

Herefordshire Council

Audit Service Assurance Report 2005/6

1. Introduction

1.1 The CIPFA Code of Practice for Internal Audit In Local Government requires the Head of Internal Audit to formally submit an annual report to members. In line with good practice this Assurance Report:

- Includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment.
- Discloses any qualifications to that opinion, together with the reasons for the qualification.
- Presents a summary of the audit work undertaken to formulate the opinion.
- Draws attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control.
- Compares the work actually undertaken with the work planned and summarises the performance of the Internal Audit function.
- Comments on the compliance with the CIPFA Code of Practice.

1.2. In compliance with the Code of Practice, the Council now has an Audit Committee with terms of reference:

"To provide:

- *Independent assurance of the adequacy of the Council's risk management framework and the associated control environment.*
- *Independent scrutiny of the Council's financial and non- financial performance to the extent it affects the Council's exposure to risk and weakens the control environment; and*
- *To oversee the reporting process".*

1.3. 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'.*

1.4 Herefordshire Council also has an obligation to include in its 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. A separate report on the Council's Statement of Internal Control will be made to the Audit Committee on 30th June 2006.

Herefordshire Council

Audit Service Assurance Report 2005/6

2. Audit Approach

- 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 Audit Services acts as an aid to management and produces reports as a result of each of the reviews undertaken. It works in partnership with management to find solutions to any issues identified and seeks its agreement to any recommendations for improvement. Recommendations are developed with managers to produce action plans.
- 2.3 Audit Services is generally well received and helps management to achieve its objectives within a culture of strong stewardship.
- 2.4 The Audit Service would like to take this opportunity to thank all staff for their help and co-operation during audit visits.

3. Background

- 3.1 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 its last Audit opinion and current knowledge.
- 3.2 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. Both the four-year and Annual Plans have been approved by Cabinet.
- 3.3 Audit Services' terms of reference has been formally agreed by Cabinet in the form of an Audit Charter, which outlines the independence of Audit Services and its reporting protocols.
- 3.4 The Audit Commission has completed its review of Audit, which involved comparing audit activity with the CIPFA Code of Practice. The review has confirmed its ability to place reliance on the work of Audit Services.
- 3.5 The actual cost for Internal Audit Services amounted to £438,521 compared to a budget of £455,177.

4. Action Taken On 2004/5 Key Issues

- 4.1 The Audit Committee considered the Annual Assurance Report for the year ending 31st March, 2005 on 30th September, 2005. Two key issues were identified as being relevant to the Council's Statement of Internal Control. The first related to the overspend in Social Care and the second to the need for improvements in the Council's overall disaster recovery arrangements.
- 4.2 In relation to the overspend in Adult and Children Social Care, the Assistant County Treasurer (Policy and Audit) has been seconded to assist the Director of Adult and Community Services in the day-to-day financial management of the Adult Social Care budget. This action has led to a favourable outcome with the actual overspend amounting to £828,000 compared to the original estimate of £1,500,000.

Herefordshire Council
Audit Service Assurance Report 2005/6

4.3 With regards to the Children Social Care Service an action plan has been developed to increase family support and recruit and retain skilled foster careers. The actual outturn for 2005/6 was an underspend of £61,000, which proved satisfactory when compared to the original estimate of an £195,000 overspend.

5. CPA-Use of Resources

5.1 Although the Council's Use of Resources score was a 3 out of a possible 4, the internal control element scored a 2 out of 4. The Audit Commission Annual Audit and Inspection Letter for 2004/05 stated that the Council's systems of Internal Control met the minimum requirements for the Use of Resources assessment. To improve the Council needs to develop:

Improvement	Management Action
Risk Management, particularly with respect to partnership working and quarterly reporting to Cabinet on risk management issues.	<i>Directorates have been asked to include on DMT agendas, major projects e.g. Accommodation Strategy/Hereford Connects have risks logs associated with them. Corporate risk logs are circulated regularly for amendment. Risk Management issues are reported to Cabinet on a two monthly basis as part of the integrated Performance Reports. The Audit Manger has attended a CIPFA seminar on risk management in partnerships and a risk management protocol for partnerships is being developed.</i>
The assurance framework, in particular mapping strategic objectives to risks, controls and assurances.	<i>The Audit Committee has adopted a Statement of Internal Control Assurance Framework, which meets the Audit Commission's requirements.</i>
the role of the Audit Committee to provide effective leadership on audit and governance issues.	<i>The Council's Audit Committee is now fully operational and the terms of reference as set out in the CIPFA Guidance on Audit Committees have been adopted.</i>

5.2 An action plan has now been developed with the aim of improving the internal control score by the time of the next assessment. Progress will be reported to the Audit Committee.

