

Agenda



AGENDA for a meeting of the AUDIT COMMITTEE in COMMITTEE ROOM B at County Hall, Hertford on WEDNESDAY, 30 NOVEMBER 2016 at 10.15 AM

MEMBERS OF THE COMMITTEE (10) (Quorum 3)

R F Cheswright, G R Churchard, D T F Scudder, T Hunter, D Andrews, J Lloyd, T W Hone, S J Taylor, A D Williams (*Chairman*), W J Wyatt-Lowe (*Vice-Chairman*)

Meetings of the Committee are open to the public (this includes the press) and attendance is welcomed. However, there may be occasions when the public are excluded from the meeting for particular items of business. Any such items are taken at the end of the public part of the meeting and are listed under "Part II ('closed') agenda".

Committee Room B fitted with an audio system to assist those with hearing impairment. Anyone who wishes to use this should contact main (front) reception.

PART I (PUBLIC) AGENDA

1. MINUTES

To confirm the minutes of the meeting held on 23 September 2016.

2. HERTFORDSHIRE COUNTY COUNCIL ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2016

Report of Ernst & Young

3. UPDATE ON RESPONSE TO THE AUDIT RESULTS REPORT AND PREPARATIONS FOR 2016/17 AUDIT

Report of the Director of Resources

4. APPOINTMENT OF AUDITORS 2017/18 AND BEYOND

Report of the Director of Resources

5. MID-YEAR REPORT ON THE TREASURY MANAGEMENT SERVICE AND PRUDENTIAL INDICATORS 2016/17

Report of the Chief Finance Officer

6. **RISK MANAGEMENT UPDATE REPORT**
Report of Head of Assurance
7. **RISK FOCUS REPORT – TREE HEALTH**
Report of the Chief Executive & Director of Environment
8. **HERTFORDSHIRE COUNTY COUNCIL INTERNAL AUDIT PROGRESS REPORT**
Report of the Head of Assurance Services
9. **HERTFORDSHIRE FIRE AND RESCUE AUTHORITY STATEMENT OF ASSURANCE 2015/16**
Report of the Director Community Protection
10. **FUTURE WORK PROGRAMME**

The Committee is invited to agree its future rolling work programme, suggested as follows:-

<p>Wednesday 1 March 2017 at 10am</p>	<ul style="list-style-type: none"> • Preparation for 2016/17 Accounts • Audit Plan 2016/17 – County Council • Audit Plan 2016/17 – Pension Fund • Letters of Representation on Management and Oversight of The Hertfordshire County Council (Including Firefighters’ Pension Fund) And Hertfordshire Pension Fund Accounts 2016/17 • Risk Management Annual Report 2016/17 • Risk Focus Report • Internal Audit Progress Report Q4 • Internal Audit Plan 2017/18
<p>Tuesday 27 June 2017 at 10am</p>	<ul style="list-style-type: none"> • Risk Management Update • Risk Focus Report – • Annual Governance Statement 2016/17 and Code of Corporate Governance • Annual Assurance Statement and Internal Audit Annual Report 2016/17 • Internal Audit Progress Report Q1 • End of Year Report on the Treasury Management Service and Prudential Indicators 2016/17 • Whistle Blowing Annual Report 2016/17

If you require further information about this agenda please contact Theresa Baker, Democratic Services, on telephone no (01992) 556545 or email theresa.baker@hertfordshire.gov.uk

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To: All Members of the Audit Committee, Chief Executive, Chief Officers, All officers named for 'actions'

From: Legal, Democratic & Statutory Services
Ask for: Theresa Baker
Ext: 26545

**AUDIT COMMITTEE
23 SEPTEMBER 2016**

ATTENDANCE

MEMBERS OF THE PANEL

F Button (substitute for R F Cheswright), T W Hone, T Hunter, P A Ruffles (substitute for D Andrews), D T F Scudder, S J Taylor, A D Williams (*Chairman*), W J Wyatt-Lowe (*Vice-Chairman*)

Upon consideration of the agenda for the Audit Committee meeting 23 September 2016, as circulated, copy annexed, conclusions were reached and are recorded below:

Note: No declarations of interest were made by any member of the Committee in relation to the matters considered at this meeting.

Chairman's Announcements

The Chairman noted apologies from J Lloyd. He advised the committee that as the Director of Resources was delayed there would be no break and the signing of the letters of representation for the financial statements (Items 3 and 6) would be undertaken at the end of the meeting.

PART I ('OPEN') BUSINESS

	ACTION
1. MINUTES	
1.1 The minutes of the Committee meeting held on 21 June 2016 were confirmed as a correct record and signed by the Chairman.	
2. AUDIT RESULTS REPORT 2015/16 – COUNTY COUNCIL	
2.1 The Committee considered the Hertfordshire County Council Annual Governance Report 2015/2016 of the external auditors.	
2.2 Neil Harris of Ernst & Young (EY) was pleased to advise the Committee that all work in the external auditor's areas of responsibility had been completed and drew the Committees' attention to the key matters as detailed in the Executive Summary on pages 0-1 of the report.	
2.3 The auditor thanked officers for their cooperation and complimented them on the production of a very good set of accounts, particularly in	

terms of preparation of accounts and any significant accounting issues which took place year on year. The Committee were pleased to hear that this reflected well on the Council which was subsequently well prepared for fast closure of accounts for 2017/18.

- 2.4 Members were advised that, subject to the Committee's decision on the accounts, EY intended to issue an unqualified opinion on the financial statements as at 31 March 2016 and proposed to provide an unqualified value for money conclusion (i.e. that the Council had appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources). In addition there were no matters for the Committee to be made aware of as part of the assurance statement to the national audit office which formed part of the Whole of Government Accounts exercise.
- 2.5 The auditor expressed satisfaction with consolidation of the Council's accounts with the group accounts for the subsidiaries Herts for Learning Ltd and Hertfordshire Catering Ltd, also with the Fire Fighters' pension fund.
- 2.6 Members heard that in terms of materiality, lower levels of testing were set for sensitive areas including remuneration of officers earning over £50,000, members allowances and related party transactions.
- 2.7 There were no issues to bring to the Committee's attention on the four identified risks i.e. property asset valuation; Better Care Fund; risk of fraud in revenue recognition and risk of management override.
- 2.8 The Committee's attention was drawn to a longstanding debt of £6.4 Million owed by the Diocese of St Albans to the County Council in respect of St Mary's School, Cheshunt to which EY had specifically requested a Management Representation Letter in terms of recoverability, in addition to the standard representations.
- 2.9 In response to questions the Committee heard that the debt was being settled by the sale of the former school site to repay the Council; the £6.4 Million was being held by solicitors and once an item of retention (planning) had been resolved, the bulk of the funds would be released within 2 weeks; also that interest accrued on the debt would come to the County Council.
- 2.10 No significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements that the County Council was not already aware of were identified by EY.

C.Cook,
O.Mapley

2.11 Members were pleased that the County Council's Property Asset Valuation had improved particularly in relation to errors in the revaluation process. In response to questions, reassurance was received from EY that as this had always been seen as a significant audit risk further additional audit procedures had been performed (page 3) (i.e. the appropriate process of valuation, consideration of whether properties had undergone a change in use, changes in accounting standards); management had confirmed subsequent review and reassessment of 115 assets; the issue it would remain on EY's future audit plan. Officers clarified that the revaluation process was now under continuous review and that there were robust procedures around the process of revaluation, also close links with Property. Officers directed that this issue would be further covered in the Response to the Annual Results Report.

2.12 In terms of Internal Skills and the Council's Resilience, the situation in terms of Partnership arrangements (e.g. partnership with auditors in the Clinical Commissioning Groups (CCG's) in the Better Care Fund; Borough Council auditors) including readiness for fast closure was raised. The auditor reported that the Better Care Fund had worked very well in Hertfordshire due to early agreement with CCG's on accounting treatment and clarity of governance (i.e. joint control vs dual control); notably East & North Hertfordshire CCG had resolve these issues by May before the audit had begun. It was noted that the vast majority of district councils were ready for fast closure, however the Chief Financial Officers' network could consider providing additional support to the few that were not ready.

O Mapley

The auditor commented that the biggest challenge would be for EY itself to demonstrate that it was ready for Fast Closure in July rather than September 2018.

Conclusion:

2.13 The Committee RESOLVED that that the Audit Results Report 2015/16 for the County Council audit engagement be noted and endorsed.

2.14 The Committee welcomed the very positive feedback on the preparedness of the County Council and its accounting procedures.

**3. RESPONSE TO THE AUDIT RESULTS REPORT –
HERTFORDSHIRE COUNTY COUNCIL (INCLUDING FIRE
FIGHTERS' PENSION FUND) FINANCIAL STATEMENTS**

3.1 The Committee considered a report which provided a recommended response to the Audit Results Report 2015/16, including the draft Letter of Representation.

3.2 Officers were pleased to note the assurances given on the Annual Results Report Financial Statement for 2015/16, also on the

financial controls and processes in place during the year, and commented that they would continue to review the County Council's processes and mindful of the requirement for faster closure in 2018 were identifying critical paths towards which to direct resources.

- 3.3 With respect to property, plant and equipment valuations, the Committee heard that the Council had in place processes for review of the existence of these assets during the year; were continuing to work with valuers to enable them to understand the basis of valuation, also that there was resilience (i.e. capacity to carry out double checking of inputting to balance sheets) for the specialised accounting entry from this work and thus few numerical adjustments.

Conclusion:

- 3.4 The Committee:
RESOLVED to note the contents of the report;
RESOLVED that the response to the Audit Results Report 2015/16 for the County Council be approved;
RESOLVED that the Letter of Representation be signed at the end of the meeting.

**4. ANNUAL STATEMENT OF ACCOUNTS 2015/16–
HERTFORDSHIRE COUNTY COUNCIL (INCLUDING FIRE
FIGHTERS' PENSION FUND) FINANCIAL STATEMENTS**

- 4.1 The Committee considered a report which outlined any significant changes made through the course of the audit to the draft Statement of Accounts as detailed in Appendix A to the report.
- 4.2 Members had been advised during the pre-meeting training session that the Statement of Accounts for 2015/16 now started with a Narrative Report rather than an Explanatory Forward and details of Appendix A had been explained.
- 4.3 The Committee heard that changes to the statement of accounts subsequent to the audit review were few and resulted in the General Fund balance returning to the level projected within the Integrated Plan.
- 4.4 Officers noted that there were few numerical adjustments and drew Members' attention to:
- Corrections to several property valuations which had been processed thorough during the course of the audit;
 - Incorrect treatment of a payment from the Hertfordshire Local Enterprise Partnership (LEP) as a grant payment rather than a loan which had been corrected for;
 - Consolidation of the group accounts subsequent to disclosure of the tax liability of Herts Catering Ltd, which at the time of publication of the draft accounts had been unknown;

- Duplication of a transfer to reserves in relation to the Innovation Fund, also an additional transfer to the Public Health reserve due to processing after the transfer to / from reserves following production of the draft accounts, which had led to adjustments to the specific reserves and the movement of the General Fund by £1.303m from £30.809m to £32.112m;
- The necessary correction of the method of calculating the revaluation of PFI assets which had led to an increase in the asset value of £3.26m to £65.8m and an offsetting increase in the revaluation reserve;
- Disclose information on valuation of assets in order to meet the requirements of IFRS13;
- Inclusion of a Post Balance Sheet Disclosure for Brexit, the current position of the Council and the potential impact on it.

4.5 The Committee were advised that the accounts incorporating the auditor's final opinion and certificate would be published on the Council's website after the meeting (30 September 2016). C.Cook

4.6 To a query officers clarified that the complexity of the leases on Robertson House and Farnham House, Stevenage were a consequence of the fact that Hertfordshire had leased these buildings prior to purchase; as a result there were underlying lease back arrangements which would finish in September 2018 when the freehold reverted back to the County Council. Members were pleased to note that these arrangements had generated £1.1million per annum to the Council.

4.7 Officers reminded Members that they were happy to answer by email any further questions they might raise subsequent to the meeting. L. McLeod

Conclusion:

4.8 The Committee RESOLVED that the Annual Statement of Accounts 2015/16 be approved.

5. AUDIT RESULTS REPORT 2015/16 – PENSION FUND

5.1 Neil Harris (on behalf of Richard Page) of EY presented the Committee with the Audit Results Report of the financial statements of the Hertfordshire Pension Fund 2015/16 and advised them that they had now completed their work on it.

5.2 The Committee were directed to the executive summary on pages 0-1 of the report. They were advised that there were no matters to which their attention should be drawn and that all audit risks had been addressed. On the basis of this Richard Page would, as of 23 September 2016, issue an opinion that the Pensions Fund's

financial statements were unqualified and that there were to EY's knowledge no issues on which the Pension Fund's annual report was not consistent with the financial statements. The audit opinion would be issued in the form which appeared in Appendix D to the report.

Conclusion:

5.3 The Committee RESOLVED that the Audit Results Report 2015/16 for the Pension Fund be noted.

6. RESPONSE TO THE AUDIT RESULTS REPORT 2015/16 – PENSION FUND

6.1 The Committee received a report providing a response to the Audit Results Report 2015/16 – Pensions Fund.

6.2 Officers were pleased to report that there were no recommendations and the auditors were expected to confirm an unqualified opinion on the accounts.

6.3 The Committee were advised that because the accounts pack had been produced ahead of schedule there could be adjustments as some figures were estimates.

6.4 Members heard that the Pension Fund's net assets had increased to £3.584 billion after an amendment during the audit to account for an identified £8.7 million undervaluation of the property pooled investment assets.

6.5 Officers reported that the Letter of Representation had been before the Pensions Committee who had noted their satisfaction with the accounts and the auditors report.

6.6 The chairman confirmed that the Letter of Representation would be signed at the end of the meeting.

A. Williams
O. Mapley

Conclusion

6.7 The Committee RESOLVED that:

- the Audit Results report for the Pension Fund be approved,
- the Letter of Representation be signed by the Director of Resources and the Chairman of the Audit Committee

7. RISK MANAGEMENT UPDATE REPORT

7.1 The Committee considered a report on the risk management system and risk related issues including Corporate Risk Movements, De-escalated / Withdrawn Risks, the 34 Corporate Risks, also the Full Corporate Register.

- 7.2 Members noted that the corporate risk register included amendments for the 1 withdrawn and 1 de-escalated risk since the last meeting of the Audit Committee in June 2016, also that the full Corporate Risk Register could be viewed electronically via a linked icon.
- 7.3 In terms of key movements Members' attention was drawn to the fact that 2 risks had risen from amber to red since the last quarter i.e. HCSOPD0006 and ENV0104 resulting in a total of 13 severe risks.
- 7.4 Members were directed to the Heat Map which illustrated all corporate risks and heard that AUDIT0001 had risen from amber 12 to amber 16, CSCE0002 had been de-escalated to a Service rather than Corporate level; whilst risk PROP0016 had been withdrawn to a local level rather than a service level.
- 7.5 Officers suggested red (severe) risk rated Matrix Nos EO1 (*Tree Health*) and RO3 (*HCC's pension fund level may not improve sufficiently to cover accrued pension cost*) as options for the focus of the Risk Focus Report for 30 November 2016 Audit Committee meeting.
- 7.6 The Committee selected Risk Reference ENV0142 (Tree Health); they particularly welcomed it in respect of diseased trees weakened by storms in relation to previous incidents in the county. Members noted that Ash Dieback which had now reached Hertfordshire and that the Environment, Planning & Transport Cabinet Panel of 14 September 2016 had received a report on the issue.
- 7.7 In response to a Member's question, officers clarified that for Matrix No. HC07 the risk had been increased because there was a possibility that some care providers might be lost due to Brexit.
- 7.8 The Committee requested that Risk Matrix No HC07 (Failure of care providers) should be the focus of a future Risk Focus Report when there was more empirical information to support any risk movements.
- 7.9 When the Committee's opinion was sought on the content of the report, Members expressed satisfaction with the move to electronic linking to the full Corporate Risk Register in light of the reduction in paperwork.

F Timms

F. Timms

Conclusion:

- 7.10 The Committee RESOLVED that:
- the Risk Management Update report be noted;
 - Risk E01 (Tree Health) (Risk Reference ENV0142: “*Due to the threat of an increasing number of tree pests and diseases, in particular the imminent threat from Ash Dieback, there is a risk of a significant number of trees being affected which may result in significant unplanned costs, potential dangers to the public and/or service users, impacts on the landscape and loss of biodiversity*”) be the subject of the risk focus report for the 30 November 2016 meeting.

8. RISK FOCUS REPORT – HEALTH AND SOCIAL CARE ECONOMY

8.1 Subsequent to a resolution from the 21 June 2016 meeting, the Audit Committee received a report detailing the assessment of, rating of, also controls to minimise or avoid occurrence of risk to local health and social economy and its ability to deliver good quality care and support to Hertfordshire’s residents. It focused on three separate but highly interdependent risks which were all rated as severe:

- HCS0010: workforce (and inability to recruit enough care workers – a local & national issue);
- HCS0012: National Health Service (NHS) structural changes and funding (and potential danger to jointly commissioned projects);
- HCSOPD0001: delays in discharging patients from hospital (due to increased demand).

8.2 Officers reported that despite paying above national minimum wage and promotional activities, workforce recruitment and retention in Hertfordshire remained a sustainability challenge for care home providers and home care agencies. Members heard that the County Council had attempted to moderate the market via Quantum Care and had close links with Hertfordshire Care Providers Association. Comment was passed that some of the larger care providers which relied on a European work force had recently experienced problems, however in light of Brexit the Council was monitoring the situation. Officers agreed that, in 12 months’ time when there was more empirical information, they would bring a report on the Risk of Brexit to Care Providers back to the Audit Committee.

E Knowles

8.3 The Committee noted the development of NHS Sustainability and Transformation Plans (STP) for the combined Hertfordshire and West Essex geographical area and its intention to ensure financial stability of the health and social care economy. Officers reported that there would be associated financial targets which could impact on shared activity and commissioning. Members were also advised that the Council was involved in the development of the STP and its associated work streams.

- 8.4 In discussion of the escalation of the risk to delays in discharging patients from hospital, Members noted that multiple factors contributed to the rise in volume of activity coming to social care from acute settings (rather than the community): increasing age of the population, the more complex needs of patients from acute settings; the higher level of care required by these patients, lack of appropriate social care places, too few staff; not all providers would take County Council presentees.
- 8.5 To a suggestion, officers commented that the Council was already involved in efforts to provide care worker specific training to enable them to care for people with complex needs e.g. significant funding and work with the East and North Hertfordshire Vanguard project.
- 8.6 In response to a question officers commented that the County Council was involved in some 'Step Down' facilities such as Hertfordshire Community Trust. However, the need to make people's homes suitable for occupation caused blocking of the Step-Down facility itself. Also under consideration was 'Discharge to Assess', a further element in moving patients from acute scenarios to their homes or care homes where they would complete the rest of their testing; again social care input would be required to make their homes suitable. When Members questioned the impartiality of 'Trust Assessors' involved in mediating and solving issues around moving patients out of acute care, officers highlighted the involvement of care providers in their appointment and the fact that, if entry was refused due to the level of the patient's need, the Council would have to find alternative accommodation for them. The Committee heard that GP's at the door was another initiative to assess people for entry to care homes and if not suitable to be send them back to an acute care situation.
- 8.7 Conversation emphasised that with an ageing population the ultimate solution was improved health at the onset and continuing, i.e. the need for a whole system approach including the County Council, District and Borough Councils, also Public Health to prevent the population from requiring acute care in the first place by getting them fitter, earlier diagnosis and treatment of conditions such as diabetes, reduction of prescription drug intake, faster rehabilitation of the ill; home support for those with needs to negate the need for hospital care.
- 8.8 The Committee heard that the Council had in place robust controls, monitoring and targets to manage the risk and to be aware of the direction it was taking. On a positive note officers reported that although 6.2% of West Hertfordshire's Bed Base was currently subject to delayed transfer of care; this had at times decreased to 4% which was a positive indication of progress towards the 2.5% end of the year target.

Conclusion

8.9 The Committee RESOLVED to:
note the report and commented on the information provided in the report.

9. SIAS INTERNAL AUDIT PROGRESS REPORT

9.1 The Committee received an internal audit progress report from SIAS, providing Members with information on the current position.

In terms of breakdown of audits completed Members heard that:

- as at 19 September 2016 37% of the 2016/17 Internal Audit plan days had been delivered;
- Since 23 May 2016, 11 audits and associated reports had been completed, also 2 Grant Certifications and 1 assurance of the Council's Carbon Reduction Commitment Return.

9.2 The Committee noted that draft reports had been issued to management for comment and response on Management of Empty Properties and Carers Direct Payments. Officers were pleased to report that, since the report had been written, the Special Educational Needs Strategy report from the 2015/16 audit plan had been finalised and provided substantial assurance.

9.3 With respect to proposed audit amendments the Committee's attention was drawn to the fact that due to the recent movement of Hertfordshire Equipment Services (HES) from the Hertfordshire Business Services (HBS) portfolio to Health and Community Service, the Fuel Card audit had been extended from 10 to 15 days to ensure assurance over robustness of internal controls for these key users of the Fuel Card system.

9.4 An initial budget of eight days had been allocated from the contingency for an audit of outturn projections on budget monitors.

9.5 Officers were pleased to report that there had been no Limited Assurance opinions since the last progress report.

9.6 In terms of high priority recommendations Members heard that Highways management had already implemented the recommendation for strengthening the visibility and robustness of contract risk management arrangements in relation to the audit of the Governance, Performance and Contract Management arrangements for the Highways Contract.

9.7 Updating the Committee on performance management, officers highlighted that since the production of the report, planned days had risen to 37% and planned projects to 36% with respect to the performance indicator.

