OF AUDIT SERVICES

The objectives of the Audit Services Team are: -

1. To assist the Council in the accomplishment of its objectives by bringing a systematic and disciplined approach to the evaluation and improvement of risk management, corporate governance and internal control processes.
2. To assist the Council in the effective discharge of its functions by providing independent analysis, appraisal, advice and recommendations on the activities subject to internal audit review.
3. To review, appraise and report on the adequacy and effectiveness of the systems of financial and internal control.
4. To review, appraise and report on the relevance, integrity and reliability of financial and other management information.
5. To review, appraise and report on the level of compliance with the policies, plans, procedures, statutory requirements and regulations that could have a significant impact on the Council's activities.
6. To review, appraise and report on the arrangements for protecting assets from loss resulting from theft, fraud, fire or misuse and, as appropriate, verifying their existence.
7. To review and appraise the economy, efficiency and effectiveness with which resources are deployed and recommend improvements in procedures and systems that will reduce wastage, extravagance and fraud.
8. To review service delivery arrangements and projects to ascertain whether the activities are being carried out as planned and the results are consistent with the

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Council's established policies.

9. To maintain a programme of development, review and assessment of the Council's risk management processes in order to provide assurance on their integrity.
10. To carry out any ad hoc appraisals, inspections, investigations, examinations or reviews requested by senior management or the political executive.
11. To act as the liaison with the Council's external auditors and coordinate audit effort with the District Auditor in order to avoid duplication of effort and increase audit coverage.
12. To develop shared audit protocol with colleagues in partner organisations in order to avoid duplication of effort and maximise internal audit coverage.
13. To maintain technical competence through continuing education and active participation in professional activities.
14. To adhere to the code of ethics, standards and guidelines of the relevant professional institutes and the Auditing Practices Board.
15. To utilise the resources designated for use by the Audit Services Team to maximise the efficiency and effectiveness of the internal audit function.
16. To serve on internal working groups as appointed by senior management.

INDEPENDENCE OF AUDIT SERVICES

The Audit Services Team reports administratively to the County Treasurer through the Assistant County Treasurer responsible for Financial Policy and Audit Services. The County Treasurer is the Council's Responsible Financial Officer under the terms of Section 151 of the Local Government Act 1972.

The Principal Audit Manager is responsible for the day to day management of the Audit Services Team and reports to the Assistant County Treasurer – Financial Policy and Audit Services. The Principal Audit Manager has the freedom to report to any level of management (officers and Members as appropriate) on audit findings without censure.

The Principal Audit Manager has no executive or managerial powers, functions or duties except for those relating to the management of the Audit Services Team and is not involved in the day to day management of the Council.

AUTHORITY OF AUDIT SERVICES

This Charter and the Council's Standing Orders and Financial Regulations confirm the authority conferred on the Audit Services Team by the Council.

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The Principal Audit Manager and his internal auditors have the authority to: -

- decide on the nature, scope and timing of audits
- access the books, documents, accounts, property, vouchers, records, correspondence and other data of the Council that are necessary to the proper performance of internal audit duties
- enter any of the Council's premises
- have discussion with the Council's line managers and other employees
- request any officer to provide the information and explanations needed to be able to form an opinion on the adequacy of and compliance with the internal control system.

The Council's officers are required to assist the Audit Services Team in the performance of their audit duties and to respond promptly to any requests for information, explanation, discussion, entry to premises or access to documents.

SCOPE OF AUDIT SERVICES

The risk of financial loss is not the sole concern of the Audit Services Team. The scope of audit activity encompasses the whole range of internal controls employed by the Council – both financial and non-financial.

The scope of the audit function is therefore sufficiently comprehensive to meet the Council's needs. It extends to cover all areas of the Council and its controlled entities and may involve working with colleagues in partner organisations.

AUDIT PROTOCOL

The Audit Services Team is required to observe the following protocol in carrying out their internal function: -

- Provide advance notice to the manager of each service area to be audited. An annual audit plan will be established after securing input from the Heads of Service and approval of the plan by the Chief Executive's Management Team and the Cabinet. The annual audit plan will also be reported to the Strategic Monitoring Committee.
- Conduct a preparatory meeting with the manager of the service being audited to discuss the nature of the audit, the length of engagement and the coordination of the review around operational constraints. The detail of the audit programme will be reviewed at that meeting with the service manager in order to ensure proper and thorough audit coverage.
- Conduct interim meetings with the service manager as appropriate to discuss progress with the review and findings as they arise.
- Preparation of a written draft internal audit report following the conclusion of the audit.

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- Conduct a final meeting with the service manager to discuss the draft report and confirm the accuracy of the audit findings and the appropriateness of the audit recommendations.
- Agreed amendments to the draft report will be reflected in the final report along with the service manager's response to the recommendations. Final copies of the report will be distributed as appropriate.
- The Head of Service is responsible for making sure that the action plan included in the final report is implemented.

AUDIT REPORTING

The Audit Plan

A four-year strategic plan providing for the review of significant Council activities will be prepared for approval by the Chief Executive's Management Team and the Cabinet prior to the start of each financial year. It will also be reported to the Strategic Monitoring Committee. The strategic plan will be based on an assessment of the risk pertaining to the achievement of the Council's objectives.

Mid-Year Assurance Report

The mid-year assurance report will identify the key internal control issues the Principal Audit Manager has identified or continues to be concerned about as a result of routine audit work. The report will provide summary information on special investigations and completed audit assignments and will be presented to CXMT for their comment before it is presented to Cabinet and then SMC.

Annual Audit Report

The first year of the strategic plan forms the basis of the annual operational plan for the Audit Services Team. An annual report on progress against that plan is required for the Chief Executive's Management Team and Cabinet before the end of June following the end of the relevant financial year. The annual report will also be presented to the Strategic Monitoring Committee.

Audit Assignment Reports

The Audit Services Team are required to submit timely reports on all audit assignments in accordance with the procedures and guidelines set out in the Audit Manual.

AUDIT STANDARDS

The Council requires Audit Services Team to follow the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (published in November 2000).

DETECTING AND DETERRING FRAUD

**HEREFORDSHIRE COUNCIL
ANNUAL AUDIT ASSURANCE REPORT 2003/04**

Deterrence of fraud is a responsibility of management. The Audit Services Team is responsible for examining and evaluating the adequacy and effectiveness of actions taken by management to fulfill this obligation.

The Audit Services Team shall be trained to recognise the potential indicators of fraudulent activity. If sufficient control weaknesses are detected, the Audit Services Team will carry out additional tests in order to confirm or otherwise an acceptable level of propriety and probity.

The Audit Services Team will not and can not, however, be as skilled in the detection of fraud as individuals whose sole purpose is to detect and investigate fraud – the remit of the internal audit function is much wider than prevention of fraud as set out in this Charter. Service managers must also be clear that auditing procedures alone, no matter how professionally they are carried out, cannot guarantee that fraud will be detected.

The Audit Services Team will assist in the investigation of fraud in order to: -

- Determine if controls need to be implemented or strengthened
- Design audit tests to help disclose the existence of similar frauds in the future
- Meet the internal auditor's responsibility to be able to recognise fraud.

A written report will be issued at the conclusion of each investigation. It will include all findings, conclusions, recommendations and corrective action to be taken.

March 2002

AUDIT OPINION

Quantification and Classification of Internal Control Levels

Control Level	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal Risk- a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made
Unsound	Major risks identified, fundamental improvements are required.