

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>12 NOVEMBER 2012</b>
<b>TITLE OF REPORT:</b>	<b>ANNUAL AUDIT LETTER AND ACTION PLAN 2011/12</b>
<b>PORTFOLIO AREA:</b>	<b>CORPORATE STRATEGY</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide.

### **Purpose**

To note the Audit Commission's Annual Audit Letter for 2011/12 and approve the action plan for closure of the 2012/13 accounts.

### **Key Decision**

This is not a Key Decision.

### **Recommendations**

**THAT: The Audit and Governance Committee:**

- (a) **notes the Audit Commission's Annual Audit & Inspection Letter for 2011/12; and**
- (b) **approves the action plan for the 2012/13 accounts.**

### **Key Points Summary**

1. The Audit Commission issued an unqualified opinion on the council's financial statements.
2. The Audit Commission concluded that the council has made proper arrangements to secure economy, efficiency and effectiveness in the use of resources.
3. The Audit Commission has identified four key issues for the council in 2012/13
  - Financial position
  - Adult Social Care
  - Waste disposal; and
  - Health and Social Care Act

## **Alternative Options**

4. There are no alternative options.

## **Reasons for Recommendations**

5. To ensure Audit and Governance Committee are aware of the Audit Commission's assessment of the 2011/12 financial statements and key issues for 2012/13.

## **Introduction and Background**

6. The Annual Audit Letter provides an overall summary of the Audit Commission's 2011/12 audit of the council. It draws on the Commission's audit, inspection and performance assessment work over the last year. Many of the comments will therefore be familiar as this report summarises the key points of previous Audit Commission reports.

## **Key Considerations**

### **Financial Statements**

7. The audit comprises two elements; the audit of financial statements and the auditor's assessment of arrangements to achieve value for money in the use of resources. In both cases the council received an unqualified opinion.
8. The audit of the financial statements was completed with good co-operation provided by officers throughout the audit, particularly as 2011/12 was clearly a difficult financial reporting year. In 2011/12 the Council transferred responsibility for preparing financial statements to its joint venture company partner, Hoople. This meant that many of the officers involved in preparing the financial statements were new to the roles they were asked to perform.
9. During 2011/12 the council also brought in a new integrated ledger system with the final phase, capital accounting, being implemented during the closedown period.
10. The Audit Commission reported their findings from this audit to the Audit and Governance Committee in September 2012 and gave an unqualified opinion on the annual accounts in the same month. During the audit, management agreed to make a number of adjustments to the statement of accounts, mainly to improve the notes to the accounts.
11. An action plan has been drawn up to improve the closedown process for the 2012/13 accounts.

### **Financial Position**

12. The Audit Commission acknowledges that the council has a well developed medium term financial strategy and is all too aware that the current and future challenges, such as an ageing local population and significant reductions in central government funding. These factors will continue to increase the pressure on its budget. The council currently has adequate reserves and balances, but they are reducing.
13. The council achieved savings of over £8 million in 2011/12. The savings were made in three ways; through efficiencies, reforming some services and service cuts but the emphasis has been on avoiding cuts. Most of the savings and income generation

measures taken have an ongoing effect. However, there was slippage in the delivery of some planned procurement savings which have required adjustment to the 2012/13 budget. The council is now planning to build on the work of a recent Local Government Association pilot project to develop a unified and more robust framework for monitoring the performance of service delivery contracts. This is important as much of the council's service delivery is now through external providers.

14. The letter states that the council's governance arrangements for delivering the savings are on the whole robust and clear. Responsibility for delivering the savings is clearly defined and there are corporate arrangements for developing and critically evaluating savings plans which should help the council make the further savings required.

### **Adult Social Care**

15. The Audit Commission comments that support for Older People has enjoyed a period of stability in leadership in the last two years. This has helped this key area draw up plans to change the way the service is provided.
16. The council asked its internal auditors to review the financial management arrangements in Adult Social Care in 2012. This review painted a picture of an adult social care finance function which was performing its basic traditional responsibilities adequately but was not sufficiently involved in key decisions. The Council has recently taken action to strengthen financial management and has appointed a more senior finance officer to the team. The 2012 Strategic Delivery Plan for transforming Adult Social Care attempted to make a clear link between objectives and the activities, finance and savings to deliver them.
17. The Audit Commission's view is that the council should reconsider the amount provided for Adult Social Care budget.