- 9.8 To a question on the fact that separate independent assurance was no longer deemed necessary on the ICT systems rationalisation project, officers commented that responsibility for this decision lay with the Director of Resources and that the Head of Assurance would have reached the decision after due testing and diligence.
- 9.9 When the reduction in the number of schools visited as part of Theme 1 from 25 to 19 was queried, officers explained that SIAS coordinated and received the Schools Financial Value Standard (SFVS) returns which all schools were obliged to submit. From the information received and in view of the fact that the economic climate had increased the likelihood of more schools getting into financial difficulties, the decision had been taken to visit 5 fewer schools in order to give the capacity for ad-hoc assurance requests during the year. Despite this the plan still allowed for the same number of days.
- 9.10 A Member raised the issue of key legal reputational risk to the Council should a contractor's subcontractor fraudulently fail to deliver against the specification, the potential for this issue to be widespread; and the ability of the risk register to flag up such situations. Officers commented that previously the risk register had not been formalised, visible or dynamic to respond to such risk, however arrangements were now in place to make such risk visible. Officers agreed to check this particular risk was on the register.

C. Cook

Conclusion:

- 9.11 .The Committee RESOLVED to::
- Note the Internal Audit Progress Report;
 - Agree the changes to the audit plan;
 - Agree to the removal of high priority actions now complete:
 - 3:** Children's Services Commissioning – Contract Monitoring (Safeguarding);
 - 5:** Employment Status Checks(all checks have now been completed);
 - 6:** Employment Status Checks(The Vendor request form has now been updated);
 - 7:** Highways Contract:

10. SIAS - ANNUAL REPORT

- 10.1 The Committee received a report on the activity of the Shared Internal Audit Service for 2015/16.
- 10.2 Officers were pleased to report that:
- an independent peer review of SIAS's compliance with the Public Sector Internal Audit Standards had confirmed the service was operating at the highest level of conformance;
 - commendation had been received for SIAS's revised audit

methodology;

- SIAS had again exceeded its two key performance indicators.

10.3 Members were advised that as SIAS was now fully established, based on two recommendations from the independent peer review, a project to establish 'the business advantage that an approach which sees all assurance services could secure' had been included in the SIAS 2016/17 Service plan.

Conclusion:

10.4 The Committee RESOLVED to note the report.

11. SHARED ANTI-FRAUD SERVICE REPORT

11.1 The first report from the Share Anti-Fraud Service (SAFS) was received by the Audit Committee to provide it with SAFS's progress against the Council's Anti-Fraud Action plan as adopted in March 2016, also to note and comment against the Plan for 2016/17.

11.2 Officers highlighted that amongst others, reports from CIPFA and PKF, Portsmouth and Experian (which estimated annual fraud losses in local government at £2.1billion and risk of fraud losses for local government in excess of £7 billion /annum (excluding fraud in local taxation or care services), had been used by Council officers and SAFS to alert the Council to its own fraud risks and to find ways to mitigate or manage these.

11.3 In terms of the 2015/16 SAFS year-end position, Members noted that the County Council's contribution to SAFS was £60k and that this had delivered £370k in fraud loss that could be recovered; £395k in direct future savings; £774k in non-cashable savings i.e. council tax revenue raised through removals of discounts - as the main beneficiary of local taxation the County Council supported the District Councils who collected it).

11.4 To enable fraud reporting by staff and public the County Council's new website included a confidential fraud hotline, a secure email account for reporting fraud, further development of an online reporting tool, and as before there was the Council's in-house Whistleblowing procedure.

11.5 Members heard that alleged / reported types of fraud had been as expected in the areas of staff/ pension, blue badge, financial (including cyber/spam attacks), schools, also other types (including contract / procurement). Officers reported the level of financial loss through Blue Badge fraud was difficult to identify, however although not the County Council's highest priority it was a prominent concern with the public.

11.6 The committee noted that in Q1 of 2016/17 SAFS had recorded

fraud loss and savings across the partnership of £605k, and for the County Council fraud losses of £7k and savings resulting from prevention totalling £52K.

- 11.7 Officers directed the Committee to Appendix 2 to the report which highlighted that progress had been good in terms of the County Council’s performance against the Anti –Fraud plan 2016/17; the only outstanding strategy was development of a Cyber-Crime Response plan/document to consider how Cyber-Crime was used to commit fraud and how SAFS Partners could be protected against this emerging threat.
- 11.8 With respect to anti-fraud activity undertaken to protect the Council, Members heard that individual sessions had been delivered to a range of departments including registrars, firefighters, finance, the Customer Service Centre, the Connexions team. A Member thanked officers for the specialist Member training that had been delivered at both District and County Council levels, especially in terms of Council Tax and Tenancy fraud.
- 11.9 The Committee RESOLVED to:
- Note the Shared Anti-Fraud Service year-end data for 2015/16;
 - Note the progress of the shared Anti-Fraud Service in delivering the Council Anti-Fraud Action Plan 2016/17;
 - Note the anti-fraud activity undertaken to protect the Council.

12. FUTURE WORK PROGRAMME

12.1 The Committee noted the future work programme below (new items added at this meeting in bold)

<p>Wednesday 30 November 2016 at 10am (Preceded by SIAS presentation at 9:30am)</p>	<ul style="list-style-type: none"> • Annual Audit Letter 2015/16 • Annual Audit Results Report – Follow Up Actions • Grant Certification 2015-16 • Mid-Year Report on the Treasury Management Service and Prudential Indicators 2016/17 • Risk Management Update • Risk Focus Report: Risk E01 (Tree Health) (Risk Reference ENV0142: “Due to the threat of an increasing number of tree pests and diseases, in particular the imminent threat from Ash Dieback, there is a risk of a significant number of trees being affected which may result in significant unplanned costs, potential
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CHAIRMAN’S INITIALS

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	<p><i>dangers to the public and/or service users, impacts on the landscape and loss of biodiversity”</i></p> <ul style="list-style-type: none"> • Internal Audit Progress Report • S106 and CIL Update Report
Wednesday 1 March 2017 at 10am	<ul style="list-style-type: none"> • Preparation for 2016/17 Accounts • Audit Plan 2016/17 – County Council • Audit Plan 2016/17 – Pension Fund • Letters of Representation on Management and Oversight of The Hertfordshire County Council (Including Firefighters’ Pension Fund) And Hertfordshire Pension Fund Accounts 2016/17 • Risk Management Annual Report 2016/17 • Risk Focus Report • Internal Audit Progress Report Q4 • Internal Audit Plan 2017/18
Tuesday 27 June 2017 at 10am	<ul style="list-style-type: none"> • Risk Management Update • Risk Focus Report – • Annual Governance Statement 2016/17 and Code of Corporate Governance • Annual Assurance Statement and Internal Audit Annual Report 2016/17 • Internal Audit Progress Report Q1 • End of Year Report on the Treasury Management Service and Prudential Indicators 2016/17 • Whistle Blowing Annual Report 2016/17

13. ANY OTHER BUSINESS

13.1 There was no other business.

**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

CHAIRMAN _____

**CHAIRMAN’S
INITIALS**

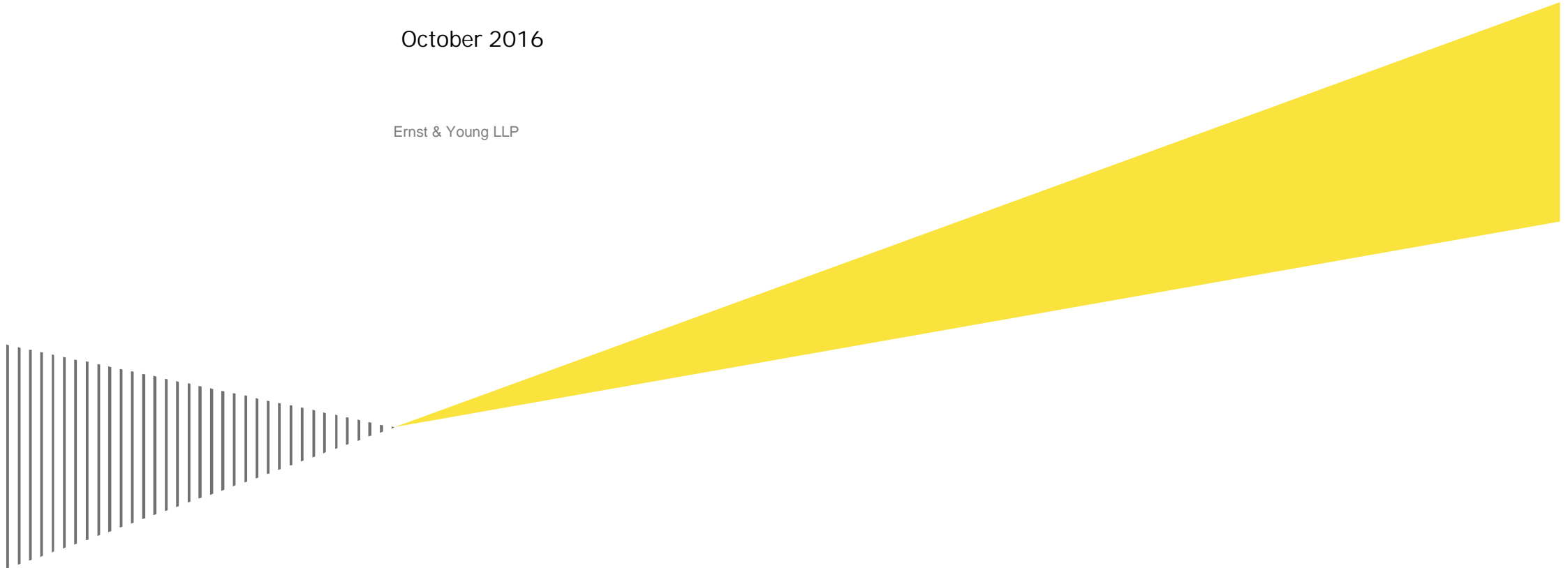
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Hertfordshire County Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand holding a pen writing on a document, with a calculator and a laptop in the background. The scene is set on a desk with a white mug on the left. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Executive Summary'.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Hertfordshire County Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's and Pension Fund's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2016 and of their expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that the Council had put in place proper arrangements to secure value for money in its use of resources

Area of Work	Conclusion
Reports by exception: ▶ Consistency of the Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report for the County Council was issued on 6 September 2016 Our Audit Results Report for the Local Government Pension Scheme was issued on 19 August 2016
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 23 September 2016

We would like to take this opportunity to thank the Council's and the Pension Fund's staff for their assistance during the course of our work.

Neil Harris

Director
For and on behalf of Ernst & Young LLP

Purpose

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Reports to the 23 September 2016 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plans that we issued for the County Council on 29 February 2016 and for the Pension Fund on 8 March 2016. Our audit is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2015/16 financial statements, including those of the Pension Fund; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on the Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council, Group and Pension Fund's Statements of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued unqualified audit reports on 23 September 2016.

Our detailed findings were reported to the 23 September 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

County Council and Group Accounts

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We obtained a full list of the journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify unusual journal types or amounts. We then tested a sample of journals that met our criteria to supporting documentation.</p> <p>We considered that the accounting estimates most susceptible to bias were:</p> <ul style="list-style-type: none">• Property valuations• Pensions entries based on figures supplied by the actuary• Private Finance Initiative schemes <p>Overall there was no indication of bias within the calculation of these accounting estimates.</p> <p>We identified no transactions during our audit which appeared unusual or outside the Council's normal course of business.</p> <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p>

Significant Risk	Conclusion
<p>Revenue and expenditure recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We responded to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p>	<p>Our testing focussed on the Council's main expenditure streams and on ensuring that creditors and provisions were not understated, as this would also understate expenditure.</p> <p>We also carried out cut-off testing where we examined a sample of receipts and payments after year end to ensure that where the transactions related to 2015/16 that they were properly recorded in the accounts.</p> <p>Overall our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.</p>
<p>Property Asset Valuation</p> <p>Valuation of property assets and capital expenditure are significant accounting estimates that have material impact on the financial statements.</p> <p>One area which may be susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme.</p> <p>We responded to this risk by assessing and placing reliance on property valuation specialists commissioned by the Council and challenge these valuations by using information provided by an independent valuer. We also tested the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure.</p>	<p>We assessed and placed reliance on the Council's valuer. We used the independent valuer's market report to assess the overall reasonableness of the revaluations undertaken in the year. We also considered an impairment review undertaken by the Council's valuers.</p> <p>Our testing of the processing of revaluation entries revealed some errors which were corrected in the accounts. These did not impact on the Council's reported financial position.</p> <p>The introduction of a new accounting standard (IFRS 13 -Fair Value Measurement) required surplus assets to be revalued on a new basis of highest and best use. Those surplus assets which were revalued in the year were done on the correct basis. However the Council had around 115 assets with a value of £36 million which had been valued in prior years and not reassessed in 2015/16. These assets were subsequently reviewed by the valuer who confirmed that the value at which they were held was in line with fair value given their current planning status.</p> <p>We completed our testing of additions to ensure that they were properly capitalised and identified no evidence of mis-classification.</p>

Significant Risk	Conclusion
<p>Better Care Fund</p> <p>The Better Care Fund (BCF) is a major policy initiative between local authorities, CCGs and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers. The intention is that partners use the BCF to jointly commission health and social care services at a local level.</p> <p>From 1 April 2015 BCF was set up as a pooled budget between the Council and local Clinical Commissioning Groups (CCGs). The pool is managed by the Council and had total funding of £230 million in 2015/16. The Council contributed £110 million.</p> <p>We identified a risk that the BCF might be accounted for incorrectly as arrangements could be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raised risks of misunderstanding and inconsistencies between the partners.</p>	<p>We considered the accounting treatment proposed by the Council and agreed with the CCGs. This analysed all the projects and funding streams within the Better Care Fund to determine which were jointly controlled and therefore pooled and which were controlled by only one of the participants. We agreed with the conclusions drawn.</p> <p>Our testing confirmed that the Council had correctly accounted for the BCF transactions.</p> <p>We also noted that disclosures made by the Council in the pooled budget note in the accounts were in line with those made by the CCGs who prepared their accounts earlier in the year.</p>

Other Key Findings	Conclusion
<p data-bbox="342 288 629 316">Highways expenditure</p> <p data-bbox="342 328 1039 517">Internal Audit issued a limited assurance opinion in 2014 on highways contract management, indicating that there were significant weaknesses in key controls. The report noted that weaknesses had been identified in areas of invoicing, reconciliations, budget monitoring and coding of expenditure.</p> <p data-bbox="342 529 1039 687">We carried out specific work to address this risk in 2014/15 and noted that there was uncertainty about the final amount which would be paid to the contractor. A final settlement was negotiated with the contractor post year end.</p> <p data-bbox="342 700 1016 823">We identified a risk that highways expenditure, both revenue and capital, may be misstated, as the final settlement position for 2015/16 would be estimated at year end</p>	<p data-bbox="1070 288 2112 443">We tested the reconciliation of payments made during the year to applications by the contractor and tested nine months in detail with no issues identified. Our testing of infrastructure additions identified no evidence of expenditure miscoded as capital. We reviewed the overall reconciliation of highways capital expenditure with no issues identified.</p> <p data-bbox="1070 456 2112 579">Last year we reported that the potential outcome for 2014/15 ranged from an over-accrual of £0.3 million if the Council's position was accepted to an under-accrual of £3 million if the deductions and performance caps proposed by the Council were not accepted by the contractor.</p> <p data-bbox="1070 592 2112 683">During 2015/16 the Council paid the contractor £3.1 million to settle 2014/15 and a further £0.7 million to settle 2013/14. This was in line with the amount accrued at the end of 2014/15.</p> <p data-bbox="1070 695 2112 853">In respect of 2015/16 the Council accounted for expenditure of £46.1 million which included a year-end accrual of £4.5 million. Payments since year end were analysed and indicated that the accrual was understated by £80,000. The contractor has confirmed that it has presented its full accounts for the year to the Council so there should be no further payments due.</p> <p data-bbox="1070 866 2112 927">We were therefore satisfied that revenue and capital highways expenditure in the 2015/16 accounts was not materially misstated.</p> <p data-bbox="1070 940 2112 1096">Internal Audit recently issued a report on the governance, performance and contract management of the highways contract. Internal Audit has now provided moderate assurance reflecting the improvements to contract arrangements which have been made since the original review in 2014 and noting that an annual plan has been agreed to improve them further.</p>

Other Key Findings	Conclusion
<p>Group accounts</p> <p>The Council set up two companies in September 2013:</p> <ul style="list-style-type: none"> • Hertfordshire Catering Ltd, which is a wholly-owned subsidiary • Herts for Learning Ltd, of which 20% is owned by the Council and the remainder by schools. <p>The Council continued to assess these interests as quantitatively and qualitatively material to the group and therefore the Council continued to consolidate the companies into the Council's group accounts as required by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).</p> <p>We identified a risk that the group financial statements did not meet the requirements as defined by the Code.</p>	<p>We reviewed the Council's assessment of its interests in companies and other entities which might require consolidation into group accounts. We agreed with the Council's assessment that only Hertfordshire Catering Ltd and Herts for Learning Ltd were sufficiently material to require consolidation.</p> <p>We issued instructions to the external auditor of these two companies. They reported to us on the results of their audits. We received a copy of the signed audited accounts for both companies from their external auditors. Post audit amendments to Hertfordshire Catering Ltd accounts to reflect the company's tax liability of £0.2 million were reflected in the group accounts.</p> <p>We carried out testing of the consolidation of the Council's accounts with those of the companies and confirmed that appropriate disclosures were made in the group accounts.</p>
<p>Pensions Ombudsman case GAD v Milne</p> <p>In May 2015, the Pensions Ombudsman published a decision which affected fire-fighters who retired between 2001 and 2006. The Ombudsman found that Government Actuary Department (GAD) had not updated the commutation factors which were used to calculate lump sums due on retirement and that fire-fighters who retired in this period were disadvantaged as a result. As a result of this decision these retired fire-fighters were to be compensated.</p> <p>The Department for Communities and Local Government (DCLG) expected these payments to be calculated and paid to affected pensioners by April 2016 and agreed to fund these payments. We identified a risk as the exact method of funding and resulting accounting for these payments had not been fully determined, in particular whether they would be accounted for via the fire-fighters' pension fund.</p>	<p>During 2015/16 the payments due to the affected pensioners were calculated and paid. These totalled £1.1 million and were charged as benefits payable to the fire-fighters' pension fund. The expenditure was funded by the pension fund top up grant payable by DCLG.</p> <p>Our testing of a sample of the payments confirmed that these were calculated correctly.</p> <p>The Council added additional disclosure within the fire-fighters' pension fund accounts to explain the payments made. We also considered the treatment for the overall pensions liabilities within the Council's accounts and confirmed that these were accounted for appropriately.</p>

Local Government Pension Fund Accounts

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We obtained a full list of the journals posted to the Fund's general ledger during the year, and analysed these journals using criteria we set to identify unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We considered that the accounting estimates most susceptible to bias were the valuation of pooled funds and actuarial valuation of promised retirement benefits. Overall there was no indication of bias within the calculation of these accounting estimates.</p> <p>We identified no transactions during our audit which appeared unusual or outside the Fund's normal course of business.</p>
<p>Revenue and expenditure recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We recognised this risk during the planning phase of our audit and reported this in our Audit Plan. During the audit we changed our assessment as this presumed risk is rebuttable. Having considered the risk factors set out in the auditing standard and the nature of the Pension Fund's revenue streams we determined that the risk of fraud arising from revenue recognition could be rebutted. This was because there was little incentive and limited opportunity to manipulate the significant revenue streams.</p>	<p>Notwithstanding our revised assessment of the risk, we carried out work on the material revenue and expenditure streams- contributions receivable and pension benefits payable. We also carried out cut-off testing where we examined a sample of receipts and payments after year end to ensure that where the transactions related to 2015/16 that they were properly recorded in the accounts.</p> <p>Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.</p>

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money'.

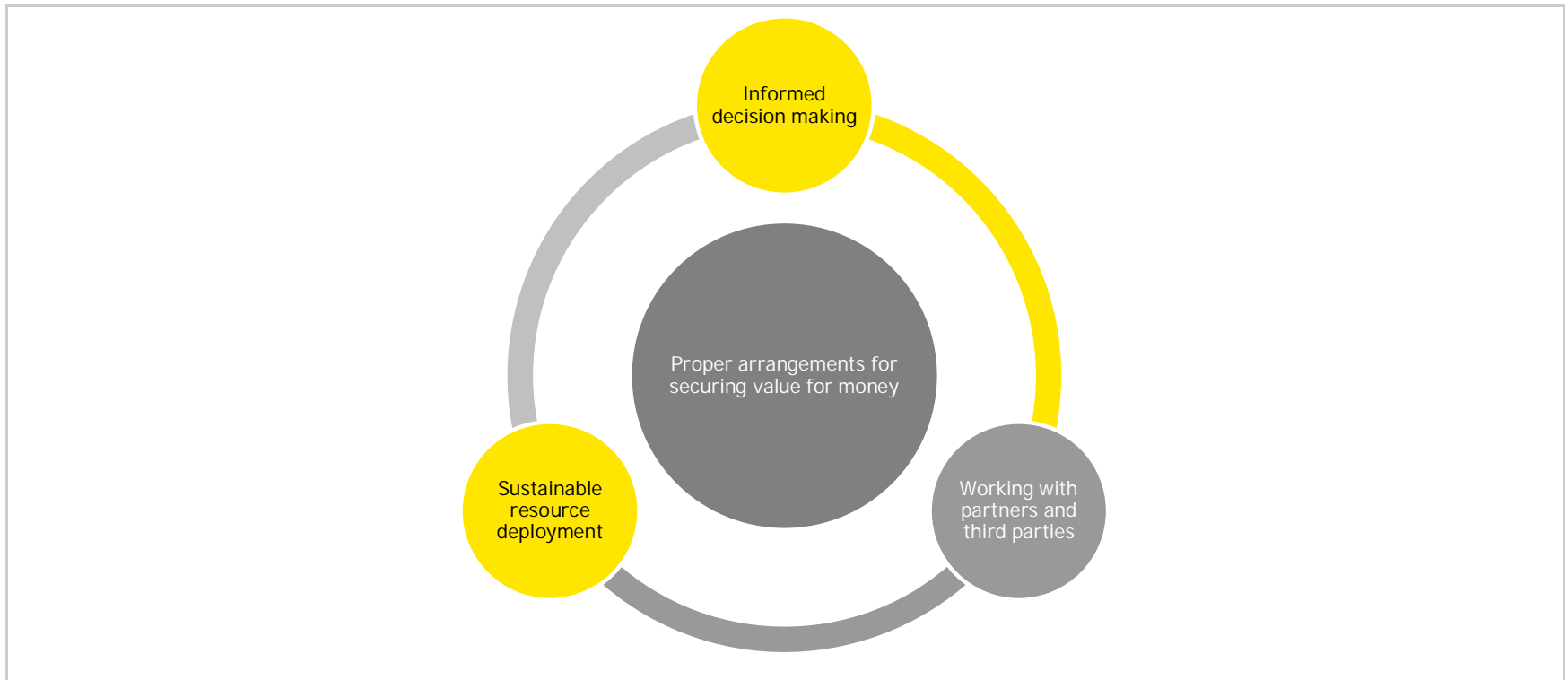
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise the Council's arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We identified a significant risk in respect of sustainable resource deployment.