6. Statement of Internal Control

6.1 A separate report will be presented to the Audit Committee. However Audit Services review showed that the Council's procedures and protocols compared favourable with the CIPFA checklist and overall was found to be satisfactory. However four areas were identified for improvement.

7. Summary of other Audit Work Undertaken

7.1 Two key factors affected the overall completion of the Audit Plan for 2005/6. Firstly the level of time spent verifying performance indicators and the flowcharting and procedure documentation of all the fundamental systems. To help align the Audit Plan to available resources in consultation with the Directors priorities were identified and the following work has been deferred.

**Herefordshire Council
Audit Service Assurance Report 2005/6**

- Social Care Contract letting;
- Supply Cover Administration;
- Older People Payment to independent Providers;
- Physical Disabilities-Direct Payments to Service Users;
- Private Finance Initiative;
- CHRIS;
- Government Grants;
- Waste Management Contract;
- Info in Hereford- Garrick House;
- Agency Payments;
- P&C Grants and Donations; and
- Early Years Development - site visits.

7.2 The deferral of the above work did not impact adversely on the level of work required to give an end of year opinion on the Council's system of internal control.

Fundamental Systems

7.3 Fundamental systems are systems whose failure could cause major disruption or loss of financial control to the Council. The audit opinions for each of these reviews is:

Table 1 Summary Fundamental Audit Opinions	2005/6	2004/5	2003/4
Audit Opinion	Number	Number	Number
Good	3	1	0
Satisfactory	10	10	9
Marginal	2	1	2
Un-satisfactory	0	0	0
Unsound	0	0	0
TOTAL	15	12	11

7.4 It should be noted that where a fundamental system has a marginal or worse opinion, it is likely that the Audit Commission will make reference to it in its management letter.

7.5 The marginal opinions relates to the newly implemented Academy System for Council Tax and Housing Benefit systems, which was not fully embedded at the time of the Audit. This meant the residual risks within the systems were higher than would normally be the case. Management action is being taken and the Audit Manager is confident that when all issues concerned with the implementation are resolved, most of the recommendations can be implemented easily. Confidence in the management of both services remains high.

Corporate Governance arrangements (including Anti Fraud arrangements)

7.6 The Council has in place key corporate governance documents in place and table 2 highlights their availability.

**Herefordshire Council
Audit Service Assurance Report 2005/6**

Table 2 Schedule of Key Corporate Governance Arrangements Documents				
Policy/Document	Availability			
	Public	Partners	Staff	Members
Standing Orders	✓	✓	✓	✓
Financial Standing Orders and Regulations	✓	✓	✓	✓
Scheme Of Delegations	✓	✓	✓	✓
Whistle-Blowing Policy	✓	✓	✓	✓
Anti-fraud and Corruption Policy	✓	✓	✓	✓
Complaints Procedure	✓	✓	✓	✓
Code of Conduct for Employee	✓	✓	✓	✓
Standing Orders for the Regulation of Contracts	✓	✓	✓	✓
Corporate Plan	✓	✓	✓	✓
Operating Plan	✓	✓	✓	✓