### **Waste Disposal**

18. Arrangements under the Waste Disposal contract were reviewed and it was noted that the council is taking the necessary and appropriate advice and is planning to undertake the required work to ensure the eventual decisions are taken in accordance with the law and provide value for money. In February Cabinet approved a set of criteria, including financial parameters, which must be met before a variation is approved. Herefordshire Council is also commissioning a separate review of whether a revision to the contract is the right approach for itself as well as the partnership.

### **Health and Social Care Act**

19. The council will have a very important role through its new responsibilities for public health. The council's transition plan has been rated 'green' by the Department of Health and all key project milestones have been agreed to date.

### **Next Steps**

20. The Annual Audit letter made eight recommendations which are attached as Appendix A.

## **Financial Implications**

21. None arising as a direct result of this report

## **Risk Management**

22. The response to the issues identified by the Audit Commission in their Annual Audit Letter 2011/12 will underpin an improvement in the Council's audit, inspection and performance assessments over the next 12 months.

## **Appendices**

- Action plan template
- Annual Audit & Inspection Letter 2011/12

# ACTION PLAN

## Recommendation 1

**Ensure that sufficient time is left at the end of the closedown of the accounts for a detailed check of the statement of accounts.**

**Responsibility** Heather Foster – Head of Corporate Finance

**Timescale** Timetable to be agreed January 2013 for accounts closure process for 2012/13 accounts.

**Comments** This is agreed. The council will work with its supplier of financial support (Hoople) to ensure the accounts are delivered in a timely manner and within the agreed timetable.

## Recommendation 2

**Provide adequate working papers and explanations to support the figures in the statement of accounts at the start of the audit via one Council finance officer.**

**Responsibility** Hoople in consultation with Heather Foster – Head of Corporate Finance

**Timescale** To be completed by end of January 2013.

**Comments** This is partially agreed. The council will discuss requirements with our new external auditors (Grant Thornton) to understand their working practices so that this recommendation is delivered. There will also be a review of Hoople's performance to ensure supporting information is adequate for accounts closure. And identify lead officers from both organisations to coordinate the key working papers (note not all).

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### **Recommendation 3**

**Ensure that there is an agreement confirming the basis of HOOPLE's admission to the Local Government Pension Scheme**

**Responsibility** David Powell – Chief Officer: Finance & Commercial

**Timescale** By end of November 2012

**Comments** The agreement is based on a series of decisions taken as part of the overall establishment of Hoople Ltd. A separate admission agreement confirming the basis of Hoople's admission to the scheme was completed in 2011, but further words to clarify responsibilities will be written.

### **Recommendation 4**

**Improve controls on the input of journals**

**Responsibility** Hoople in consultation with Heather Foster – Head of Corporate Finance

**Timescale** Audit by end of November 2012

**Comments** This is not fully accepted. The current system is based around the controls for electronic entry of journal movements on the financial system. This provides adequate controls and will be subject to audit in 2012/13. The electronic system does not have journal "vouchers" and to introduce paper records would duplicate existing activity.

### **Recommendation 5**

**Ensure there are adequate controls over the interface of feeder systems with the general ledger**

**Responsibility** Hoople

**Timescale** December 2012

**Comments** This is accepted and the current issues will be resolved as systems are replaced and functions migrate to new software.

**ISIS / Abacus issues were picked up in the General Ledger audit: note if the figures do not balance the interface cannot be uploaded.**

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### **Recommendation 6**

**Consider areas where routine assurances are required from HOOPLE**

**Responsibility David Powell – Chief Officer: Finance & Commercial**

**Timescale Implemented**

**Comments This has been implemented through new contract monitoring processes. The Chief Financial Officer receives monthly performance data about key financial controls such as bank reconciliations.**

### **Recommendation 7**

**Provide revised guidance to staff on the capitalisation of road repairs and enhance checking arrangements to ensure that this is complied with.**

**Responsibility David Powell – Chief Officer: Finance & Commercial**

**Timescale By end of November 2012**

**Comments Accepted. The council's internal auditor is reviewing and advising on the current approach to capitalisation. The audit will provide the Chief Financial officer with an independent assessment.**

### **Recommendation 8**

**Tighten closedown controls over capital expenditure**

**Responsibility Heather Foster – Head of Corporate Finance**

**Timescale Early January 2013**

**Comments Accepted. The council will work with Hoople to ensure retention sums and year end works are appropriately treated. This will require full integration of the key dates and actin into the closedown timetable.**