Significant Risk	Conclusion
<p>Financial pressures</p> <p>The Council's finances continue to be under significant pressure in the medium term. When setting its 2015/16 budget in early 2015, the Council expected to make savings of £120 million per year by 2017/18. At the time the 2015/16 budget and Integrated Plan was finalised, £56.4 million of that amount was still to be found.</p> <p>In December 2015 the provisional local government finance settlement was announced which included a significant reduction in government funding beyond that anticipated and already built into the Integrated Plan. Additional transitional grant was subsequently announced.</p> <p>At the time of our planning the Council was developing budget proposals to 2019/20. These showed a gap of savings still to be found of £38.4 million in 2017/18 rising to £71.4 million in 2019/20.</p> <p>The achievement of the Council's Integrated Plans to date has been good. However, the Council has to continue to deliver significant savings year on year in order to bridge the gap and balance its budget.</p>	<p>We reviewed the Council's Integrated Plan covering 2016/17 to 2019/20 and budget setting for 2016/17. We also assessed the level of reserves (both general fund and earmarked) that the Council had at 31 March 2016.</p> <p>The Council has well established arrangements for undertaking its medium term financial planning which incorporate key assumptions and sensitivity review.</p> <p>The Council has a proven track record of achieving its savings and delivering within its budget. By the end of 2015/16 the Council had underspent its budget by £7.5 million. This was due to a number of factors such as underspending on a number of services, additional grant income and interest on balances and a release of reserves no longer required. The Council has historically underspent its budget, reflecting the level of savings delivered in the year. However the level of underspend is reducing compared to prior years (£27.7 million in 2014/15), reflecting the increasing financial challenges the Council faces.</p> <p>The General Fund balance at £32.1 million is in line with the minimum prudent level of reserves which is based on 4% of the Council's net budget.</p> <p>The level of non-schools earmarked reserves have decreased from £89.5 million in March 2015 to £76.3 million in March 2016, a decrease of £13.2 million. This was due primarily to the use of some specific reserves to fund projects in the year.</p> <p>The 2016/17 budget included an overall increase in council tax of 1.99% together with the social care precept of 2%. The budget was balanced by savings identified of £32.6 million.</p> <p>The final Integrated Plan showed that the Council needed to make savings of £125 million per year by 2020 and that £75.5 million of that amount remained to be found. The Council is developing its plans for tackling the savings requirement.</p> <p>We were comfortable that the level of reserves held by the Council at 31 March 2016 covered the budget gap identified within the Integrated Plan to an appropriate level.</p> <p>On the basis of our work we concluded that the Council had appropriate arrangements in place for deploying resources in a sustainable manner.</p> <p>We therefore issued an unqualified value for money conclusion on 23 September 2016.</p>



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Reports to the Audit Committee on 23 September 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate significant deficiencies in internal control identified during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements of which it was not already aware.

A close-up photograph of a person's hands holding binoculars to their eyes. The person's face is partially visible in the lower half of the frame, looking through the lenses. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
EU referendum	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>
Highways Network Asset (HNA)	<p>The Code of Practice on Transport Infrastructure Assets (TIA Code) was first published in 2010 and updated in 2013. The key aim of this document was to improve the asset management of TIA. During 2016, this guidance has been renamed and updated, with the Highways Network Asset (HNA) Code, Guidance Notes and Accounting Guidance being published. Local Government has historically used depreciated historic cost as the valuation approach for infrastructure assets. The introduction of the HNA Code will see this valuation basis change to depreciated replacement cost with effect from 1 April 2016. The change will be applied prospectively from that date, so highways authorities are not required to disclose comparative information.</p> <p>This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems.</p>	<p>The impact on the Council's Balance Sheet will be highly significant; with the recognition of a single highways network asset of approximately £20 billion. The impact on the audit will also be significant, as auditors will need to obtain sufficient assurance over the material accuracy of this asset.</p> <p>We will work closely with the Council at both the local level, regarding system implementation, valuation procedures and accounting, and at the wider level through the continuation of our HNA Client Workshops.</p>

Appendix A

Audit Fees

Appendix A Audit Fees

Our fees for 2015/16 are in line with the scale fees set by the PSAA and reported in our Audit Plans and Audit Results Reports.

Description	Final Fee 2015/16 £	Scale Fee 2015/16 £	Final Fee 2014/15 £
Total Audit Fee - Hertfordshire County Council	142,067	142,067	189,423
Total Audit Fee - Hertfordshire Pension Fund	27,991	27,991	27,991
Non-audit work - Teachers' Pensions return	See note below	N/A	13,000

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements to date in respect of the 2015/16 financial year. In previous years we have carried out work on the teachers' pensions return. We have currently not been requested to carry out work on the 2015/16 return.

EY | Assurance | Tax | Transactions | Advisory

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ED None

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HERTFORDSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

WEDNESDAY, 30 NOVEMBER 2016 AT 10.15 AM

UPDATE ON RESPONSE TO THE AUDIT RESULTS REPORT AND PREPARATIONS FOR 2016/17 AUDIT

Report of the Director of Resources

Author: Owen Mapley, Director of Resources (Tel: 01992 555601)

Executive Member: C M Hayward, Resources and Performance

1. Purpose of the Report

1.1 To provide the Committee with an update on actions taken in response to the 2015/16 Audit Results Report (ARR) and in preparation for the audit of the 2016/17 accounting statements.

2. Summary

2.1 Ernst & Young LLP (EY) issued an unqualified opinion on the 2015/16 accounts, and made no specific recommendations. A small number of issues were raised, and this report details action being taken to address these in the 2016/17 accounts. EY have issued their Audit Letter (Item 2 on this agenda), which includes the points raised in the ARR, and looks ahead to future issues and risks.

3. Recommendations

3.1 The Committee is invited to note and comment upon this report.

4. Actions to prepare for 2016/17 and subsequent audits

4.1 Finance has undertaken a review of the accounts closure and audit process, identifying further opportunities for more efficient coordination of information and use of reporting, and ensuring that key processes are maintained effectively throughout the year, to minimise additional work at year end. A 'lessons learned' and training session has been run for the whole team.

4.2 Particular focus has been placed on reviewing critical path activities, to see where efficiencies can be achieved. From 2017/18, there is a statutory requirement to produce the draft accounts by 31 May and final audited accounts by 31 July; Hertfordshire County Council is planning to produce the draft accounts by the revised deadlines a year early (i.e. for the 2016/17 financial year), in order to further develop and embed the new approaches introduced in the 2015/16 accounts closedown, and identify areas of improvement and any risks to be addressed. We are also continuing to work with EY on how we can streamline the audit process.

- 4.3 In the ARR, EY reported that they had gained assurance in the key risk areas of property asset valuations including changes in reporting requirements under IFRS 13; new accounting arrangements for the Better Care Fund; management override risk and fraud in revenue recognition. We will continue to ensure that the robust procedures put in place in these areas are maintained in 2016/17 and future years.
- 4.4 CIPFA have recently advised that new requirements for the valuation and reporting of transport infrastructure assets will not be introduced until the 2017/18 accounts, rather than in 2016/17. Officers had been preparing for this change, assessing information requirements and attending training. The Council is in a good position as it has officer representation on the Highways Asset Management Finance Information Group, which is working with CIPFA and the Department of Transport on the implementation of the Code.
- 4.5 In their Value for Money conclusion, EY note there is a significant risk in relation to the arrangements for sustainable resource deployment because the Council has a significant gap between its spending plans and expected income in its medium term financial strategy. During the audit, EY did not identify any significant weaknesses in the Council's arrangements for sustainable resource deployment and concluded that the Council has put in place proper arrangements to secure value for money in its use of resources. This is being taken forward in the 2017/18 – 2019/20 Integrated Plan to formalise savings plans to meet this gap.

HERTFORDSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

WEDNESDAY, 30 NOVEMBER 2016 AT 10.15 AM

APPOINTMENT OF AUDITORS 2017/18 AND BEYOND

Report of the Director of Resources

Author: Owen Mapley, Director of Resources (Tel: 01992 555601)

Executive Member: C M Hayward, Resources and Performance

1. Purpose of the Report

- 1.1. To provide details of the options available to the Council on appointing their own external auditors for the audit of the 2018/19 accounts;
- 1.2. To outline potential issues which may influence which option is pursued, and
- 1.3. To seek comments on the proposed approach.

2. Summary

- 2.1. Current auditor appointments are managed by Public Sector Audit Appointments Limited (PSAA), an independent company established by the Local Government Association (LGA) to manage the existing appointments under transitional arrangements. These audit contracts will end with the completion of the 2017/18 audits for principal local government bodies.
- 2.2. The new appointments for auditors need to be made by December 2017. Preparations for establishing Auditor Panels will need to commence in 2016 to enable panels to be engaged in specifying the Invitation to Tender and running the procurement exercise in 2017.

3. Recommendations

- 3.1. The Committee is invited to note the contents of this report, and discuss and provide a view on which option should be taken forward for appointing an external auditor for the audit of the 2018/19 accounts and beyond.

4. Background

- 4.1. In August 2010 the then Secretary of State for Communities and Local Government, Eric Pickles, announced that he intended to close the Audit Commission, the body that appointed external auditors to Local Government and NHS organisations (excluding Foundation Trusts). As part of this announcement, he also stated that organisations whose appointments were previously controlled by the Audit Commission should have the freedom to appoint their own external auditors.

- 4.2. The Local Audit & Accountability Act 2014 ('the Act') abolished the Audit Commission which closed on 31 March 2015. At that time contracts were already in place for local government and NHS external audit appointments that covered audits up to and including the financial year 2016/17. Within these contracts there was an option to extend for a maximum of three further years, i.e. up to and including the financial year 2019/20.
- 4.3. A consultation exercise with key stakeholder groups was undertaken, and the Government decided that for local government bodies the contracts will be extended by one year, so incorporating the audit of the 2017/18 financial year. After this, local authorities must make arrangements to appoint the external auditors themselves.

5. Options for appointing External Auditors

- 5.1. There are three options for local authorities to appoint auditors:
- 5.1.1. Establish an independent auditor panel. The panel must be made up of a majority, or of wholly independent members and must be chaired by an independent member,
 - 5.1.2. Jointly establish an auditor panel with other authorities, or
 - 5.1.3. Opt-in to an approved sector led body (SLB) to be specified by DCLG to act as the Appointing Person on behalf of opted-in authorities
- 5.2. The LGA has been working with PSAA in developing a sector led body offering (Option 3) as an alternative to each council setting up a separate Auditor Panel. Formal invitations to opt-in will be issued before December 2016 and opt-in will require Full Council Approval (*Regulation 19, Local Audit (Appointing Person) Regulations 2015*). A response to the formal invitation will be required by March 2017.
- 5.3. The LGA is supporting the sector led approach because of the benefits for the sector as a whole. These benefits include:
- Purchasing power to negotiate competitive audit fees worth an estimated £30m annually.
 - Savings on the costs of Invitation to Tender exercises at some 470 local government sector bodies alone.
 - Savings on the costs of bid appraisal, contract specification and negotiation
 - Economies of scale to be achieved from collective procurement, enabling the firms to plan and resource audits more efficiently and effectively.
 - Quality monitoring and other information sharing across contracts (subject to protections over confidentiality).
 - Sensible distribution of audit appointments taking in to consideration joint working between individual Councils and other public bodies, managing rotations where conflicts of interest arise.
- 5.4. In July 2016, PSAA was specified by the Secretary of State as an appointing person. A national collective scheme for appointment has now been published by PSAA and an invitation to opt in has been issued, with a response required by 9 March 2017. Initial interest has been expressed by 200 authorities, suggesting significant economies of scale.

6. Evaluation

6.1. Officers have considered the advantages and disadvantages of the options available:

6.1.1. **Option 1:** Establish an independent auditor panel - Whilst option 1 would give Hertfordshire County Council complete autonomy over the whole process, the costs involved in setting up a new panel and carrying out a procurement exercise are expected to be significant. In addition, it is unlikely the Council will have sufficient purchasing power to be able to obtain the best value on its own.

6.1.2. **Option 2:** Jointly establish an auditor panel with other authorities - A joint set-up and procurement with other partners would still have significant costs involved in the set-up of the panel and carrying out the procurement exercise. Whilst there could be opportunities to realise small additional efficiencies, and combine purchasing power, even a shared procurement with all authorities in Hertfordshire would be unlikely to achieve material economies of scale as it would be significantly smaller than those undertaken by a national body (for example, Audit Commission procurements in 2012 and 2014 were for 750 and 260 audited bodies, and achieved savings of 40% and 25% respectively).

6.1.3. **Option 3:** Opt-in to an approved sector led body (SLB) - Use of a SLB (PSAA) to act as the Appointing Person to appoint auditors would allow the Council to retain the benefits of national procurement, allow local procurement resources to be focused on core business activities, and ensure the actual and perceived independence of auditors is maximised through the separation of the Council from decision-making.

7. Conclusions

7.1. Having considered the costs and benefits of each of the options, the preferred option would be opting into the PSAA appointing person arrangement (option 3), subject to confirmation of the final details of the scheme. The potential for continued value for money through a national procurement exercise make Option 3 the most attractive one available.

**MID-YEAR REPORT ON THE TREASURY MANAGEMENT SERVICE AND
PRUDENTIAL INDICATORS 2016/17**

Report of the Chief Finance Officer

Author: Patrick Towey, Head of Specialist Accounting (Tel: 01992 555148)

Executive Member: C M Hayward, Resources & Performance

1. Purpose of Report

- 1.1. The CIPFA Prudential Code and CIPFA Code of Practice for Treasury Management in the Public Sector require the Council to set an annual Treasury Management Strategy (TMS) and assess performance indicators and the treasury function throughout the year.
- 1.2. This report fulfils the requirement to provide a mid-year report on performance against the prudential indicators which were specified in the Integrated Plan, Part E approved by the County Council on 23 February 2016.
- 1.3. The report provides a summary of treasury management performance and activity for the period to 30 September 2016.

2. Summary

- 2.1. The Council has been compliant with the prudential and treasury management indicators set out in the Integrated Plan.
- 2.2. A breach of the TMS occurred on Friday 30 April 2016 as a result of a failure by the authority's bankers Barclays. This did not result in any loss to the authority and actions to mitigate any future occurrence have already been taken by the bank.
- 2.3. The UK economy has experienced significant uncertainty as a result of the EU membership referendum in June 2016, this is analysed in further detail in section 6.
- 2.4. The Council has continued to operate a diverse investment portfolio. Pooled fund investments are held for the long-term due to capital volatility. Daily liquidity needs are met using a variety of instant-access bank and Money Market instruments, along with short term lending to and from other local authorities.

- 2.5. No further funds have been received for either of the Icelandic investments with Heritable and KSF. The recovery to date from these particular investments stands at 98.00% and 83.75% respectively.
- 2.6. No new long-term borrowing has been taken and no long-term borrowing has been repaid in the year.
- 2.7. Lender Option Borrower Option (LOBO) loans of £88.1m and a Range LOBO of £18m, all with Barclays Bank were converted into fixed rate commercial loans during the year. These changes are detailed in section 10 and remove a key risk to the authority from potential need to replace such borrowing at short notice.
- 2.8. Short-term borrowing was made during both the first and second quarters to cover cashflow requirements. £10m of short-term borrowing was in place at 30 September 2016.

3. Recommendations

- 3.1. Members are invited to note the Treasury Management mid-year report.

4. Background

- 4.1. The Council operates its treasury management function in accordance with the CIPFA Prudential Code and the CIPFA Code of Practice for Treasury Management in the Public Sector. The Codes require the Council to set prudential indicators for its capital expenditure and treasury management activities prior to the start of each financial year.
- 4.2. The Codes also require that regular reports are provided reviewing performance and compliance at the end of each financial year and on a half-yearly basis. In addition to these reports, performance against the prudential indicators and treasury management activities are reported to Cabinet as part of the quarterly budget monitoring report.

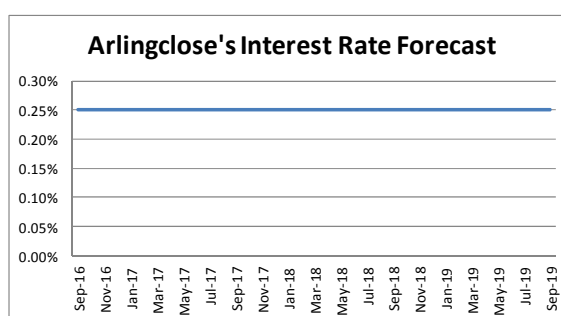
5. Breach of Strategy

- 5.1. The breach resulted from a failure within Barclays' online banking platform which meant it was not possible to make payments to investment counterparties within the timescales stipulated by those counterparties. Consequently there was a balance of £34.68m in the Barclays FIBCA interest bearing account across the Spring Bank Holiday weekend in excess of the £10m TMS limit for the counterparty.
- 5.2. Barclays have accepted full responsibility for this breach and have submitted a written explanation of the circumstances surrounding the failure. Barclays has also offered improved contingency arrangements to ensure payments can be made in line with the Council's standard operating controls in the event of a failure in the primary online banking platform, the set-up of which officers are actively pursuing.

6. Economic Review

- 6.1. The Council's Treasury management activities in this period were undertaken in an environment of significant political uncertainty and market volatility in the months leading up to, and following the EU membership referendum on June 23 2016.
- 6.2. Since the vote to leave the EU there has been a significant reduction in the value of Sterling and volatility in equity markets and gilt yields. Markets have now stabilised somewhat, but are expected to remain prone to sudden shocks as a result of political and economic developments.
- 6.3. Concerns about the possibility of an economic contraction resulting from the shock and uncertainty after the vote, prompted the Monetary Policy Committee of the Bank of England to reduce the official interest rate to 0.25% from 0.50% and increase asset purchases to £445bn, including £10bn of corporate bonds.
- 6.4. As a consequence of central bank interventions and market activity short-term investment returns have reduced considerably.
- 6.5. The UK economy has continued to grow – GDP growth has now been recorded for 14 consecutive quarters which indicates fundamental economic strength, although we note that the growth rate slowed to 0.4% in the second quarter, from 0.7% in the first quarter.
- 6.6. Annual Consumer Price Index inflation rose to 1.0% in September 2016, up from 0.3% in August 2016. This increase was driven by a recovery in prices from earlier nil or negative inflation. Increased import prices and weaker wage growth and investment returns will further increase inflationary pressures during the next twelve months, as a consequence of the devaluation of Sterling.
- 6.7. The labour market has remained strong, with the headline unemployment rate at 4.9%. Employee pay has also continued to improve and increased by 2.3% (including bonuses) when comparing the three month period to July 2016 against the previous year.
- 6.8. Graph 1 (overleaf) provides the Arlingclose (the Council's treasury adviser) interest rate forecast for the period September 2016 to September 2019. This indicates their view that rates are likely to remain at historically low levels for the indeterminable future.

Graph 1: Arlingclose Interest Rate Forecast for base rate



7. Prudential and Treasury Management Indicators

- 7.1. The Prudential Code requires the Council to set and monitor a range of prudential indicators relating to borrowing. The objectives of the Prudential Code are to ensure, within a clear framework, that capital investment plans for local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.
- 7.2. The Council measures and manages its exposure to treasury management risks using a range of indicators related to interest rate exposure, refinancing risk and liquidity risk. In addition, treasury activity is measured against a range of performance indicators related to security, liquidity and yield.
- 7.3. Appendix A provides evidence of compliance with the prudential and treasury management indicators and reports on treasury activity performance indicators.

8. Treasury Management Strategy

- 8.1. In setting the 2016/17 TMS, the Council approved a Lending Policy that continued to enable flexibility in use of investment instruments whilst maintaining security and liquidity of investments. The 2016/17 Lending Policy was amended to extend the range of investment instruments to include Peer to Peer lending but was otherwise unchanged.
- 8.2. The Lending Policy continued to reflect the on-going risks in the wider economy and banking institutions. The primary considerations when placing investments continues to be the security and liquidity of the Council's funds and only once both of these factors have been taken into account will the yield on investment be considered. Long term borrowing is only considered when it becomes necessary to avoid a prolonged short term overdraft position.
- 8.3. Following the referendum vote to leave the EU, Fitch and Standard and Poor downgraded the UK's Sovereign credit rating to AA. The outlook for UK financial institutions was also downgraded. There was no overall impact to the Council's investment portfolio following these changes as all investments met the criteria set out in the Council's TMS and the advice of Arlingclose.