- 7.7 Owing to the importance the Council places on its partnership arrangements, which is recognised nationally, it is advisable that Council partners are reminded of the Council's key corporate governance documents.
- 7.8 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.
- 7.9 All Directors and Heads of Service have given written assurance through a signed statement as to the operation of internal control and risk management within their Directorate/Service. In addition, all officers at Head of Service level and above have made individual declarations with regards to gifts and hospitality.
- 7.10 The Audit Committee had its first meeting on 30th September, 2005 with two additional meetings since. Good progress is being made with regards to the Committee's overall governance role. Training has been given to members covering risk management, money laundering and the Council's Statement of Accounts including the Statement of Internal Control. However a review of Corporate Governance Arrangements has highlighted the need for a Code of Corporate Governance in line with good practice.
- 7.11 A number of special investigations have been under taken which were not related to any fundamental system. A report will be submitted to the Corporate Management Board on lessons learnt, which will be communicated to Heads of Service and Key managers in due course.
- 7.12 The Council took part in the National Fraud Initiative (NFI) data matching exercise with 1292 case matches (971 Housing Benefit and 321 non-housing benefit) generated for review. With regards to the non-housing benefit cases there were no instances of fraud. However there were a significant number of invalid national insurance numbers, details of which have been drawn to the attention of the Payroll Manager for investigation and correction. With regards to Housing Benefit fifty were identified for further investigation, of these there were three formal cautions issued, one administrative penalty, two prosecutions, and nine classed as claimant administrative errors. Some £27,700 was identified as over payments.

Herefordshire Council

Audit Service Assurance Report 2005/6

Performance Management Framework

- 7.13 The Council has a comprehensive Performance Management Framework, which was first adopted in May 2003. Since then, significant developments and improvements have been made to elements of the framework, which has led to a revised Performance Management Framework being approved by Cabinet in June 2005. Further developments include the new Performance Improvement Cycle, which will be reflected in a further revision to the Council's Performance Management Framework. Key performance Indicators are established and monitored with outturns forming part of the Integrated Performance Reports to Cabinet.
- 7.14 The Audit Services report on the Council's Performance Management Framework found that the Council had a satisfactory system, which was working and links between the elements were growing. While there was room for improvement, no element or area proved to be weak or failing. Some Directorates were progressing quicker than others and the sharing of best practice was identified as the most obvious route to overall improvement.
- 7.15 The element requiring the most improvement was the Staff Review and Development process. Although many managers took this activity seriously, the documentary evidence indicates that the process was "fitted in" when convenient and the annual SRD round was often late. Many of the SRD forms examined showed some links to Service Plans but not all.
- 7.16 As part of it's joint working arrangements with the Audit Commission Audit Services is currently carrying out a review of eighteen performance indicators, in addition to four within the Children and Young People Directorate at the request of the Director. The final out come on all performance indicators will be reported to the Audit Committee at a later date.

ICT Protocols and Controls

- 7.17 Last year the key area for improvement was the Council's disaster recovery protocols. It is pleasing to note that the review on the Council's disaster arrangements proved to be satisfactory.

Establishment Visits/Verification and Probity

- 7.18 There was evidence that procedures operating generally at pre-contract stage were satisfactory. The reviews identified a few areas where exiting controls could be strengthened. With regards to establishment visits there was an overall improvement when compared to last year. Audits highlighted the need for improvements with regards to inventories and the need for guidance to schools in relation to CRB checks.

Schedule of Audits

- 7.19 Appendix 1 summarises the audit reviews carried out during 2005/6 and Appendix 2 outlines opinion and star rating definitions.

Other Corporate issues

- 7.20 The Corporate Assessment outcome for the Council as a whole continued to be a positive one with the Council's overall score being that of a three star authority and under the new direction of travel statement, the authority was seen as improving adequately.

Herefordshire Council
Audit Service Assurance Report 2005/6

- 7.21 Although the Council had a Performance Management Framework there was a need for it to be robustly and consistently implemented across the Council.
- 7.22 In overall terms there was a positive assessment of the review of Services for Children and Young People, however there was a major qualification to the overall assessment and that was in relation to the important area of ' Staying Safe'.
- 7.23 The Council has in place action plans to address the issues raised and the Corporate Management Board and Cabinet carry out regular monitoring of these plans. The Council has also set up Prince 2 Project Boards to ensure that the required improvements are met in full.

Audit Opinions

- 7.24 It is normal practice for all audits except for recommendation follow-ups to be given an audit opinion. All audits rated as unsatisfactory or worse and any fundamental or major systems found to be marginal or worse must be brought to the attention of the Audit Committee. Only three audits met the criteria these are outlined below.

Audit	Opinion	Action being taken
Anti-Money Laundering Procedures	Unsatisfactory	Training has been completed and all outstanding requirements have been met.
Recruitment and Selection	Unsatisfactory	The report mainly confirmed management concerns with the policy of delegation out to Directorates. Many of the actions identified for improvement have now been carried out as a result of setting in place the central recruitment team and associated processes as from 3rd April 2006.
TALIS	Unsatisfactory	Poor access and related controls, with improvements relating to backup and server security required.