- 8.4. During the six months to 30 September 2016, investments have been held in a range of instruments detailed in Table 1:

**Table 1: Counterparties and investment instruments used
To 30 September 2016**

Counterparty	Investment Instruments
Local Authorities	Fixed Term
UK Banks / Building Society	Call / Notice Accounts, Fixed Term Deposit, Certificate of Deposit (CD)
Overseas Banks with AA+ Sovereign Rating	Call Accounts, Fixed Bonds, Floating Rate Notes (FRN)
AAA rated Money Market Funds	Call / Notice
Pooled Fund – Property	Notice
Pooled Fund – Bond	Notice
Pooled Fund – Equity	Notice
Pooled Fund – Multi-asset	Notice

- 8.5. Table 2 provides a summary of the value of investment instruments outstanding as at 31 March 2016 and 30 September 2016 and the percentage of investment instruments compared to the overall investment portfolio:

**Table 2: Investment Activity as at 30 September 2016 and
31 March 2016**

Counterparties	Investment Instrument	As at 31/3/2016		As at 30/9/2016	
		£m	%	£m	%
Local Authorities	Fixed Term	5.00	5.4	5.00	4.5
UK Banks / Building Society	Call / Notice	19.80	21.2	14.28	12.7
	CD	0	0.0	4.00	3.6
Overseas Banks	Call	0.00	0.0	0.00	0.0
	FRN	0.00	0.0	5.00	4.5
	Fixed Bond	0.00	0.0	8.90	7.9
Money Market Funds	Call / Notice	38.43	41.2	45.00	40.1
Pooled Fund – Property	Notice	10.00	10.7	10.00	8.9
Pooled Fund – Bond	Notice	10.00	10.7	10.00	8.9
Pooled Fund – Equity	Notice	6.00	6.4	6.00	5.3
Pooled Fund – Multi-asset	Notice	4.00	4.3	4.00	3.6
TOTAL		93.23	100.0	112.18	100

- 8.6. Table 2 reflects the diversified investment portfolio being operated by the council within the bounds of the TMS.
- 8.7. Table 3 shows the value and type of maturities and new investments made during the first half of the year:

**Table 3: Value of Maturities and New Investments
1 April – 30 September 2016**

Period	Instrument Type	Maturities	Investments
		£m	£m
Quarter 1	60 Day Notice Account	(10)	0
	95 Day Notice Account	0	10
	Certificate of Deposit	0	4
Quarter 1 Total		(10)	14
Quarter 2	Fixed Deposit – Other Authority	(5)	5
	Bond	0	8.9
	Floating Rate Note	0	5
Quarter 2 Total		(5)	18.9
2016-17 Total		(15)	32.9

- 8.8. A total of £30m continues to be invested over the long term in a number of diversified pooled funds. At 30 September 2016, the net market value of the investment in these funds was approximately £30.08m. This represents an increase of approximately £500k on the valuation at 31 March 2016. The changes in market value are fluid depending on market conditions and are therefore not recognised as gains or losses in the financial statements.
- 8.9. Cash balances have increased by £20m between 31 March and 30 September 2016. This is due to timing differences between receipts and payments, and short term borrowing of £10m held during the second quarter in order to mitigate the impact of forecast cashflow volatility.
- 8.10. Interest rates for investments have ranged between 0.32% and 0.68% for fixed durations of up to 364 days. Interest rates on variable investments were as high as 0.52% at the start of the year and are now as low as 0.29%. Rates have fallen as a result of the Bank of England decision to reduce the bank rate, and market reaction to the EU Referendum result.

- 8.11. Table 4 provides a summary of the treasury activity in the period April 2016 to September 2016:.

Table 4: Treasury Activity - 1 April 2016 to 30 September 2016

Measure	April 2016 to September 2016
Average size of portfolio (excluding Iceland investments)	£107.64m
Weighted average term (fixed term only)	69 days
Average rate earned	1.48%
Interest earned	£0.867m

- 8.12. The total rate of return has reduced from 1.77% in Q1 to 1.48% in Q2. This is due to a combination of the impact of lower short-term interest rates now offered and the maturity of fixed-term investments secured at historical higher rates. The pooled fund investments continue to make a significant contribution to overall interest income. The return on pooled fund investments in the second quarter was equivalent to 4.75% per annum.
- 8.13. The rate of return for the second quarter (1.48%) includes underlying returns of 0.33% for the investment portfolio excluding the pooled fund investments. The 0.33% rate compares to 0.70% achieved in the first quarter and exceeds the 7-day LIBID benchmark of 0.20% by 0.13%.
- 8.14. The total interest forecast on treasury investments during the year is £1.658m, which is in line with the budget. Whilst interest rates for short-term deposits have meant weak returns on liquid investments, this has been offset by stronger performance of the pooled funds, which are delivering returns exceeding the 4% target level.
- 8.15. The pooled funds have experienced some variations in capital value during the year. This variability is expected as the nature of these types of investments in bond, equity and multi-asset funds means that income yield and fund values are influenced by market movements. It is important to recognise the long-term nature of these investments in mitigating this expected volatility.
- As at the 31 March 2016 a small capital loss was reported. As at 30 September 2016 a small capital gain was reported. Appendix A, Section 3 provides more details of how the Council intends to utilise and balance these instruments alongside its existing investments with regard to management of security, liquidity and yield.
- 8.16. All treasury management activity undertaken during the period complied with the approved treasury management strategy, the CIPFA Code of Practice for Treasury Management and the relevant legislative provisions.

9. Icelandic deposits

- 9.1. Of the original four Icelandic banks in which Hertfordshire County Council had deposits, the outstanding Landsbanki claim was sold in 2013/14 resulting in a total recovery of 92%. The outstanding Glitnir claim was resolved in February 2015 resulting in a total recovery of 101% of the amounts originally deposited.
- 9.2. As of 30 September 2016 repayments for the investments in Heritable total 98.0p in the £. The Administrators, Ernst and Young (EY), are not forecasting any additional distribution to creditors. The claim cannot be closed as a reserve has been retained to cover administrator costs and expenses until outstanding legal matters are resolved.
- 9.3. An additional repayment of 0.50p in the £ was announced by the administrator for the investments in Kaupthing, Singer & Friedlander during October 2016. This is expected to be paid in November 2016. EY estimate that the total return will be between 85.5 to 86.5p in the £. Recovery as at 30 September 2016 stood at 83.75p in the £.
- 9.4. Table 4 provides details of dividends received to 30 September 2016 together with current information about the anticipated value and percentage recovery for Icelandic investments.

**Table 4: Icelandic bank deposits at 30 September 2016
Outstanding Claims**

Bank	Original Deposit	Accrued Interest	Recovered at 30/9/2016	Total expected distribution		Claim Status
	£m	£m	£m	£m	%	
Heritable Bank	7.00	0.022	6.88	6.88	98.00	Open
Kaupthing, Singer & Friedlander	4.00	0.102	3.44	3.53	86.00	Open
TOTAL	28.00	0.124	26.60	26.69	95.32	

10. Borrowing

Long Term Borrowing

- 10.1. Table 5 (overleaf) shows total long term borrowing outstanding at 30 September 2016, the future maturity profile of borrowing and an analysis of sources of borrowing shown as a percentage of the total.

Table 5: Borrowing maturity profile at 30 September 2016

	Total	Sources of Borrowing					
		PWLB ¹		LOBO ²		Commercial ³	
	£m	£m	%	£m	%	£m	%
Borrowing at 30 September 2016	258.8	103.3	39.9	49.4	19.1	106.1	41.0
Maturing in 2016/17	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maturing in 2017/18	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maturing later	258.8	103.3	39.9	49.4	19.1	106.1	41.0
Average interest rate	4.61%		5.36%		4.37%		4.43%

PWLB = Borrowing sourced from the government's Public Works Loans Board

LOBO = Borrowing sourced from commercial banks

Commercial = Fixed rate loans from commercial banks

- 10.2. At 30 September 2016 there was a total of £258.8m long term borrowing outstanding. £103.3m (40%) was sourced from the government's Public Works Loan Board and £155.5 (60%) was sourced from commercial banks.
- 10.3. The average rate of interest for total borrowing was 4.61%, the average rate for PWLB borrowing was 5.36% and the average rate for borrowing from commercial banks was 4.41%.
- 10.4. The LOBO portfolio of £155.5m at the start of the year included £106.1m of loans from Barclays bank. One of these loans was a Range LOBO product, a loan with underlying derivatives.
- 10.5. In June Barclays decided to waive its future options to vary the rate on the LOBO loans. Consequently £88.1m of LOBO loans have been reclassified as Fixed Rate commercial loans. There was no change to the interest payable.
- 10.6. Barclays also offered an opportunity to negotiate a change to the terms of the £18m Range LOBO. Agreement was reached to convert this loan to a fixed rate instrument and in doing so the rate of interest payable changed from 4.70% to 4.625% with no penalty. This equates to a reduction in interest payable of £13,500 per annum.
- 10.7. The long term borrowing portfolio is kept under review in consultation with the Council's treasury advisor Arlingclose to identify opportunities to reduce borrowing costs by restructuring existing loans.
- 10.8. The difference between planned capital expenditure and capital funding (from revenue or capital receipts and specific capital grants) is known as the Capital

Financing Requirement (CFR), and is met via borrowing. Borrowing can be funded from externally sourced loans, for example from the Public Works Loans Board, or internally from the council's own resources.

- 10.9. Because the cost of long term borrowing remains significantly higher than the return on short-term investments, the Council has made prudent use of its resources to fund an element of its borrowing requirement from surplus cash balances held in respect of its reserves. This has allowed the Council to maintain a lower level of external borrowing, which has in turn minimised the pressure on revenue budgets from interest payments.

11. Short Term Borrowing

- 11.1. Short term borrowing was required on multiple occasions during the first half of the year, due to differences in timing between receipts and associated payments. Maximum short term borrowing during the period was £50m.
- 11.2. This was sourced through direct contact or external brokers, from other local authorities, at rates varying from 0.53% to 0.20% (including brokerage fees of between 0.03% - 0.04%) for durations of 4 to 181 days.
- 11.3. £10m of short term borrowing was still in place as at 30 September 2016.

12. Hertfordshire Police and Crime Commissioner – Treasury Management

- 12.1. The Police and Crime Commissioner (PCC) contracts with Hertfordshire County Council to deliver its Treasury Management services.
- 12.2. A separate treasury management strategy is maintained for the PCC. Data concerning the Police's cashflow is provided to the Council's treasury officers and any surplus cashflow is invested in accordance with the investment criteria outlined in the PCC's Treasury Management Strategy. The Police's cashflow and investment portfolio is maintained separately from the Council's funds.
- 12.3. The reporting arrangements for the PCC are similar to the Council's. An annual treasury management strategy is prepared before the start of each financial year, with mid-year and end-year reports subsequently delivered on treasury management activities and delivery of the strategy. Quarterly reports are also provided according to the schedule of meeting dates provided by the PCC.

APPENDIX A: PRUDENTIAL INDICATORS 2016/17 – 30 September 2016

1. Capital financing Indicators

	Indicator	Description	Integrated Plan Ref.	2016/17 Budget	2016/17 Q1	2016/17 Q2	2016/17 Q3	2016/17 Q4
<p>Indicators 1 to 3 demonstrate the affordability and sustainability of the capital programme. The projections for financial years 2016/17 to 2018/19 are set out in the Integrated Plan at the reference shown in the table below.</p>								
1	Capital Expenditure	Monitors capital expenditure for 2016/17 against the projections set out in the Integrated Plan.	2.4 Table 1	£162.26m	£193.32m	£183.49m		
2	Capital Financing Requirement (CFR)	Monitors the Council's underlying need to borrow for capital purposes for 2016/17 against the projections set out in the Integrated Plan	2.10 Table 3	£518.81m	£528.95m	£517.21m		
3	Ratio of financing costs to net revenue stream	Monitors the percentage of revenue budget set aside to service capital financing costs (borrowing costs net of lending income) for 2016/17 against projections set out in the Integrated Plan.	2.11 Table 4	1.32%	1.35%	1.35%		
<p>Treasury Position: The Treasury Management Prudential Indicators are set to contain lending and borrowing activities within approved limits. The indicators are set at a level that will provide enough flexibility for effective treasury management whilst managing the risk of a negative impact on the Council's overall financial position in the event of adverse movements in interest rates or</p>								

	Indicator	Description	Integrated Plan Ref.	2016/17 Budget	2016/17 Q1	2016/17 Q2	2016/17 Q3	2016/17 Q4
	borrowing decisions. The indicators are also used to demonstrate that Net Borrowing does not exceed the Capital Financing Requirement. The projections for financial years 2014/15 to 2016/17 are set out in the Integrated Plan.							
4 A	Net Borrowing	Monitors actual borrowing less actual lending			£184.45m	£160.29m		
4 B	Net Borrowing Less than CFR	Comparison of net borrowing to CFR			✓	✓		
	Borrowing: Indicators 5 and 6 control the overall level of borrowing. The limits for 2016/17 to 2017/18 are set out in the Integrated Plan.							
5	Authorised Limit (<i>against maximum position</i>)	Monitors the borrowing limit for 2016/17 beyond which borrowing is prohibited without Member approval.	6.5 Table 10	£425m	£318.78m	£308.78m		
6	Operational Boundary	Monitors the estimated external debt for the financial year 2016/17. This is not a limit and actual borrowing can vary. This estimate acts as an indicator to ensure the authorised limit is not breached.	6.5 Table 10	£395m	£318.78m	£308.78m		

2. Treasury Management Indicators

	Indicator	Description	Integrated Plan Ref.	2016/17 Budget	2016/17 Q1	2016/17 Q2	2016/17 Q3	2016/17 Q4
<p>Interest Rate Exposure: Indicators 7 and 8 limit the Council's exposure to both fixed and variable interest rate movements. The limits for 2016/17 to 2017/18 are set out in the Integrated Plan.</p>								
7	Upper limit on fixed interest rates (<i>against maximum position</i>)	Monitors the limits set for 2016/17 for the volume and value of the (lending) /borrowing portfolios that may be committed for fixed interest rate investments or borrowing	6.7 Table 11	£325m	£258.77m	£227.86m		
8	Upper limits on variable interest rates (<i>against maximum position</i>)	Monitors the limits set for 2016/17 for the volume and value of the (lending) /borrowing portfolios that may be committed for variable interest rate investments or borrowing	6.7 Table 11	97.50m	-£50.26m	-£71.28m		
<p>Maturity structure of fixed rate borrowing (against maximum position): Indicator 9 limits the Council's exposure to large fixed rate sums falling due for refinancing in the same period. The indicators are set relatively high to give the council enough flexibility to respond to opportunities to repay or reschedule debt during the financial year, while remaining within the parameters set by the indicators.</p>								

	Indicator	Description	Integrated Plan Ref.	2016/17 Budget	2016/17 Q1	2016/17 Q2	2016/17 Q3	2016/17 Q4
9 A	Under 12 months		6.8 Table 12	50.00%	0.00%	0.00%		
9 B	12 months to 2 years		6.8 Table 12	50.00%	0.00%	0.00%		
9 C	2 years to 5 years		6.8 Table 12	60.00%	1.22%	1.22%		
9 D	5 years to 10 years		6.8 Table 12	80.00%	2.13%	2.13%		
9 E	10 years to 20 years		6.8 Table 12	85.00%	9.08%	9.08%		
9 F	20 years to 30 years		6.8 Table 12	90.00%	12.34%	12.34%		
9 G	30 years and above		6.8 Table 12	100.00%	75.24%	75.24%		
	Investments greater than 364 days (against maximum limit): Indicator 10 measures the Council's exposure to investing for periods greater than one year. This indicator is required to ensure that the Council is aware of the cashflow implications for long term investments. This includes deposits at risk in Icelandic Banks.							
10	Investments greater than 364 days (Maximum Limit)		6.9 Table 13	50.00m	£30.68M	£30.68M		

*Includes Pooled Fund investments, which can be withdrawn in less than one year but the intention is to hold for the long-term to minimise the risk of capital value volatility, as agreed at Full Council on the 25th November 2014.

3. Treasury Management Performance and Activity Measures

Indicator	Description	Integrated Plan Ref.	2016/17 Q1	2016/17 Q2	2016/17 Q3	2016/17 Q4
<p>The CIPFA Treasury Management Code of Practice requires the Council to set performance indicators to assess the treasury function. Group A measures performance for “Security, Liquidity and Yield” and Group B measures the performance of “Operational Activities”</p>						
<p>GROUP A: Security, Liquidity and Yield</p>						
Average Investment Portfolio	Monitors the average amount HCC has had invested in third parties.	7.3 Table 16	£99.69m	£115.5m		
Average borrowing portfolio	Monitors the average amount HCC has as long term borrowing during the quarter	6.3 Table 10	£258.78m	£275.79m		
Security Indicator: Average Credit Rating of Investments held	Measured on a 1 to 10 scale, where 1 is a very good Credit Rating, i.e., government guaranteed	Section 6.10	6.70	5.16		
Liquidity Indicator: Weighted Average Maturity of investments held	Measures the liquidity/accessibility of investments in average days	Section 6.10	27 days	43 days		
Yield Indicator: Interest Earned	Monitors the interest earned on HCC investments. Shown as both an actual amount and a percentage of amount invested	7.3 Table 16	1.77% £0.440m	1.48% £0.427m		
Yield Indicator: Interest Paid	Monitors the interest paid on HCC borrowing. Shown as both an actual amount and a percentage of amount borrowed	7.2 Table 15	4.33% £3.08m	4.59% £3.07m		

*includes Pooled Fund investment returns some of which are estimated, see Yield section below for further information for rate excluding Pooled Funds

Security, Liquidity and Yield

Exposure to Risk

The Treasury Management Strategy was approved on 23 February 2016 as Part E of the Integrated Plan. This maintained the range of investment types approved for use in 2016/17, and added P2P lending as an approved instrument. The approved instruments were previously changed in 2014/15 to enable greater diversification of the investment portfolio; these changes introduced greater flexibility in use of investment instruments whilst continuing to maintain security and liquidity of investments.

The following diagrams illustrate the credit rating breakdown of all investment instruments by credit rating grade and investment type for the Council's investment portfolio as at 30 September 2016.

Diagram 1: Summary of Credit Risk of Investment Portfolio as at 30 September 2016

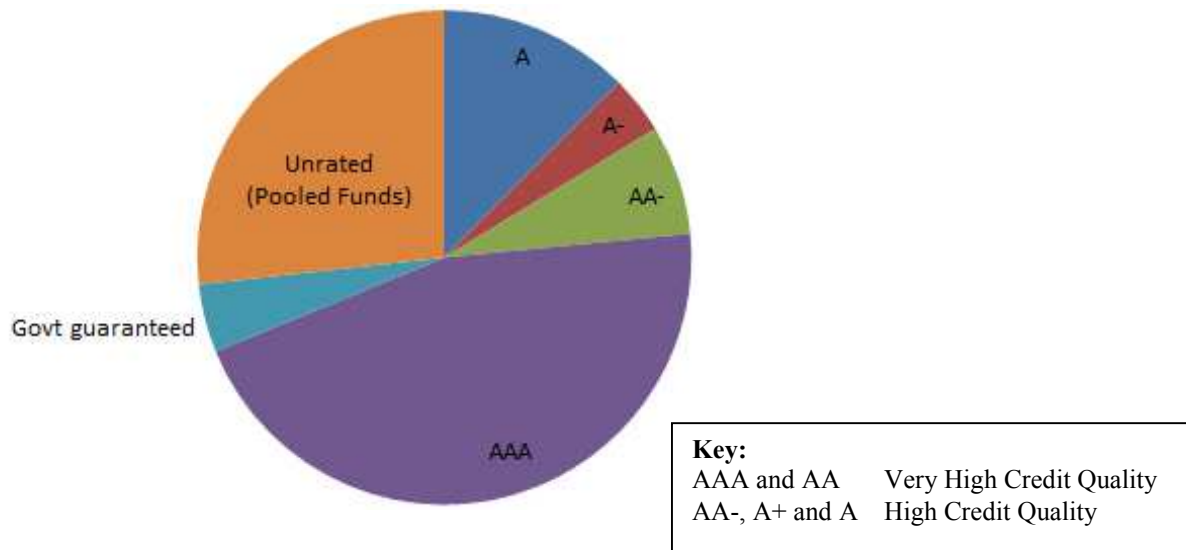
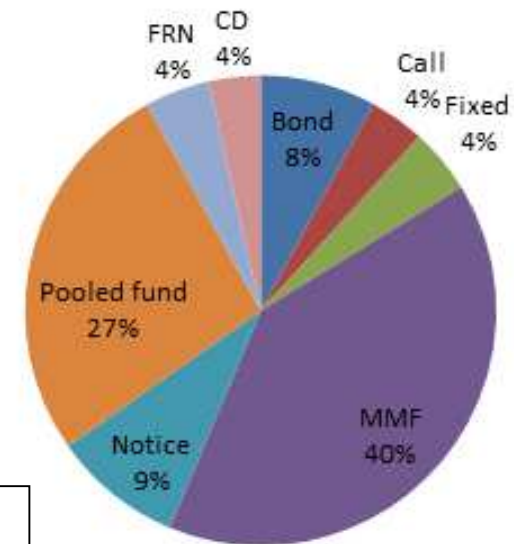


Diagram 2: Summary by Investment type as at 30 September 2016



The greatest percentage of deposits is held in money market funds and call accounts. This reflects the need to ensure adequate liquidity in the management of cash balances to meet daily cashflow requirements.

Investments in pooled funds consist of the CCLA Property Fund, two bond funds, two multi asset funds and one equity fund.

A new fixed term investment with Worthing Borough Council has been made for 6 months.

Two new bond investments were made with Dutch bank BNG, for 5 months, and Swedish bank Svenska Handelsbanken, for 357 days.

A short-dated floating rate note with National Australia Bank was also purchased during the period, following its final reset – this matures during the third quarter.

Liquidity

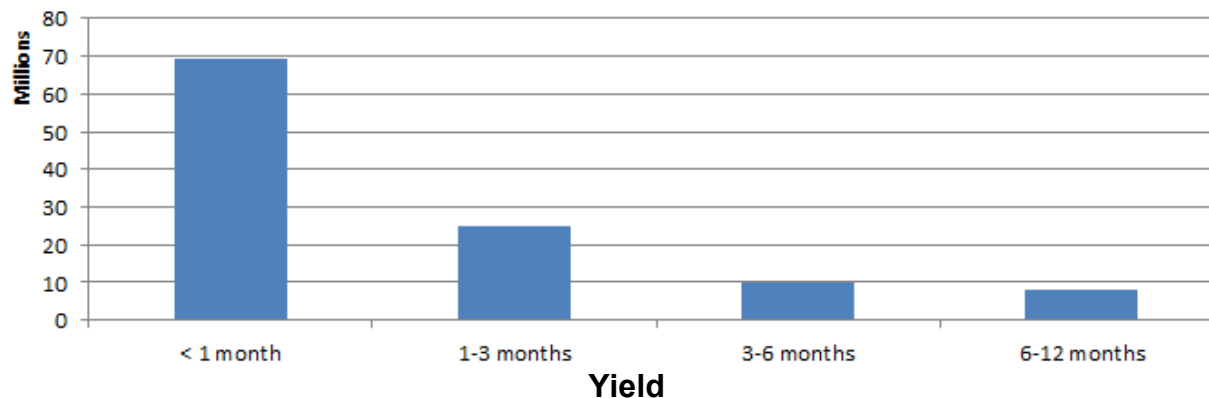
Reducing investment balances mean that opportunities to make fixed-term investments are more limited than in previous years.

The potential capital volatility of the pooled fund investments means that they are intended to be held for 3-5 years, but in the graph below these investments are shown on the basis of their accessibility.

These funds are all classified as “liquid”, except the Property Fund which accessible on 30 days’ notice.

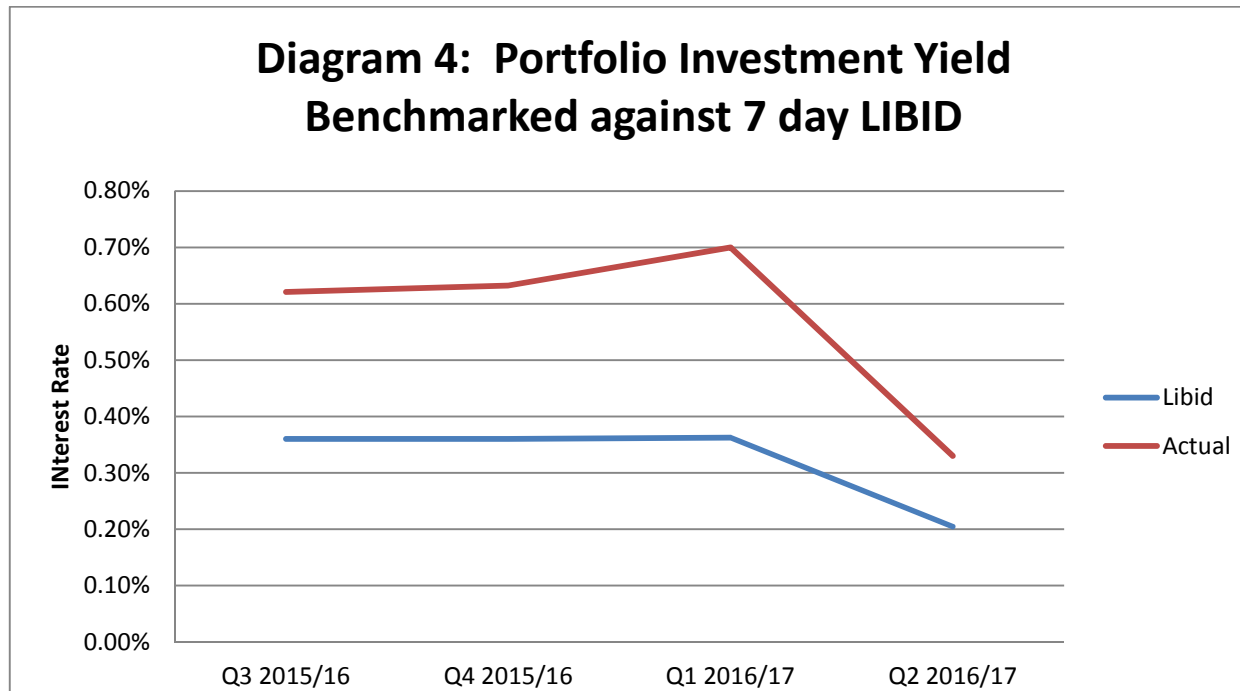
Diagram 3 provides a graph showing the liquidity of the Council’s investments portfolio as at 30 September 2016.

Diagram 3: Liquidity of Investment Portfolio as at 30th Sept 2016



The benchmark used for assessing the performance of return on lending is the 7-Day London Interbank Bid Rate (LIBID). Diagram 4 shows yield against the benchmark for the last four quarters. In reporting on yield the return on pooled funds has been excluded from benchmarking against 7 day LIBID, any subsequent long duration pooled fund investments will also be excluded, as 7 day LIBID benchmark is more relative to short-term investments.

Having been unchanged for a number of periods, LIBID fell to 0.20% from 0.36% during the second quarter in response to the base rate cut. The return excluding pooled fund interest reduced from 0.70% to 0.33%. This is a sharper reduction than the change in LIBID, which reflects the maturity of higher-yielding instruments priced when the market expectation was for rate increases along with the very low rate of return paid on shorter duration instruments.



HERTFORDSHIRE COUNTY COUNCIL
AUDIT COMMITTEE
WEDNESDAY, 30 NOVEMBER 10.15 AM
RISK MANAGEMENT UPDATE REPORT

Agenda
item no:

6

Report of the Head of Assurance

Author: Fiona Timms, Risk & Insurance Manager (Tel: 01438 843565)

Executive Member: Chris Hayward, Resources and Performance

1. Purpose of Report

1.1. This report is a regular item on Risk Management activity over the last quarter. The Audit Committee's Terms of Reference state it is to "advise the Executive on relevant audit matters, including: (a) the risk management system and risk related issues".

2. Summary

2.1 The following items are included in this report:

- A summary of Corporate risk movements
- A summary of new risks
- A heat map of the 35 Corporate Risks. This also displays amendments since the September Audit Committee meeting (1 reduced and 1 new risk.)
- A linked icon to the full Corporate Risk Register.

2.2 Corporate risk appendices accompany this report:

- A risk movement report at Appendix A details those risks with changed assessments in the last quarter.
- A risk status report at Appendix B summarises the latest risk scores and risk scores at each of the last 3 Audit Committee meetings.

3. Recommendations

- That the Risk Management Update report be noted.
- That the Committee identifies a risk (or risks) to be reviewed at its next meeting in March 2017.

4. Corporate Risk Register

4.1 The latest review of the corporate risk register took place during October 2016. See section 6 for a linked icon to the full Corporate Risk Register.

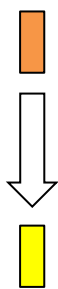
The table below shows the risk movements broken down by risk classification. The movements detailed are a continuation from the previous report dated September 2016.

	Change in assessment from previous quarter
Red	13
Amber	21
Yellow	1 (+1)
Green	
Total	35
Difference +/-	+1

5. Key movements and new risk since September 2016 Audit Committee

5.1 There are 13 red (severe) risks. One previously amber risk has a reduced likelihood (see 5.2) and there is one new amber (significant) risk recorded (see 5.3).

5.2 ENV0030 (Appendix A, Page 1) – “In the event of a failure in road inspection and / or fault reporting procedures, there is a risk that the condition of our roads falls below expected standards, which results in injury to citizens and / or successful claims against HCC.



The likelihood has reduced from unlikely to rare as a result of the service's partnership with Ringway to ensure that work is carried out robustly and, thus, the target frame for repair of defects are being achieved. Additionally, an audit of inspections showed no significant issues. The current score has therefore reduced from amber 16 (significant) to yellow 8 (material).

5.3 New Risk PROP0021 (Appendix A, Page 2) – “In the event that the review of how HCC disposes of its surplus land and property assets determines that HCC should develop these sites and assets itself or through joint venture arrangements, there is a risk that such a change to the disposal policy may slow the delivery of the current £20m per annum receipt value in the current Integrated Plan”.

This is a new Corporate risk relating to the potential financial impact on the current financial strategy if we proceed with a Venture Partner. The current score is amber 12 (significant).

6. Risk heat map

6.1 The following heat map illustrates the assessment of the Councils' Corporate risks in relation to each other. A linked icon to the full Corporate Risk Register is attached here.



Full Corporate Risk Register Movement re

Heat Map (Matrix) of Corporate Risks (35 risks) at 08 November 2016

Probability	Almost Certain				E01	
	Likely			R08	HC01 R01 HC02 R02 HC04 E02 HC05	
	Possible			R07 R13 R16 (new)	CS02 R04 CP02 R05 CP03 R06 HC06 R15	CP01 HC07
	Unlikely				CP06 R11 E04 R12 R09 R10	CS01 HC03 R03
	Rare				E03 ↓	CP04 CP05 PH01
	Negligible	Low	Medium	High	Very High	
	Impact					

Each corporate risk has been allocated a simple risk number prefixed by appropriate letters to denote the Department owning the risk.

- R = Resources
- CP = Community Protection
- CS = Children's Services
- PH = Public Health
- HC = Health and Community Services
- E = Environment

The following are brief descriptions for the risks in the matrix together with dates when risk focus reports were considered:

No. and Score	Brief Risk Description	Risk Owner	Risk Ref	Date of Risk Focus Report
HC07 48	Failure of care providers	Frances Heathcote Assistant Director Health and Community Commissioning	HCSOPD0006	29/09/2011 28/03/2013
CP01 48	Unplanned incidents	Ian Parkhouse Assistant Chief Fire Officer - Response and Resilience	HFRS0007	22/11/2012 23/03/2016
E01 40	Tree Health	Simon Aries Assistant Director - Transport, Waste & Environmental Management	ENV0142	30/11/2016
R01 32	Failure to retain, attract and recruit the right people and right skills	Sally Hopper Assistant Director, Human Resources	HR0021	21/11/2013
R02 32	Insufficient money to support infrastructure needs derived from new housing developments etc. (CIL/S106)	Angela Bucksey Assistant Director - Property	PROP0022	20/11/2014
CS01 32	A child or young person could die	Jenny Coles Director of Children's Services	CSF0055	30/06/2011 29/03/2014
R03 32	HCC's pension fund level may not improve sufficiently to cover accrued pension costs	Claire Cook Assistant Director Finance	CSHF0002	
E02 32	Residual Waste Treatment Programme	Simon Aries Assistant Director - Transport, Waste & Environmental Management	ENV0104	
HC01 32	Attraction of care-workers - Care Act 2014 non-compliance	Iain MacBeath Director of Health and Community Services	HCS0010	23/09/2016
HC02 32	NHS commissioning	Iain MacBeath Director of Health and Community Services	HCS0012	23/09/2016
HC03 32	Inadequate care leads to death or abuse of client	Frances Heathcote Assistant Director Health and Community Commissioning	HCSCP0001	29/09/2011 28/03/2013
HC04 32	DOLS - Deprivation of Liberty Safeguards	Sue Darker Operations Director, Learning Disabilities and Mental Health	HCSMH0002	16/06/2014

No. and Score	Brief Risk Description	Risk Owner	Risk Ref	Date of Risk Focus Report
HC05 32	Discharging patients from hospital - bed blocking	Iain MacBeath Director of Health and Community Services	HCSOPD0001	23/09/2016
CP02 24	Radicalisation - Prevent	Darryl Keen Deputy Chief Fire Officer	CP0004	
CP03 24	Extreme Weather	Ian Parkhouse Assistant Chief Fire Officer - Response and Resilience	CPRES0009	
R04 24	Failure to develop sufficient timely proposals to deal with the ongoing reductions in funding/resources and subsequent impact on services/reserves.	Claire Cook Assistant Director Finance	CSHF0015	
R05 24	Insufficient skills in commissioning / contract management and competencies	Stuart Bannerman Campbell Assistant Director - Improvement and Technology	IMP0002	
CS02 24	School's expansion programme costs	Simon Newland Assistant Director (Education Provision & Access)	CSF0070	25/11/2015
R06 24	Reduction in government and external funding	Claire Cook Assistant Director Finance	CSHF0005	
HC06 24	Better Care Fund - BCF	Jamie Sutterby Assistant Director, Health Integration (E&NH)	HCS0011	
R07 24	Failure to train employees to required standards	Sally Hopper Assistant Director, Human Resources	HR0018	
R08 16	The Council experiences significant fraud	Terry Barnett Head of Assurance	AUDIT0001	20/06/2012
CP04 16	Failure of Local Resilience Forum - LRF - inadequate inter agency plans	Ian Parkhouse Assistant Chief Fire Officer - Response and Resilience	CPRES0001	24/11/2011 23/09/2015
CP05 16	HCC business continuity plans - BCP	Ian Parkhouse Assistant Chief Fire Officer - Response and Resilience	CPRES0002	24/11/2011 23/09/2015
R09 16	Failure to comply with Safe Staffing legislation	Sally Hopper Assistant Director, Human Resources	HR0022	

No. and Score	Brief Risk Description	Risk Owner	Risk Ref	Date of Risk Focus Report
E04 16	Road maintenance investment	Rob Smith Deputy Director Environment	ENV0033	
CP06 16	HFRS meeting national training requirements	Chris Bigland Fire and Rescue Assistant Chief Officer - Service Support	HFRS0004	
R10 16	Industrial action	Sally Hopper Assistant Director, Human Resources	HR0017	
PH01 16	Health Protection emergency	Joel Bonnet Deputy Director of Public Health	PHD0014	21/06/2016
R11 16	The sale of assets may not provide the level of capital receipts to meet the target	Angela Bucksey Assistant Director - Property	PROP0020	
R12 16	Cyber-attack on HCC's ICT	Dave Mansfield Head of Technology	TEC0004	
R13 12	Loss/inappropriate acquisition/disclosure of sensitive personal or commercial data	Stuart Bannerman Campbell Assistant Director - Improvement and Technology	IMP0001	
R15 12	Land owned by the Council and no longer required for the purpose for which it was bought may not have an active management regime in place	Angela Bucksey Assistant Director - Property	PROP0018	
R16 12 (new)	Potential Venture Partner arrangements	Angela Bucksey Assistant Director - Property	PROP0021	
E03 8 ↓	Condition of our roads	Rob Smith Deputy Director Environment	ENV0030	20/09/2013

Next Steps

Challenges and recommendations from Audit Committee will be considered by the relevant risk owners/Services. Action taken as a result will update the corporate risk register and be reported to the appropriate cycle of risk review meetings.

Risk Matrix – The following chart shows where, and what category/colour the risk will fall in dependent on the scores. Red being the most severe and green being the least.

The scores within the chart are multiples of the likelihood and impact, e.g. (*Likelihood of*) 4 x (*Impact of*) 8 = (*Risk Score of*) 32

Assessing Impacts

Impact Score	Impact Title	Example description
1	Negligible	Annoyance but does not disrupt service: Minor injury to an individual; Financial loss under £50k; Isolated service user complaints contained within unit/section; Litigation claim or fine less than £50k; Failure to achieve a core team plan objective
2	Low	Minor impact on service; Minor injuries to several people; Financial losses between £50k-100k, Isolated service user complaints contained within department; Litigation claim or fine between £50k -100k; Failure to achieve several team plan objectives including a core objective
4	Medium	Service disruption; Major injury to an individual; Financial losses between £100k-1 Million; Adverse local media coverage. Lots of service user complaints; Litigation claims or fine between £100k - £1Million; Failure to achieve one or more strategic plan objective
8	High	Significant service disruption; major/disabling injury to employee, service user or other stakeholder; financial losses between £1Million-£5Million; adverse national media coverage; litigation claim or fine between £1Million-£5Million; Failure to achieve one or more strategic objective
16	Very High	Total service loss for a significant period; fatality to employee, service user or other stakeholder; financial loss in excess of £5 Million; National publicity more than 3 days. Possible resignation of leading member or chief officer; Multiple civil or criminal suits. Litigation claim or fine above £5 Million; Failure to achieve a major corporate objective in the Corporate Plan

Severe	The Board feels most concerned about carrying this risk. The consequences will have a severe impact on the delivery of a key priority and comprehensive management action is required immediately.
Significant	The Board feels concerned about carrying this risk. The consequences of the risk materialising would be significant, but not severe. Some immediate action is required plus the development of an appropriate action plan.
Material	The Board is uneasy about carrying this risk. Consequences of the risk are not significant and can be managed through contingency plans. Action plans can be developed later to address the risk.
Manageable	The Board is content to carry this risk. Consequences of the risk are considered relatively unimportant. The status of the risk should be reviewed periodically.

Assessing Likelihood

Scale	Description	Likelihood of Occurrence
1	Rare	<ul style="list-style-type: none"> Extremely unlikely or virtually impossible Less than 5% chance of happening Unlikely to occur in a 50 year period
2	Unlikely	<ul style="list-style-type: none"> Could occur at some point 6% to 20% chance of happening Unlikely to occur within a 10 year period
3	Possible	<ul style="list-style-type: none"> Fairly likely to occur 21% to 50% chance of happening Likely to occur once within a 10 year period
4	Likely	<ul style="list-style-type: none"> Will probably occur in most circumstances 51% to 80% chance of happening Likely to occur once within a one year period
5	Almost certain	<ul style="list-style-type: none"> Expected to occur in most circumstances More than 80% chance of happening Likely to occur within 3 months

Likelihood

Impacts

	Negligible (1)	Low (2)	Medium (4)	High (8)	Very High (16)
Almost certain (5)	5	10	20	40	80
Likely (4)	4	8	16	32	64
Possible (3)	3	6	12	24	48
Unlikely (2)	2	4	8	16	32
Rare (1)	1	2	4	8	16

APPENDIX A

Audit Committee
30 November 2016

Appendix A Movement Report showing Corporate Risks with Amendments

Recent movement report: - Corporate Risks with Significant Changes for November 2016 Audit Committee

Report Date: 08/11/2016

Date filtered on: 11/08/2016



Notes: References highlighted **Purple** have been added since the 11/08/2016.

Old Category is shown when there has been a change of category.

Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

Risk Ref Risk Description Corporate Priority Category	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
<p>PROP0021 <i>Opportunity to Prosper</i></p> <p>Current Category: <i>Corporate</i></p> <p>In the event that the review of how HCC disposes of its surplus land and property assets determines that HCC should develop these sites and assets itself or through joint venture arrangements, there is a risk that such a change to the disposal policy may slow the delivery of the current £20m per annum receipt value in the current Integrated Plan.</p>	<p>Angela Bucksey</p> <p>Assistant Director - Property</p>	<p>Update on 25/10/2016: This new risk has been identified as a result of considering alternative methods for surplus land and property asset disposal. If the current review shows that better financial returns (in both capital and revenue outcomes) could be achieved by HCC developing the sites or through joint venture arrangements than the current policy of disposal with outline planning consent, then the current capital financial strategy may need to be reviewed. Undertaking such a change may slow the delivery of the current £20m per annum receipt value in the current Integrated Plan but this would only occur if the review identifies longer term financial gain to HCC is desirable. The review is underway and will complete by January 2017.</p> <p>Update on 08/11/2016: - Following discussion at</p>	<p>08/11/2016 Material 8</p> <p>Probability Unlikely 2</p> <p>Impact Medium 4</p>	<p>➔</p>	<p>Significant 12</p> <p>Probability Possible 3</p> <p>Impact Medium 4</p>	<p>Material 8</p> <p>Probability Unlikely 2</p> <p>Impact Medium 4</p>

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Recent movement report: - Corporate Risks with Significant Changes for November 2016 Audit Committee

Report Date: 08/11/2016

Date filtered on: 11/08/2016



Notes: References highlighted **Purple** have been added since the 11/08/2016.

Old Category is shown when there has been a change of category.

Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

Risk Ref Risk Description Corporate Priority Category	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
		October Policy & Resources Officer Group, the risk owner has increased the score to better reflect the current risk level. Reviewed On :08/11/2016				
Controls:	<u>Ref</u>	<u>Control Description</u>			<u>Status</u>	<u>Owner</u>
	PROP0021/001	12 positive land sites that will provide good returns identified			In Progress	Mike Evans
	PROP0021/002	Project underway with external support to evaluate options and outcomes available from the proposed sites and report back			In Progress	Mike Evans
	PROP0021/003	Work with Finance team to reflect the options and outcomes in the capital financial strategy			In Progress	Mike Evans
ENV0030 <i>Opportunity to be Healthy and Safe</i> Current Category: Corporate In the event of a failure in road inspection and / or fault reporting procedures, there is a risk that the condition of our roads falls below expected standards, which results in injury to citizens and / or successful claims against HCC.	Rob Smith Deputy Director Environment	Risk reviewed. The current risk score has been reduced as a result of the service's partnership with Ringway to ensure that work is carried out robustly and, thus, the target frame for repair of defects are being achieved. Additionally, an audit of inspections showed no significant issues. Reviewed On :20/09/2016	20/09/2016 Significant 16 Probability Unlikely 2 Impact High 8		Material 8 Probability Rare 1 Impact High 8	Material 8 Probability Rare 1 Impact High 8

Recent movement report: - Corporate Risks with Significant Changes for November 2016 Audit Committee

Report Date: 08/11/2016

Date filtered on: 11/08/2016



Notes: References highlighted **Purple** have been added since the 11/08/2016.

Old Category is shown when there has been a change of category.

Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

Risk Ref Risk Description Corporate Priority Category	Risk Owner	Progress Update	Previous Risk Score	Movement Direction	Current Risk Score	Target Risk Score
Controls:	<u>Ref</u>	<u>Control Description</u>			<u>Status</u>	<u>Owner</u>
	ENV0030/001	Protocol for the investigation of road deaths agreed with police.			Existing	Rob Smith
	ENV0030/002	Annual programmes of accident remedial engineering schemes, and structural and routine maintenance in place			Existing	Rob Smith
	ENV0030/003	Broad and accessible fault reporting procedure available to members of the public			Existing	Rob Smith
	ENV0030/004	Quarterly reports from Insurance Team on High Court Cases			Existing	Rob Smith
	ENV0030/005	Audit of inspections & inspection programme			Existing	Rob Smith
	ENV0030/006	Protocol for Serious injury accidents which may result in significant insurance claims			In Progress	Rob Smith
	<u>ENV0030/007</u>	<u>Back up process for online fault report system.</u>			<u>In Progress</u>	<u>Steve Johnson</u>

Appendix B - Summary Corporate Risk Status report

Risk Ref	Business Unit	Description	Current Risk Rating				Target
			02/16	05/16	08/16	11/16	Score
HCSOPD0006	Health and Community Services Older People And Physical Disabilities	In the event of commercial or contractual failure of private or independent care providers, this may lead to disruption to care provision and impact on service users and carers. (Previously ACSC0001)	24	24	48	48	24
HFRS0007	Community Protection Hertfordshire Fire & Rescue	During unplanned incidents, such as terrorist activity, civil disturbance or large scale wide area flooding, or periods of industrial action, there is a risk that HFRS have insufficient resources to cope which may result in an over-reliance on regional or national resources or significantly reduced fire cover.	48	48	48	48	32
ENV0142	Environment	Due to the threat of an increasing number of tree pests and diseases, in particular the imminent threat from Ash Dieback, there is a risk of a significant number of trees being affected which may result in significant unplanned costs, potential dangers to the public and/or service users, impacts on the landscape and loss of biodiversity.	n/i	40	40	40	20
CSF0055	Children's Services	In the event of inappropriate care or attention there is a risk that a child or young person could die or become seriously injured.	32	32	32	32	32
CSHF0002	Resources Finance	There is a risk that HCC's pension fund level may not improve sufficiently to cover accrued pension costs because of economic conditions, poor investment or ineffective governance	32	32	32	32	32
ENV0104	Environment	In the event of the Residual Waste Treatment Programme being impacted by one or more of the following scenarios: - Revised Project Plan does not proceed or is delayed - Unable to secure suitable alternatives for waste disposal should the contract with VES be terminated. It may result in: - Increased costs to HCC	32	24	32	32	8
HCS0010	Health and Community Services	Inability to attract an increased number of careworkers in line with the Health and Community Services Workforce Strategy leading to non-compliance with the Care Act 2014 duties and customer dissatisfaction.	32	32	32	32	4
HCS0012	Health and Community Services	Due to national NHS commissioning changes from May 2015 there may be structural changes to NHS commissioning, leading to financial uncertainty for jointly commissioned projects including the Better Care Fund within Hertfordshire County Council.	64	32	32	32	16
HCSCP0001	Health and Community Services Commissioning For People	In the event of the quality of care from internal and external HCS care providers becoming inadequate resulting in the death or severe abuse of a client	32	32	32	32	32
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Risk Ref	Business Unit	Description	Current Risk Rating				Target
			02/16	05/16	08/16	11/16	Score
HCSMH0002	Health and Community Services Mental Health	As a result of the 2014 Supreme Court ruling around Deprivation of Liberty Safeguards (DOLS) there is a risk that an inability to conduct best interest assessments within legal timeframes could lead to unlawful detention of people and potential legal and compensation challenges to HCC.	32	32	32	32	8
HCSOPD0001	Health and Community Services Older People And Physical Disabilities	Due to increased demands from the NHS for assistance discharging patients from hospital, (this includes new groups of patients not previously referred to social care and admission avoidance), there is a risk of delays in discharging some patients requiring HCC input, which may result in financial and reputational consequences.	24	32	32	32	16
HR0021	Resources Human Resources	If we fail to retain, attract and recruit the right people and right skills and maintain staff engagement at all levels, there may be a significant impact on service delivery and major cost implications. [Formerly CSCE0007]	32	32	32	32	16
PROP0022	Resources Property	As a result of changes to the way in which development contributions will be collected from new developments through use of Community Infrastructure Levy (CIL) and Section 106 contributions, and the delay in introduction of the new arrangements across all district authorities there is a risk that there may be insufficient money to support infrastructure needs derived from new housing developments etc.[Formerly CSCE0023]	32	32	32	32	12
CP0004	Community Protection	As a result of disruptive factors influencing the lives of people in Hertfordshire, there is a risk that residents or staff become radicalised or drawn into terrorism, which could cause harm to themselves or the wider public and reduce community / social cohesion.	24	24	24	24	16
CPRES0009	Community Protection Resilience	If there is insufficient preparation for increased frequency of extreme weather events resulting from climate change, then there might be negative impacts on service delivery, user access to service provision and to the reputation of the Council.	24	24	24	24	12
CSF0070	Children's Services	In the event of inadequate capital being made available from a number of funding streams, part of the costs of delivering the secondary expansion programme and/or schools required to meet demand in new housing developments may need to be met from the council's own resources having exhausted all other eventualities.	24	24	24	24	8
CSHF0005	Resources Finance	In the event of a reduction in government and external funding there is a risk of a funding gap which may result in the need to identify measures to further reduce service spend leading to deterioration or interruption of front line service delivery	24	24	24	24	4
CSHF0015	Resources Finance	There is a risk that the Authority does not develop sufficient timely proposals to deal with the ongoing reductions in funding/resources which may lead to unplanned reduction of services or the need to draw on reserves.[Formerly CSCE0017]	24	24	24	24	16
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Risk Ref	Business Unit	Description	Current Risk Rating				Target
			02/16	05/16	08/16	11/16	Score
HCS0011	Health and Community Services	In the event of significant, increasing demand on health and social care services, there is a risk that the Better Care Fund pooled budget may not be sufficient to meet future demand for services	24	24	24	24	8
HR0018	Resources Human Resources	In the event of a failure to train employees to required standards, there is a risk that staff are not fully competent in their roles, which could lead to the death, serious injury or harm to service users, members of the public or staff themselves e.g. front facing staff like QSWs and staff with access to vulnerable adults and children	24	24	24	24	16
IMP0002	Resources Improvement And Technology	A significant proportion of the Council's expenditure is accounted for by externally commissioned services. In the event of insufficient skills in commissioning / contract management and competencies along with a lack of application of effective monitoring, governance and contract management rigour, there is a risk of poor value, inadequate service provision and data security and/or failure of externally delivered services, which could lead to disruption of service delivery. [Formerly CSCE0019]	24	24	24	24	8
AUDIT0001	Resources Audit (SIAS)	There is a risk that the Council experiences significant fraud	12	12	16	16	8
CPRES0001	Community Protection Resilience	In the event of a failure of the Local Resilience forum to provide adequate inter-agency plans which correctly identify the capabilities required to deal with a major emergency in Hertfordshire there is a risk that Hertfordshire's multi-agency response may not be fully effective (formerly SERMU0001)	16	16	16	16	16
CPRES0002	Community Protection Resilience	In the event of a failure to prepare adequate Corporate and departmental generic BCP plans, there is a risk that, should a major incident take place (to building, technology & people), there may be insufficient back up arrangements in place, which could result in a higher level of disruption than anticipated causing increased disruption to key resources. (Formerly SERMU0002)	16	16	16	16	16
ENV0033	Environment	In the event of under investment there is a risk that road maintenance levels can not be maintained and general deterioration occurs, which may lead to increased number of accidents, loss of reputation and customer dissatisfaction.	16	16	16	16	8
HFRS0004	Community Protection Hertfordshire Fire & Rescue	In the event of a failure to meet national training requirements, poor operational performance from personnel who are not fully trained and competent in their role could lead to the death or serious injury of a firefighter.	16	16	16	16	16
HR0017	Resources Human Resources	In the event of industrial action there is a risk that services cannot be delivered effectively, which could result in harm to residents.	16	16	16	16	8
HR0022	Resources Human Resources	If we fail to comply with safe staffing legislation and agreed HCC policy and practice there is a risk this could lead to a lack of protection for HCC service users (e.g. children and vulnerable adults) [Formerly CSCE0009]	16	16	16	16	16

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Risk Ref	Business Unit	Description	Current Risk Rating				Target	
			02/16	05/16	08/16	11/16	Score	
PHD0014	Public Health	In the event of a Health Protection emergency such as a communicable disease epidemic, radiological, chemical or biological agent exposure, or extreme weather conditions, there is a risk that the authority may be unable to meet its statutory duty to adequately assure multi-agency health protection arrangements and as a result there are high rates of morbidity or mortality of Hertfordshire residents	16	16	16	16	16	
PROP0020	Resources Property	As a result of changes in the UK and Local economic climate, which dictates the sale value of assets for disposal, there is a risk that the sale of assets may not provide the level of capital receipts to meet the target. (Formerly PROP0002)	16	16	16	16	8	
TEC0004	Resources Technology	In the event of failing to maintain and ensure the use of our security systems, technical protocols and change management processes, there is a risk of a cyber attack (virus, penetration or malicious internal action) on HCC's ICT environments causing significant service disruption and possible data loss	16	16	16	16	16	
IMP0001	Resources Improvement And Technology	There is a risk of the loss/inappropriate acquisition/disclosure of sensitive personal or commercial data, including (but not limited to) paper records/post, the electronic storage / transfer of personal data by email, fax or other technical means, and publication of data for Open Data purposes, which could lead to harm to clients, impact on HCC's reputation, incur legal action and have financial consequences (despite applying best practice there is always the possibility of human error) [Formerly CSCE0013]	12	12	12	12	8	
PROP0018	Resources Property	There is a risk that land owned by the Council and no longer required for the purpose for which it was bought may not have an active management regime in place. As a result there is a risk of an H&S incident to persons or property which could give rise to H&SE action and a liability claim.	12	12	12	12	4	
PROP0021	Resources Property	In the event that the review of how HCC disposes of its surplus land and property assets determines that HCC should develop these sites and assets itself or through joint venture arrangements, there is a risk that such a change to the disposal policy may slow the delivery of the current £20m per annum receipt value in the current Integrated Plan.	n/i	n/i	8	12	8	
ENV0030	Environment	In the event of a failure in road inspection and / or fault reporting procedures, there is a risk that the condition of our roads falls below expected standards, which results in injury to citizens and / or successful claims against HCC.	16	16	16	8	8	
			35	804	812	856	852	496

HERTFORDSHIRE COUNTY COUNCIL

**AUDIT COMMITTEE
WEDNESDAY, 30 NOVEMBER 2016 AT 10.15 AM**



RISK FOCUS REPORT – TREE HEALTH

Report of the Chief Executive & Director of Environment

Author:- Tony Bradford, Head of Countryside Management
Service (Tel: 01992 556028)

Executive Member/s:- D A Ashley, Environment, Planning and Transport

1. Purpose of report

1.1 To provide further information regarding the risk and associated controls recorded on the Hertfordshire County Council Corporate Risk Register relating to Tree Health, specifically ENV0142; Chalara Ash Die Back and a number of other tree health issues have the potential to impact on the future of trees and woodlands in the County.

2. Summary

2.1 The Audit Committee has requested a report on the above risk, the assessment and rating of this risk and the controls in place to minimise or avoid its occurrence. These are summarised in Appendix 1 to the report along with a description of the risk and its possible consequences.

2.2 There is currently no way to effectively stop the spread or treat/cure Ash Dieback, and it is already present in the county, so the likelihood of a significant impact is almost certain. Other tree health issues exist such as Oriental Chestnut Gall Wasp, Oak Processionary Moth and old age and others are visible on the horizon, necessitating the County Council to refine its approach to tree management.

2.3 The County Council has a significant number of trees growing on land within its ownership or for which it has a management responsibility. There is a risk of a large number of these trees being affected which may result in significant unplanned costs, potential dangers to the public and/or service users, impacts on the landscape and loss of biodiversity.

- 2.4 There is a public health risk associated with the tree health issues that are the subject of this Corporate Risk Assessment. The council's Public Health Department are engaged in assessing and responding to this.
- 2.5 To date, the indication from government is that there will be no financial help available to deal with the problem.

3. Recommendation

- 3.1 The Audit Committee is invited to note and comment on the information provided within this report.

4. Background

- 4.1 This risk was first recorded in April 2016. This followed a series of reports to Environment, Economy and Community Safety Cabinet Panel (Nov 2012) and Resources and Performance Cabinet Panel (08 July 2015) on the developing tree health issues faced at a national level and their likely impact for the county and the county council. The Environment, Planning and Transport Cabinet Panel is due to receive a further update report in December 2016.
- 4.2 The UK is currently under threat from an increasing number of tree pests and diseases, due in part to the world trade in plants and plant materials but also possibly exacerbated by climate change providing more suitable conditions for the survival of pathogens.
- 4.3 Two particular tree health issues, Chalara (Ash Dieback) and oak processionary moth (OPM) were the focus of earlier reports. However, it was recommended that the implications of these two should be considered against the backdrop of the increasing risk from a wider collective of plant pathogens as well as other pest species and climate change.
- 4.4 In late June 2015 Oriental Chestnut Gall Wasp (OCGW) was identified by a member of the public as being present in an Hertfordshire County Council owned roadside verge in St Albans. The Forestry Commission (FC) contacted the County Council and St Albans District Council, issuing the County Council with both a containment notice and a Statutory Plant Health Notice. The OCGW is responsible for forming galls on sweet chestnut trees which can lead them to become weakened and more vulnerable to other diseases. The wasp was found to be present in 6 of 9 trees and all of the trees were removed at a cost to Hertfordshire County Council of around £52,000.
- 4.5 As reported to the July 2016 Highways Cabinet Panel, the Environment Department is responsible for the maintenance of approximately 150,000 trees on the public highway (highway trees) approximately 142,000 of these are located within urban areas and have been surveyed. The vast majority of trees seen from the road in rural areas

are not highway trees, albeit Hertfordshire County Council has an interest in those which are in falling distance of the highway.

- 4.6 Some Districts and Boroughs undertake tree management on behalf of the highways department under an Agency Agreement. Condition survey and maintenance form a component of each agreement.
- 4.7 The 3,000km of Rights of Way (RoW) have also been considered in relation to this risk. Trees, where present, are usually located adjacent to rather than within any RoW, where it may otherwise form an obstruction. Trees located on land adjoining the highway, whilst not the responsibility of the authority, will be of interest to Hertfordshire County Council where they are in falling distance of the RoW.
- 4.8 The County Council also owns land on which trees grow for which its Property Department is responsible. This includes but is not restricted to 'in use' and 'out of use' as well as tenanted land (generally held for the purposes of agriculture).
- 4.9 An internal audit on Hertfordshire County Council's Tree management issued in March 2016 gave a moderate level of assurance and made a number of medium and merits attention recommendations to improve the risk. These are followed up by Shard IIAS and a summary is included in their update report to this Committee
- 4.10 Through the damage caused to the trees by various pathogens, this can leave them weakened and more susceptible to falling and damaging property and causing serious injuries.
- 4.11 OPM is a non-native insect that may defoliate oak trees, leaving them vulnerable to other pests, diseases and environmental stresses. The caterpillars have thousands of hairs which contain a toxin, thaumetopoein. This can cause highly irritating skin rashes and, less commonly, sore throat, breathing difficulty and eye problems.

5. Supporting information

- 5.1 As a result of the report to Resources and Performance Cabinet Panel (08 July 2015) a number of recommendations were agreed. These have formed the basis for the controls subsequently set out in the Corporate Risk Register.
- 5.2 The Corporate Risk is owned within the Environment Department by the Assistant Director for Transport, Waste and Environmental Management. However, controls are coordinated by staff responsible for Property, Highways, Hertfordshire Business Services and Countryside Management Service.

- 5.3 Controls set out within the Corporate Risk are intended to reduce the impact of the tree health issues faced. Prevention is not a realistic option or strategy. They focus on a number of strategic approaches.
- a. Ensuring that Hertfordshire is aware of current issues as these develop.
 - b. Establishing a tree health network for Hertfordshire and ensuring it is informed of these developments.
 - c. Informing the local community of prevention and symptom information where OPM is present, through Public Health colleagues, tailoring regional press information to the local context.
 - d. Completing the Highways asset records update, assessing and planning for the financial implications of Chalara for highways trees.
 - e. Ensuring all departments with tree assets have appropriate tree risk policies and procedures in place that follow good practice.
 - f. Developing and sharing good practice for responding to tree health issues throughout Hertfordshire.
 - g. Working at a national level to lobby for support and assistance in responding to tree health issues in the county, including seeking appropriate financial contributions to offset expenditure.
- 5.4 With the exception of ENVO0142/014 (Work with partners to plan for restoration of the post-ash dieback landscape) which is at an early stage, all of the controls as set out in the table below have been reported through the quarterly Corporate Risk Review Process as In Progress.
- 5.5 Key achievements to date include:
- a. Activity to draw together Hertfordshire County Council tree inspection data and that gathered from the relevant Districts/Boroughs, relating to trees on the maintainable highway is nearing completion. This will enable analysis to inform further survey needs and future service development. £250,000 has been budgeted to survey for and address Ash Dieback, with regard to the location of tree stock in relation to people or property on the public highway.
 - b. Surveys have been undertaken across County Council non-highway property in Hertsmere (most heavily wooded area in property portfolio). The results are being analysed and works planned and scheduled. All County Council occupied property has been scheduled and Lambert Smith Hampton is working on a survey programme for Corporately Managed Properties.
 - c. The Highways Land Boundary Team, together with Property colleagues has reviewed over 70% of the land held by Hertfordshire County Council adjacent to the managed Highway to ascertain land management responsibilities. The work will complete by March 2017. Fifteen small land parcels (2.5%) have been identified as Property lands rather than Highways to date. There is no evidence that this percentage will rise.

- d. Property has updated the Schools Grid with information regarding schools responsibilities for the management of trees within their boundaries.
- e. £50,000 has been budgeted to enable CMS to lead the County Council tree health network, manage information gathering, enable training in tree risk surveying, attendance at conferences, and maintain regular contact with regional and national policy makers.

CMS have also:

- o Established a Hertfordshire County Council Tree Health Network and provided regular updates on tree health issues as they develop. A wider network has also been developed engaging with tree officers, greenspace managers and representatives from appropriate 3rd sector organisations.
- o Created a public facing web based information hub on tree health issues in Hertfordshire, updating when new information is acquired. This will move to the new Hertfordshire.gov.uk web site later in the year <http://www.hertslink.org/cms/treehealth/>
 - f. Letters have been written by the Chairman of the Performance and Resources Cabinet Panel (Cllr C Haywood) to Department for Environment Food and Rural Affairs (Defra), Forestry Commission and Local Government Association raising concerns and requesting support.

5.6 The Forestry Commission's interactive map shows recorded and confirmed infection sites now across the majority of England, Wales and Scotland. In 2015 recorded sites were generally restricted to the East and South of the United Kingdom. Nationally, a significant number of research projects are underway, funded by Defra and others. These aim to establish strains of Ash that exhibit some resistance to Chalara infection. In the longer term it is hoped that this work will provide a seed source for replacement planting. Evidence from Denmark suggests that around 1% of Ash is demonstrating increased resistance.

5.7 Communication between this council and the Local Government Association (LGA) in 2015 raised up their agenda the threat posed to Local Authority budgets by tree health issues. A subsequent national media release from the LGA in turn raised this threat in the context of already stretched budgets and show cased the work undertaken by Hertfordshire County Council to date to address the risk
http://www.local.gov.uk/media-releases/-/journal_content/56/10180/7520588/NEWS

Appendix 1.

CORPORATE RISK REGISTER		
Risk Number	Risk Owner	Department
ENV0142	Simon Aries	Environment
Date risk first included on risk register	Risk treatment (response) to manage the risk	Executive Member
01/04/2016	Reduce	Derrick Ashley
<p>Short description of the risk Chalara Ash Die Back and a number of other tree health issues have the potential to impact on the future of trees and woodlands in the County. There is currently no way to effectively stop the spread or treat/cure Chalara Ash Dieback, and it is already present in locations across Hertfordshire.</p> <p>Consequences of the risk There are high numbers of Ash trees across the county. Evidence from the continent is that a considerable percentage will succumb with significant cost implications for individuals, landowners and local authorities. There is also a risk to human health most particularly associated with trees on highway land or on privately owned land adjacent to the highway. Other tree health issues such as Oak Processionary Moth pose a lesser risk to human health.</p>		
<p>Current controls</p> <p>ENV0142/001 Raising awareness of the issues including Tree Health pages on website; articles in relevant publications; engagement with partners</p> <p>ENV0142/002 Establishing extent and potential liability of ash tree population on Highways Hertfordshire County Council is responsible to manage</p> <p>ENV0142/003 Monitoring of the national and local tree health situation and specialist advice to feed into plans and actions</p> <p>ENV0142/004 Developing a framework for sharing best practice including the county council's internal Tree Health Network</p> <p>ENV0142/005 Lobbying the government for support and assistance in responding to the tree health issue in the county</p> <p>ENV0142/006 Identify the financial pressures and secure resources through the Integrated Planning Process where appropriate</p> <p>ENV0142/007 Establish extent and potential liability of tree population on non-Highway HCC land including Property Hertfordshire County Council is responsible to manage</p>		

ENV0142/008

Develop and undertake a coordinated approach across Hertfordshire to deliver a cost effective, proportionate, efficient response

ENV0142/009

Appropriate tree inspection regimes on highway land; summer inspections; staff trained to identify symptoms of relevant diseases

ENV0142/010

Appropriate tree inspection regimes – Hertfordshire County Council land; staff trained to identify disease

ENV0142/011

Raise awareness and share best practice amongst public, staff, schools (Schools Grid), including to employ a 2 year Tree Health Officer

ENV0142/012

Ensure all relevant departments in the county council have appropriate tree risk policies and procedures in place

ENV0142/013

Development of a plant procurement protocol for HCC

ENV0142/014

Work with partners to plan for restoration of the post-ash dieback landscape

Current Risk score based on effectiveness of current controls

Probability score:	Impact score:	Overall score:
5 - Almost certain	8 –High	40 - Severe

Reason for inclusion on Corporate Register

The risk met the corporate risk criteria; in particular there are significant financial and public health implications.