'Critical 1' recommendations

- 7.25 As previously reported an improvement to recommendation reporting was introduced for 2005/6 and entailed the introduction of a new category of audit recommendation called 'Critical1'. These are recommendations where non-compliance will be a high risk to the Council and where action is required urgently or with in an agreed timescale.
- 7.26 Only three 'Critical 1' recommendations have been made to date. The first related to the need for improved controls in relation to the use of the school mini bus at a secondary school. It is pleasing to report that the school has taken action and most of the required actions have been completed. The second related to the need to ensure that the details of legislation and acts listed on the various types of Council warrant cards were correct, complete and current. Appropriate action has now been taken and the Head of Human Resources is happy that possible risks have now been eliminated.

Herefordshire Council
Audit Service Assurance Report 2005/6

7.27 The third relates to LPSA targets and the need for completion of the Council's PI Proforma to ensure that the required information and data can be easily identified. The council has now formed the Performance Improvement Project Group who will be using Prince 2 methodology to ensure full compliance with Council policy

Results of Recommendations Follow-up

7.28 Recommendation follow-up is featured in the Audit Plan for the year 2004/05. The outcome of the follow up work is summarised in the following table:

Summary of Follow up Outcomes				
Status	2005/6		2004/5	
	Number	Percentage %	Number	Percentage %
Fully/Substantially Implemented	165	67	225	69
Partly Implemented	34	14	65	20
Not Implemented	47	19	36	11
Total	246	100	326	100

Compliance with the Code/ Audit Performance

7.29 In their last Annual Audit and Inspection Letter the Audit Commission highlighted that in relation to the Code of Practice for Internal Audit in Local Government consideration needed to be given to the requirement that the Head of Internal Audit reports directly to a member of the Corporate Management Board. This is now in place as part of the restructure within the Resources Directorate. It was also highlighted that the completion of fundamental systems slipped. There have been improvements in this area for the current year.

**Herefordshire Council
Audit Service Assurance Report 2005/6**

7.30 The following table shows audit performance on local performance indicators:

Local Performance Indicators					
	2004/05		2005/06		2006/07
Description	Target	Actual	Target	Actual	Target
The half year Assurance report to is delivered to Members	October 04	November 04	October 05	February 06	November 06
The end of year Assurance report is delivered to Members	June 04	September 04	June 05	September 05	June 06
90% of Service Managers are satisfied with the Audit Service	90%	88%	90%	95%	90%
100% of SRDs are completed by 31st May	100%	100%	100%	100%	100%
Management accepts 95% of Level 1 and Level 2 recommendations.	95%	95%	95%	96%	95%
The Audit Plan is agreed by the start of the new financial year.	April 04	May 04	April 05	April 05	April 06
Ensure that the Councils Statement of Internal Control for previous Financial year is Published	August 04	August 04	July 05	July 05	June 06

7.31 A review of performance highlights the need for assurance reports to be considered by members in a more timely manner. Now that the Audit Committee is in place this should ensure this.

Audit Benchmarking Survey

7.32 The Audit Service took part in the CIPFA Benchmarking Club Audit Customer Satisfaction Survey with the overall audit performance being good. The survey covered:

- Audit Services Work;
- Audit Staff;
- Conduct of Audits;
- Audit reporting; and
- Customer Service.

7.33 Three areas were identified for improvement. The first was Value for Money Reviews, which was of high importance to customers with audit performance being adequate. The second related to timing of audits again given high importance by customers with audit performance being adequate. And the third related to recommendations being constructive, practical and cost effective this was given high importance by customers with audit performance being adequate. These areas of customer concerns have been addressed with the introduction of audit protocols with each Directorate.

Herefordshire Council
Audit Service Assurance Report 2005/6

8. Audit Opinion

I am of the opinion that the Council's overall level of Internal control is satisfactory. However management need to ensure it follows agreed procedures for responding to external audit reports and recommendations. It also needs to ensure implementation of its Use of Resources improvement plan.

R A FORD
PRINCIPAL AUDIT MANAGER

June 2006