Direction of travel (overall risk score for previous three quarters)

N/A	40	40
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Target risk score

Probability score:	Impact score:	Overall score:
5 – Almost certain	4 – Medium	20 – Significant



Agenda item
No:

8

Hertfordshire County Council
Internal Audit Progress Report
30 November 2016

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report
- Agree changes to the audit plan
- Agree to the removal of high priority actions now complete

Contents

- 1 Introduction and Background
 - 1.1 Purpose
 - 1.2 Background

- 2 Audit Plan Update
 - 2.1 Delivery of Audit Plan and Key Findings
 - 2.6 Schools' Activity
 - 2.12 Proposed Audit Plan Amendments
 - 2.15 Limited Assurance Audits
 - 2.18 High Priority Recommendations
 - 2.23 Medium Priority Recommendations
 - 2.25 Performance Management

Appendices

- A Progress against the 2016/17 Audit Plan

- B Implementation Status of High Priority Recommendations

- C Definitions of Assurance and Recommendation Priorities

1. Introduction and Background

Purpose of Report

- 1.1 To provide Members with information on the position as at 5 November 2016, relating to:
 - a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Hertfordshire County Council Internal Audit Plan for 2016/17
 - b) Proposed amendments to the approved 2016/17 Audit Plan
 - c) 'Limited Assurance' audits issued since the last meeting of this Committee of which there is one, Fuel Cards (HES)
 - d) Implementation status of previously agreed:
 - high priority audit recommendations and agreement to remove completed actions; and
 - medium priority recommendations
 - e) An update on performance management information.

Background

- 1.2 The 2016/17 HCC Audit Plan was approved by the Audit Committee on 23 March 2016.
- 1.3 The Audit Committee receives periodic progress updates against the Internal Audit Plan, the most recent of which was brought to the meeting of 23 September 2016.
- 1.4 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 5 November 2016, 49% of the 2016/17 Internal Audit Plan days had been delivered (calculation excludes unused contingency days). Appendix A provides a status update on each individual deliverable within the audit plan.

2.2 The following reports have been issued and assignments undertaken in the period since 30 August 2016:

Audit Title	Assurance Level	Number of Recommendations
Resources		
Fuel Cards (HES)	Limited	1 High 6 Medium 3 Merits Attention
Fuel Cards (HBS)	Substantial	2 Medium 1 Merits Attention
Coroner's Service	Substantial	3 Medium 3 Merits Attention
Health and Community Services		
Carers' Direct Payments	Moderate	1 High 8 Medium 1 Merits Attention
Children's Services		
Section 17 Payments	Substantial	4 Medium 1 Merits Attention
Special Educational Needs Strategy	Substantial	1 Medium 2 Merits Attention
Environment		
Use of Confirm – Highways Service Management Software	Substantial	5 Medium 2 Merits Attention

2.3 In addition to the above, the following draft reports have been issued to management for comment and response:

- Management of Empty Properties
- ICT Support Process and Helpdesk
- Foster Carer Recruitment and Retention
- Category 1 Triage Approach (Highways)
- Cash Security – Corporate Appointeeships

- 2.4 Other audits within the 2016/17 plan continue to be progressed as agreed with sixteen audits currently in fieldwork or quality review and a further sixteen at planning or Terms of Reference stage.
- 2.5 In respect of the Council's Key Financial Systems audits, planning was undertaken early, Terms of Reference produced and agreed and fieldwork is currently in progress for four of the required six audits. This approach will ensure that all six audits are delivered in time to support the early closure of accounts.

Schools' Audit Activity

- 2.6 The schools' audit plan for 2016/17 identified three streams of activity:
- a) **Theme 1** - Assessment of the effectiveness of internal control in relation to the requirements of the Schools Financial Value Standard (SFVS) (sample of 19 schools)
 - b) **Theme 2** – Safe Recruitment – to provide assurance that the sample schools comply with the statutory guidance in the Department for Education's publication "Keeping Children Safe in Education" and the Home Office Right to Work in the UK legislation, when undertaking recruitment activity (sample of 18 schools)
 - c) **Theme 3** – Financial Planning – to review the effectiveness of financial planning including early years (sample of 17 schools)
- 2.7 In respect of Theme 1, visits to all sampled schools were completed in the summer term and draft reports were issued during the same period. Sixteen of these reports have now been finalised, with management action plans agreed in response to the recommendations made. The remaining outstanding draft reports are being urgently followed up for finalisation.
- 2.8 Planning in relation to the audit of Safe Recruitment in Schools (theme 2) has been completed and a random sample of schools has been identified for fieldwork visits. Fieldwork has commenced and reports are being drafted. However, further site visits are currently on hold pending review following a request from Children's Services.
- 2.9 Planning to support delivery of Theme 3 is scheduled to be completed by the end of December 2016.
- 2.10 Summary reports in relation to the Budget Management and Control and Income themes from the 2015/16 plan are now available to all Hertfordshire schools, via the Hertfordshire Grid.

- 2.11 We continue to receive enquiries from schools regarding a range of financial matters and update the Frequently Asked Questions within the Internal Audit page on the Grid accordingly.

Proposed Audit Plan Amendments

- 2.12 Proposed amendments to the 2016/17 Internal Audit Plan and the reasons for these are set out below:

The following audits emerged as a result of SIAS' closer working relationship with SAFS and involve reviewing the adequacy of the control environment following notification of fraud / error.

- Cash Security – Corporate Appointeeships – 5 days
- HCS Contract Retention and Management – 10 days

The budgets of the following have been increased to more accurately reflect the volume of work required:

- R & P queries – budget increased by 10 days to more accurately reflect volume of queries being received.
- Performance Data - budget increased by three days to more accurately reflect the volume of work undertaken.
- External Audit Liaison – budget increased by four days to more accurately reflect the volume of work undertaken
- Children's Establishments – budget increased by 13 days to more accurately reflect the time taken on site to undertake the required fieldwork

At the request of the Director of Human Resources, the Self Employed Status audit has been cancelled and replaced with a Working Time Directive audit.

Schools Plan

- 2.13 Adjustments have been made to the approved school's audit plan to provide additional capacity to respond to requests for training which includes the delivery of procurement and SFVS (Schools Financial Value Standard) training sessions to governors and training for clerks to governing bodies.

Other Changes

- 2.14 Additional minor changes have been made to the audit plan in order to reflect changes of 1 day or less, where original planned items are no longer required, or new activities have emerged. Taking into account all changes the County Council contingency budget now stands at 32 days.

Limited Assurance Audits

- 2.15 Since the previous progress report one Limited Assurance opinion has been provided by SIAS in respect of Fuel Cards (HES).
- 2.16 The objective of this audit was to provide assurance on the adequacy of the internal control environment following the recent identification of fuel card misuse within the Service. In arriving at our limited assurance opinion, we noted the following control weaknesses in current systems, some of which, if unaddressed, may increase the risk of abuses of the fuel card system remaining undetected:
- Inadequacy in the level and breadth of existing management checks on both invoices and general use of fuel cards
 - Absence of vehicle and driver log records to ensure that fuel expenditure and vehicle usage can be effectively monitored against authorised operational activities.
 - Poor card security in relation to the control systems for bearer cards with improvements required to the control records for the issuing and use of such cards.
 - Absence of formal fuel card policies and procedures which mean both drivers and administrative staff may potentially be unaware of the agreed processes.
 - Absence of fuel category restrictions on fuel cards to ensure that they cannot be used to procure types of fuel outside agreed business purposes.
- 2.17 Management has agreed to implement all recommendations and progress will be monitored through the recommendations follow-up process detailed below.

High Priority Recommendations

- 2.18 Members will be aware that a final audit report is issued when it has been agreed by management; this includes an agreement to implement the recommendations made. It is Internal Audit's responsibility to advise Members of progress on implementation of high priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.
- 2.19 An update on progress with implementing high priority recommendations is shown at Appendix B. Progress is summarised in the table below:

HIGH PRIORITY RECOMMENDATIONS				Not implemented by Due Date	
Total Number of Outstanding Recommendations at the start of this Follow Up Period	Implemented	Not Yet Due	No Longer Applicable	Partially Implemented – Revised Date Agreed	No Update Provided by Action Owner
5	2	3	0	0	0

%	40%	60%	n/a	n/a	n/a
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2.20 High priority recommendations relating to schools are excluded from this listing given both the volume of schools within the County and the relative risk of any single recommendation to the Authority as a whole

2.21 Further details on the implementation status of the above management actions are provided within Appendix B of this progress report.

2.22 Two new high priority recommendations has been made since our previous progress report to the Committee:

- Fuel Cards (HES) - HES to review, strengthen and develop the existing processes for checking and validating employee use of fuel cards and supplier invoices
- Carers' Direct Payments
 - The Resource Allocation Calculation (RAS) process to be reviewed to provide a) explicit criteria for those circumstances where the indicative amount may be overridden and b) details of how these should be authorised
 - Periodic reviews to be considered to confirm that operational teams comply with existing or revised guidance on the application of indicative amounts within the creation and authorisation of the support plan
 - Management checks to be strengthened to ensure that carers' direct payment are only provided to individuals who have a current caring role

Medium Priority Recommendations

2.23 The Committee's role in respect of medium priority recommendations is to be satisfied that there is a monitoring process in place and that, in general, agreed recommendations are being implemented.

2.24 The table below details the implementation status of medium priority recommendations that were due for implementation in the period since the last progress report.

MEDIUM PRIORITY RECOMMENDATIONS			Not implemented by Due Date		
Total Number of Recommendations Followed Up in this Period	Implemented	Original agreed action under review by Management	Partially Implemented – Revised Date Agreed	No Update Provided by Action Owner	Not implemented
23	5	1	13	2	2
%	22%	4%	56%	9%	9%

Performance Management

- 2.25 Annual performance indicators and associated targets are approved by the SIAS Board on an annual basis.
- 2.26 The actual performance for HCC against the targets that can be monitored in year is set out in the table below.

Performance Indicator	Performance Target for 31 March 2017	Profiled performance at 5 November 2016	Actual performance to 5 November 2016
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excludes unused contingency)	95%	55%	49%
2. Planned Projects * – percentage of actual completed projects to draft report stage against planned completed projects	95%	40%	39%
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at ‘satisfactory’ level	100%	100%	93%**
4. Number of High Priority Audit Recommendations agreed as %	95%	95%	100%

* Based on audit plan ‘deliverables’ at draft, final and audit closed stage including schools audits and items carried forward from 2015/16 that were not at draft report stage by 31 March 2016.

** Fourteen completed customer satisfaction surveys have been received during 2016/17, one of which gave a lower than ‘satisfactory’ assessment of the audit process

- 2.27 In addition, the performance targets listed below are annual in nature; Members will be updated on the performance against these targets within the separate Head of Assurance’s Annual Report:

- **5. External Auditors’ Satisfaction** – the Annual Audit Letter should indicate that external audit has drawn assurance from the work of internal audit on relevant matters

- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the financial year.
- **7. Head of Assurance’s Annual Report** – presented at the June meeting of the Audit Committee.

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

SIAS Audit Plan 2016/17

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Corporate								
Annual Governance Statement 2015-16	N/A				8	SIAS	8	Complete
Annual Governance Statement 2016-17	N/A				3	SIAS		Allocated
Head of Assurance Annual Opinion and Annual Report	N/A				5	SIAS	5	Complete
Whistleblowing - named contact and quarterly review	N/A				4	SIAS	2	Through Year
Resources: Finance								
Pensions – Administration					30	SIAS	1.5	TOR Issued
Payroll					25	SIAS	3.5	In Fieldwork
Debtors					25	SIAS	7.5	In Fieldwork
Creditors					25	SIAS	2	TOR Issued
General Ledger					20	SIAS	6	In Fieldwork

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Treasury Management					15	SIAS	1.5	TOR Issued
elIncome (suppliers' payments)					10	BDO	0.5	In Planning
Feeder Systems (for EY Assurance)					10	SIAS	9	In Fieldwork
E-Monitor Process -Consistency of Approach					8	SIAS	3	In Fieldwork
Resources: Procurement and Performance								
Framework Contracts					15	BDO	14	Quality Review
Resources: Property								
Asbestos Management					15	SIAS		Allocated
Carbon Reduction Commitment	N/a	0	0	0	15	SIAS	15	Final Report Issued
Leasehold Income					15	SIAS		Allocated
Management of Empty Properties					15	SIAS	14.5	Draft Report Issued

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Resources: Technology								
ICT Support Process and Helpdesk					15	SIAS	13	Draft Report Issued
Systems rationalisation	N/a				0	N/a		Cancelled
Intranet					15	SIAS		Allocated
Social Media					15	SIAS		Allocated
Resources: Business Intelligence								
Data Retention					20	BDO		Allocated
Resources: Human Resources								
Training Records					15	SIAS		Allocated
Working Time Directive					10	SIAS		Allocated

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Resources: Legal, Democratic & Statutory Services								
Coroner's Service	Substantial	0	3	3	15	SIAS	15	Final Report Issued
Resources Queries <3hrs Activities	N/A				20	N/A	12	Through Year
HBS								
Stock Control					15	BDO	12	Quality Review
Fuel Cards(HES)	Limited	1	6	3	15	SIAS	15	Final Report Issued
Fuel Cards (HBS)	Substantial	0	2	1				Final Report Issued
Cross-Cutting Reviews								
Contract Management					25	BDO		Allocated

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Business Cases and Benefits Realisation					25	BDO	1	In Planning
Health & Community Services								
Residential Invoicing					15	SIAS		Allocated
Financial Assessments	Substantial	0	2	2	15	SIAS	15	Final Report Issued
Statutory Returns					15	BDO	2	ToR Issued
Homecare					15	BDO	14	Quality Review
Carers Direct Payments	Moderate	1	8	1	15	SIAS	15	Final Report Issued
Better Care Fund					15	BDO		Allocated
Pre-Paid Cards					10	SIAS	1.5	In Planning
Voluntary Sector Contracts / Grants					10	SIAS	1.5	In Planning
Client Finances - Establishment Visits					30	SIAS		In Planning
Learning Disability - Panel Processes					10	BDO	8	Quality Review

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Cash Security – Corporate Appointeeships					5	SIAS	4.5	Draft report issued
HCS Contract Retention and Contract Management					10	SIAS	1.5	In Planning
H & CS Queries < 3hrs Activities	N/A				10	N/A	4	Through Year
Environment Services - Transport								
Home to School and Social Care transport (Safeguarding)					20	SIAS	1	In Planning
Environment Services – Highways								
Ringway Contract – Sector Specific Improvements					20	SIAS	13	In Fieldwork
Category One - ‘Triage’ Approach					15	SIAS	14.5	Draft Report Issued
Redesign of the Highways Service					20	SIAS	4	In Fieldwork
Customer Enquiries and Complaints					15	SIAS	2	In Planning

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Valuation of Transport Infrastructure Assets	Substantial	0	5	2	15	SIAS	15	Final Report Issued
Programme management					20	BDO		Allocated
Business Continuity					20	BDO		Allocated
ECS Queries <3hrs activities	N/A				5		2.5	Through Year
Children's Services								
Data Quality					15	BDO	1	ToR Issued
Ofsted Action plan progress					10	SIAS		Allocated
Foster Carer Recruitment and Retention					15	SIAS	14.5	Draft Report Issued
Controcc – Foster Carer Payments					10	SIAS		In Fieldwork
Unaccompanied Minors and no Recourse to Public Funds					15	SIAS	7	In Fieldwork
Extended Entitlement to Free Childcare					15	SIAS	2.5	In Fieldwork

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Children's services establishments					33	SIAS	30	Quality Review
Section 17 Payments	Substantial	0	4	1	10	SIAS	10	Final Report Issued
CS Queries <3hrs Activities	N/A				10	SIAS	5	Through Year
Public Health								
Budget Setting and Budgetary Control					15	SIAS		Allocated
Community Protection								
Resilience	Substantial	0	0	0	15	SIAS	15	Final Report Issued
Volunteering					10	SIAS	6.5	In Fieldwork
Shared Learning								
Shared Learning Newsletters and Summary Themed Reports	N/A				5	SIAS	2.5	Through Year

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Joint Review 1 - Delivery of the PREVENT agenda	N/A				2.5	SIAS	2.5	ToR Issued
Joint Review 2 - Trading Activities	N/A				2.5	SIAS	2	ToR Issued
Contingencies								
HCC Contingency	N/A				17.5	N/A		Through Year
Grant Claims								
Herts Chief Finance Officers Society	Not Assessed	0	0	0	1	SIAS	1	Final Certification Issued
Hertfordshire Education Foundation					2	SIAS	0.5	Allocated
Hertfordshire Charity for Deprived Children	Not Assessed	0	0	0	1	SIAS	1	Final Certification Issued
Autism Grant					2	SIAS	1	Allocated
Integrated and Structural Maintenance Grant	Not Assessed	0	0	0	3		3	Final Certification Issued

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
LEP – Local Growth Fund	Not Assessed	0	0	0	6		6	Final Certification Issued
SureCare					0.5	SIAS	0.5	Cancelled
PH Grant					0.5	SIAS	0.5	Cancelled
PSS Grant					0.5	SIAS	0.5	Cancelled
Grants Contingency					14.5			Through Year
Other Chargeable								
Monitoring 16/17 Plan	N/A				30	SIAS	16	Through Year
Recommendations Follow-Up - Q1	N/A				5	SIAS	5	Complete
Recommendations Follow-Up - Q2	N/A				5	SIAS	5	Complete
Recommendations Follow-Up - Q3	N/A				5	SIAS	5	Complete
Recommendations Follow-Up - Q4	N/A				5	SIAS		Not Yet Allocated
Client Liaison	N/A				10	SIAS	5	Through Year

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Audit Committee Matters & Attendance	N/A				20	SIAS	10	Through Year
Audit Planning - 17/18	N/A				30	SIAS	2	In Planning
Performance Data	N/A				6	SIAS	4	Through Year
External Audit Liaison	N/A				6	SIAS	4.5	Through Year
Service Plan Activity	N/A				40	SIAS	30	Through Year
SIAS Board Meetings and Preparation	N/A				10	SIAS	9.5	Through Year
Management of Scrutiny	N/A				5	SIAS	4	Through Year
Management of Health & Safety	N/A				5	SIAS	3.5	Through Year
Management of Shared Anti Fraud Service	N/A				5	SIAS	4.5	Through Year
Management of Risk Management and Insurance	N/A				5	SIAS	3.5	Through Year
Public Sector Internal Audit - Self Assessment 16-17	N/A				10	SIAS	1	Allocated

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
15-16 Projects requiring finalisation					65.5		62	
Payroll	Substantial	0	1	1		BDO		Final Report Issued
Debtors	Substantial	0	1	2		BDO		Final Report Issued
Treasury Management	Substantial	0	0	2		BDO		Final Report Issued
Business Rates Pooling / Collection	Substantial	0	0	2		BDO		Final Report Issued
EU Procurement Rules	Substantial	0	0	2		SIAS		Final Report Issued
Contract Payments – Resources	Substantial	0	0	1		SIAS		Final Report Issued
Support at Home	Moderate	0	2	3		BDO		Final Report Issued
Licensed Deficits	Substantial	0	0	1		SIAS		Final Report Issued
Music Service	Substantial	0	0	1		SIAS		Final Report Issued
Local Enterprise Partnership - compliance with the assurance framework	Substantial	0	2	2		SIAS		Final Report Issued
Mobile Technology - security of new arrangements	Moderate	0	1	1		BDO		Final Report Issued

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Client Finances - visits to establishments	Moderate	0	7	1		SIAS		Final Report Issued
Highways Contract - Governance, Performance, Contract Management	Moderate	1	5	1		SIAS		Final Report Issued
Creditors	Substantial	0	4	0		BDO		Final Report Issued
15-16 Projects requiring completion								
Health and Safety - Community Protection	Substantial	0	1	2		SIAS		Final Report Issued
Non Attendance at School	Substantial	0	1	1		SIAS		Final Report Issued
Continuing Health Care - Panel Process	Moderate	0	3	1		BDO		Final Report Issued
Transport, Access and Safety - Taxi Procurement - Anti Bribery Controls						SIAS		In Planning
Better Care Fund - Performance and Financial Monitoring	Substantial	0	2	1		BDO		Final Report Issued
Special Educational Needs and Disability - meeting statutory requirements	Substantial	0	1	2		SIAS		Final Report Issued

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Highways Operating Procedures						SIAS		Audit Cancelled
Schools								
Theme 1 - SFVS	N/A				73.5	SIAS	73.5	Visits Completed
Theme 2 - Safe Recruitment					77.5	SIAS	53	In Planning
Theme 3 - Financial Planning					68	SIAS		Allocated
Reporting 15/16 themes					9	SIAS	9	Final Reports Issued
Follow up schools with high priority recs or moderate assurance	N/A				14	SIAS	6	Through Year
Other Assurance Visits	N/A				15	SIAS	13	Through Year
SFVS Returns Collation and Collection	N/A				11	SIAS	6.5	Through Year
Advice, queries and guidance for schools	N/A				30	SIAS	18	Through Year
Liaison, awareness raising and training & plan monitoring	N/A				30	SIAS	24	Through Year

APPENDIX A PROGRESS AGAINST THE 2016-17 AUDIT PLAN AS AT 5 NOVEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
2015/16 Schools Completion	N/A				1	SIAS	1	Complete
FOI Request	N/A				3	SIAS	3	Complete
Contingency	N/A				13	N/A		Through Year
Total		3	61	40	1637		774	

Key

- H = High Priority**
- M = Medium Priority**
- MA = Merits Attention**
- RECS = Recommendation**
- BDO = new audit partner, replacing PWC from 1 April 2015**
- N/A = not applicable**

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation / Original Management Response	Responsible Officer / Due Date	Management Comment as at 5 November 2016 (previous commentary added where appropriate)	Status of Progress
1	<p>CLA Financial Administration</p> <p>(Final Report Issued June 2014)</p>	<p><u>Recommendation</u> There should be annual review of a child's financial position in order to ensure that all opportunities relating to maximisation of funds have been pursued, and to demonstrate that a child has had all funds to which they are entitled.</p> <p><u>Management Response</u> First review to consider whether child is in care due to abuse and whether social workers should be applying for criminal injuries compensation. Guidance to be produced to assist social workers.</p>	<p>Marion Ingram, Operations Director Specialist Services</p> <p>January 2015</p> <p>Revised Target Date - end of September 2016</p>	<p>The system for undertaking the annual review of a CLA financial position/audit is now in place. This is undertaken by Brokerage (Support) and is placed on the child's LCS record.</p>	<p>Implemented</p>
2	<p>HCC Service User Managed Monies</p> <p>(Final Report Issued February 2015)</p>	<p><u>Recommendation</u> All existing service users that are not currently managed under Appointeeship or Deputyship should be reviewed to ensure that HCC have the appropriate level of authority based on the level of support being provided.</p> <p>For instances where significant levels of support are provided, appointeeships or deputyships should be used in all cases. If there are subsequent anomalies, these should be fully documented, approved by Senior Management and recorded on the Service User's file.</p> <p><u>Management Response</u> The review of the area of appointeeships and deputyships will form a specific workstream of this project.</p>	<p>Sue Darker, Operations Director LD&MH. / Ann Norway, Acting Head of Business Improvement (HCS)</p> <p>30 September 2015</p>	<p>As at 5 November 2016, revised implementation date not yet reached.</p> <p>Update as of end July 2016:- out of total of 336 tenants, 163 manage their own finances, 58 are being assessed, 47 are subject to an application for appointeeship /deputyship and 84 now have appointeeship /deputyship.</p>	<p>Partially Implemented</p> <p>Revised Target Date - December 2016</p>

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation / Original Management Response	Responsible Officer / Due Date	Management Comment as at 5 November 2016 (previous commentary added where appropriate)	Status of Progress
		<p>A key area of review will be determining the responsibilities of HCC within this area from both a legal and regulatory basis. If it is confirmed that appointeeships and deputyships should be used more widely a full review of existing service users will be undertaken.</p> <p>The project will also review how the existing scheme of delegation for approving expenditure for service users ensures that decision making is appropriate to the service user's needs, i.e. decision making is undertaken by those individuals that know the client best.</p>			
3	<p>Officer Expenses</p> <p>(Final Report Issued October 2015)</p>	<p>Recommendation The level of in-built preventative controls within Employee Self Service (ESS) to avoid instances of missing receipts should be reviewed. Where system capability allows, ESS should automatically reject mileage or expenses claims where receipts are not attached to the electronic claim.</p> <p>In the meantime the following recommendations should be implemented:-</p> <ul style="list-style-type: none"> • The audit findings should be highlighted in a corporate communication to both Officers and Managers, reminding both of their responsibilities under the scheme. • The existing arrangements for retaining hard copy receipts to support claims are reviewed to ensure 	<p>Actions relating to systems & payroll processes - Rachel Wilson, HR Manager - HR Services</p> <p>Actions relating to Communications - Emily Austin, HR Manager - Pay & Reward</p>	<p>Amendments to the system of inputting in ESS went live on 3rd October.</p> <p>Communications issued throughout October 2016 via Team Talk and on the front page of the intranet to inform employees of the changes.</p> <p>Further communications are planned in November and December to continue to inform of the amended requirements.</p> <p>The HR work plan has been amended to include these and we will</p>	Implemented

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation / Original Management Response	Responsible Officer / Due Date	Management Comment as at 5 November 2016 (previous commentary added where appropriate)	Status of Progress
		<p>that receipts can be more easily located.</p> <p>Payroll should undertake periodic sample reviews of officer and manager compliance. Feedback should be provided to HR for the purpose of identifying further actions or training required to embed expected practice.</p> <p>Management Response Assess system capability and resource to implement a change to not allow submission of a claim without an attachment or explanation of journey.</p> <p>HR Services and Serco Payroll & HR Transactions to review existing arrangements for storing hardcopy receipts and set up sample reviews.</p>	<p>December 2015</p> <p>December 2015 - Note: If action 1 is feasible and introduced this process will no longer be required.</p>	<p>continue to issue communications every 6 months.</p> <p>Further communications planned in October 2016 to coincide with the SAP System changes. The HR Work plan has been amended to include issuing of communications every 6 months.</p> <p>Expenses system improvements User Acceptance Testing (UAT) completed ahead of October 16 launch.</p>	
4	<p>Fuel Cards – HES</p> <p>(Final Report Issued October 2016)</p>	<p>Recommendation HES to review and strengthen the existing processes for checking and validating supplier invoices and employee use of fuel cards.</p> <p>Management response Immediate cross-referencing of bills and receipts to be commenced</p> <p>Head of HES to be informed of the outcome of this exercise on a monthly basis prior to sign off of the bill</p>	<p>Emma Cleaver-Dowsett - General Manager</p> <p>Nov 2016</p>	<p>Implementation date not yet due</p>	<p>n/a</p>

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation / Original Management Response	Responsible Officer / Due Date	Management Comment as at 5 November 2016 (previous commentary added where appropriate)	Status of Progress
		<p>Mileage logs to be implemented to support consumption analysis. ELMS handhelds can record mileage each day and data could be used from ELMS system</p> <p>Issues to be recorded in e-mail communications of management team.</p>			
5	<p>Carers' Direct Payments</p> <p>(Final report issued November 2016)</p>	<p>Recommendation</p> <p>The Resource Allocation Calculation process to be reviewed to provide a) explicit criteria for those circumstances where the indicative amount may be overridden and b) details of how these should be authorised.</p> <p>Periodic reviews to be considered to confirm that operational teams comply with existing or revised guidance on the application of indicative amounts within the creation and authorisation of the support plan.</p> <p>Management checks to be strengthened to ensure that carers' direct payment (DP) are only provided to individuals who have a current caring role.</p> <p>Before a direct payment agreement is scanned onto the system, a check to be made to ensure that it has been signed by the recipient.</p> <p>Management response</p> <p>Heads of Service to be consulted over the authorisation of DPs that significantly exceed the</p>	<p>Stuart Bertram - Integrated Personal Budgets Lead</p> <p>31 December 2016</p>	<p>Implementation date not yet due</p>	<p>n/a</p>

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation / Original Management Response	Responsible Officer / Due Date	Management Comment as at 5 November 2016 (previous commentary added where appropriate)	Status of Progress
		<p>indicative RAS generated budget. (NB the RAS indicative amount is not the sum that will be made available but an indication of funds that might be made available).</p> <p>Guidance to being drafted by the carers' lead and Community Wellbeing team to address the challenges around appropriate use of carers' direct payment, with specific attention around 'replacement care'.</p> <p>Quarterly sampling to be undertaken over the next 12 months to assess and review the practice and compliance of front line staff and managers with published guidance.</p> <p>The likelihood of an unsigned agreement form being uploaded is minimal. DP agreement forms to be checked as part of the sampling work to confirm that this was an anomaly.</p>	<p>31 December 2016</p> <p>1 December 2016 to 1 December 2017</p> <p>Immediate</p>		

APPENDIX C – DEFINITIONS OF ASSURANCE AND RECOMMENDATION PRIORITIES

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.

HERTFORDSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

WEDNESDAY, 30 NOVEMBER 2016 AT 10.15 AM

**HERTFORDSHIRE FIRE AND RESCUE AUTHORITY STATEMENT
OF ASSURANCE 2015/16**

Agenda Item

No:

9

Report of the Director Community Protection

Authors: Darryl Keen, Deputy Chief Fire Officer
(Tel: 01992 507503)
John Johnstone, Senior Business Support Manager
(Tel: 01992 507537)

Executive Member: R A C Thake, Executive Member for Community Safety and
Waste Management

1. Purpose of Report

1.1 To comply with the Government requirement for fire and rescue authorities to provide assurances on financial, governance and operational matters and to demonstrate due regard to the published Integrated Risk Management Plan (IRMP).

2. Summary

2.1 The revised Fire and Rescue National Framework Document, published in July 2012, requires all English fire and rescue authorities to provide an annual assurance statement. The Hertfordshire Fire and Rescue Authority draft Statement of Assurance 2015/16 has been prepared in accordance with the guidance issued by central Government. The document seeks to provide an accessible way in which communities, Government, local authorities and other partners may make a valid assessment of the authority's performance. The Audit Committee are asked to consider the content of the Statement and to provide approval of same.

2.2 The draft Statement of Assurance (Appendix A to the report) sets out the position in relation to the authority's performance and provides a true and fair view of the financial, governance and operational arrangements that were in place for the period 1 April 2015 to 31 March 2016.

3. Recommendation

3.1 That the draft Statement of Assurance 2015/16 is approved.

4. Financial Implications

None arising from the proposal in this report

Background Information

[Fire and rescue national framework for England](#)

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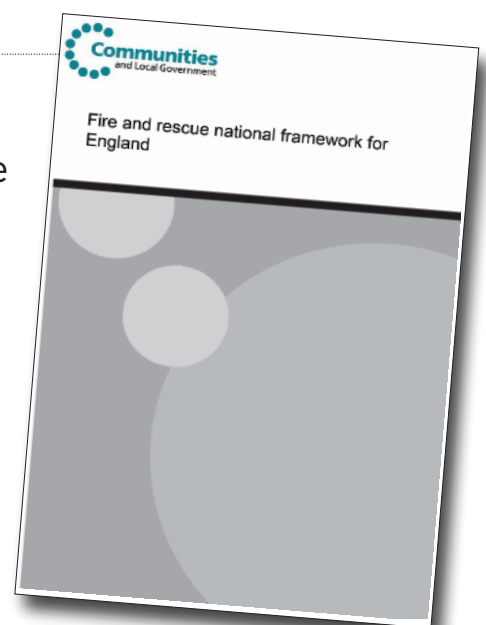


Hertfordshire Fire and Rescue Authority

Statement of Assurance 2015 -2016

Foreword

The revised *Fire and Rescue National Framework Document* (known hereafter as the *Framework*) was published in July 2012. The *Framework* sets out the requirement for all English fire and rescue authorities (FRA's) to provide an annual assurance statement on financial, governance and operational matters and to demonstrate how they have had due regard to the expectations set out in their Integrated Risk Management Plan (IRMP).





Richard Thake



Roy Wilsher

I certify that this Statement of Assurance gives a true and fair view of the financial, governance and operational arrangements that Hertfordshire Fire and Rescue Authority had in place for the period 1 April 2015 to 31 March 2016. I am satisfied that, in all significant respects, Hertfordshire Fire and Rescue Authority ensured that its business was conducted in accordance with the law and proper standards, and that public money was properly accounted for and used economically, efficiently and effectively.

On behalf of the Fire and Rescue Authority I propose over the coming year to take steps to address the matters identified under "Future Improvements".

This statement was approved by the Audit Committee on *to be confirmed* 2016.

Signed:

Executive Member for Community Protection
On behalf of Hertfordshire Fire and Rescue Authority

Chief Fire Officer

Scope of responsibility

Hertfordshire Fire and Rescue Service (HFRS), is the statutory fire and rescue service for the county of Hertfordshire, and is part of Hertfordshire County Council (HCC) which is also the Fire and Rescue Authority (FRA).

The purpose of this Statement of Assurance is to provide information in an accessible way so as to enable individuals, communities, government, local authorities and other partners and to make a valid, informed assessment of Hertfordshire Fire and Rescue Authority's (HFRA) performance for the year 2015/16. The Statement also demonstrates how HFRA has had due regard to the expectations set out in its IRMP and the requirements placed upon FRA's by Government in the *Framework*.



Background

The *Fire and Rescue Services Act 2004* ("the *Act*") is the core legislation for fire and rescue services in England and Wales and details the statutory responsibilities of FRA's. Under the *Act* FRA's have a statutory duty to provide a fire and rescue service (FRS) that is equipped to extinguish fires, protect life and property from fires, rescue people from road traffic collisions and respond to other emergencies. Adequate provision must be made to receive and respond to calls for assistance, to ensure

staff are properly trained and equipped and to gather information to facilitate delivery of an effective service. The *Act* also includes a statutory duty for FRA's to provide communities with fire safety education and advice with the aim of reducing deaths and injuries from fire.

Under the *Act* the Secretary of State produced a *Framework* that set out the Government's priorities and objectives for FRAs.

Introduction

HFRS provides a 24 hour emergency response service for fires, road traffic collisions and other

emergency incidents. It also delivers a range of prevention and protection activities aimed at reducing fires and other

incidents, including enforcement of Fire Safety legislation in order to help keep the people and businesses of Hertfordshire safe. A detailed community profile of the county is provided in the *Hertfordshire Community Protection Directorate's Corporate Plan 2013 - 2018* entitled, "*Who we are and what we do for you*".



Financial

HFRS carries out its duties, as part of HCC, under *section 3 of the Local Government Act 1999*, in respect of ensuring that public money is properly accounted for and used economically, efficiently and effectively. HFRS adheres to HCC financial procedures including; budget setting, budget monitoring, and the production of final accounts, which form part of the Council's 'Integrated Planning Process' (IPP).

The Chief Finance Officer is responsible for the preparation of the Council's annual Statement of Accounts, which is used to present the Council's financial performance in accordance with proper practices as set out in the Chartered Institute for Public Finance and Accountancy (CIPFA) *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16*, which in turn is underpinned by International Financial Reporting Standards. The final accounts are then submitted for approval to the Audit Committee.

The annual Statement of Accounts is also subject to robust examination by external auditors who provide an independent assessment and report as to whether or not HCC's Statement of Accounts present a true and fair view and that they have appropriate accounting systems in place. This report also includes a review of and comment on arrangements for securing economy, efficiency and effectiveness in the use of resources.

The financial statements of HCC for the year ended 31st March 2016 have been audited externally in line with guidance in the *Audit Commission Act 1998*. The external audit process concluded that the accounts

presented provide a true and fair view of the financial position of HCC as at 31st March 2016 and provide a true record of expenditure and income for the financial year 2015/16. In accordance with *Regulation 11 of the Accounts and Audit (England) Regulations 2011* the Statement of Accounts for 2015/16 together with the external auditor's report have been published and can be found on HCC's internet site hertfordshire.gov.uk.

A review of the internal control environment in accordance with CIPFA guidance is carried out by an annual internal HCC audit and informs the Annual HCC Governance Statement.

The Head of HCC's Internal Audit Department publishes an annual report and opinion on the internal control environment. This report is prepared in accordance with the *Public Sector Internal Audit Standards (PSIAS)* as adopted by CIPFA who are the Relevant Internal Audit Standard Setters (RIASS) in respect of Local Government across the UK. It provides an independent opinion on the adequacy and effectiveness of the Council's system of internal control to inform the Annual Governance Statement. The opinion of the Head of Internal Audit in respect of 2015/16 is one of substantial assurance in respect of both financial and non-financial systems, giving significant confidence in the effectiveness of internal control arrangements of the Council. This report also consolidates assurance opinions and actions taken by management to address issues raised during internal audit reviews undertaken throughout 2015/16, and is informed by the comments of external auditors and inspectors.

A review of internal audit compliance with the PSIAS has been undertaken and no

significant areas of non-compliance have been noted.

CIPFA publishes a Value for Money (VfM) Toolkit which is available to all councils across England as a way of getting up-to-date information on their council's performance, and how it compares to other authorities. The latest available CIPFA fire and rescue statistics for 2014/15 show HFRS to be one of the lowest cost English FRs in the country with a budgeted expenditure of £32.73 per head of the population. This places HFRS eighth lowest in terms of cost per head of population nationally out of the 43 English FRAs, second lowest in its defined Family Group¹ and fourth lowest out of the 14 County Council FRA's.

Governance

HCC (the Fire Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and is used economically, efficiently and effectively. As a component part of HCC, the HFRA has a duty under the *Local Government Act 1999* to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

HCC's Statement of Corporate Governance sets out its commitment to good governance and describes the Council's governance framework and processes. Governance principles adopted by HCC are consistent with those set out in the CIPFA/Society of

Local Authority Chief Executives document: "*Delivering Good Governance in Local Government*". Hertfordshire's Statement of Corporate Governance is available on, hertfordshire.gov.uk.

The governance statement provides details as to the measures taken by HCC to ensure appropriate business practice, high standards of conduct and sound governance and sets out the actions HCC have undertaken to review the effectiveness of its governance framework, including the system of internal control.

Operational

HFRA has carried out its functions in accordance with the defined statutory and policy framework in which it is required to operate. The key documents setting this out are:

- *the Fire and Rescue Services Act 2004*
- *the Health and Safety Act at Work etc Act 1974*
- *the Civil Contingencies Act 2004*
- *the Regulatory Reform (Fire Safety) Order 2005*
- *the Fire and Rescue Services (Emergencies) (England) Order 2007*
- *the Localism Act 2011*
- *the Fire and Rescue National Framework for England*

HFRS has an IRMP in place which details locally agreed attendance standards to property fires, road traffic collisions (RTCs) and incidents involving hazardous materials. These attendance standards are agreed and

set by HFRA, following due consultation with all relevant stakeholders. The IRMP can be viewed on hertfordshire.gov.uk.

The *Hertfordshire Community Protection Directorate's Corporate Plan 2013 – 2018* entitled, “*Who we are and what we do for you*” sets out HFRS’s strategic aims and objectives. These cover every part of HFRS’s operational and support functions, and direct attention to the key areas which will enable the Service to achieve it’s vision and contribute to the priorities identified by HCC.

HFRS uses various data sources including Mosaic and Exeter Health data which the Service is now able to utilise as a result of an information sharing agreement developed in 2015 by CFA and NHS England. This has enabled HFRS to securely access GP Registration data (including year of birth, gender and address) to identify the 65’s and over. This combined with local intelligence and fire activity data as well as partner referrals enables HFRS to produce a detailed, effective community risk profile which is used to target resources and activities. This is in accordance with the duty under the *Fire and Rescue Services Act 2004* to make arrangements to obtain necessary information for the purposes of: extinguishing fire, protecting lives and property from fires; rescuing and protecting people from harm from road traffic accidents; or for dealing with any other emergency function other than fires and road traffic accidents.

The HFRS Chief Fire Officer (CFO) is also the Director of the Community Protection Directorate (CPD) which brings together HFRS, Resilience, Trading Standards (TS)

and the County Community Safety Unit (CCSU). Within this structure HFRS Fire Protection, Fire Prevention, TS, and CCSU professionals work together as part of the Joint Protective Services (JPS) team, to pool their knowledge, expertise, intelligence and resources.

The JPS team has worked closely with colleagues in HCC, partners, the voluntary sector, and other agencies to deliver a cohesive and comprehensive approach to community safety, protection and regulation. This approach delivers cost effective joined up services that achieve better outcomes for Hertfordshire residents and businesses.

Planning

The HFRS IRMP and Corporate Plan set out the strategies, aims and objectives for the Service. The detail on how these are delivered is included in the supporting annual Service Plans, which can be viewed on hertfordshire.gov.uk.

HFRS will begin a comprehensive review in 2016/17 of its IRMP to ensure that attendance standards, crewing arrangements, the location of fire station and allocations of resources reflect changes to risk profiles and the built environment. The review is designed to ensure that HFRSs structure and associated service delivery and support arrangements meet existing and future operational needs whilst also ensuring the provision of an effective, efficient, and economic service.

The outcomes of the IRMP review, including stakeholder feedback, will be used to develop a revised corporate plan that

articulates the activities and services that HFRS and the wider CPD are committed to deliver in order to address the needs and priorities of Hertfordshire's communities.

Performance

HFRS uses Key Performance Indicators (KPIs) and targets which enable the HFRA and members of the public to measure the quality and effectiveness of the services it provides and to measure progress against delivery of the Corporate Plan and IRMP.

HFRS undertakes benchmarking activity against other FRs and it uses this information to help drive improvement activity and the continued targeting of resources towards those at highest risk across Hertfordshire's communities. Benchmark results continue to demonstrate that HFRS performs well across a range of performance indicators in relation to Family Group and other county council FRAs. HFRS publishes detailed quarterly progress reports along with an annual performance report to both drive improvement and to ensure transparency of its performance. Detailed information in respect of HFRS's performance can be found in the *Community Protection Annual Performance Report 2015-16*.

Prevention and Protection

Whilst driving down the risk from fire remains a core activity for the Service, HFRS and the wider CPD recognises that prevention activities form an increasingly significant part of the work undertaken by all staff. The Joint Protective Services (JPS) team produces an annual community safety calendar containing many of the initiatives, themes and activities for the year. This calendar gives clear direction for staff on topical themes linking in with national and local media campaigns. HFRS continued to utilise risk mapping and data analysis to target resources towards those statistically at greater risk. From education and home visits through to multi-agency solutions.

HFRS continued to run and participate in a broad range of targeted initiatives designed to prevent fires, reduce anti-social behaviour and improve life chances. These included the continued development and expansion of its delivery of the Prince's Trust programme with a further eight programmes successfully completed during 2015, the Duke of Edinburgh Awards Scheme and Box Cleva as well as road safety initiatives including Driving Home for Christmas and Learn2Live which is specifically

Crucial Crew



Crucial Crew is a multi agency community safety scheme which is delivered to 6500 Year 6 pupils (ages 11-12) each year. The scheme which has been running in Hertfordshire since 1999 was revamped in 2015/16 by HFRS.

The revamped package has been well received by both pupils and teachers due to its more immersive and interactive style. The team's on-going development work makes it more accessible to special needs groups and pupils with English as a second language.

Hazard House

HFRSs campaign to protect older residents from domestic fires gained positive media coverage by urging members of the public to help keep older people safe from fire, to lookout for fire risks in the home and check that their smoke detectors are working.

Home risk assessors conducted interviews with the media, including the BBC, at a mocked up 'Hazard House' in Royston which was set up to contain all the tell-tale signs that could lead to a domestic fire.

The campaign encourages elderly relatives to...

- Extinguish flames and cigarettes properly
- Never leave cooking unattended
- Keep a safe distance from open/portable fires and use fire guards
- Have a bedtime routine including turning off and unplugging appliances and closing doors
- Make an escape plan including keeping exits clear



targeted at young drivers who are statistically one of the most at risk groups when it comes to road traffic collisions (RTCs).

HFRS also continued to deliver its 'Crash Bang' initiative in partnership with the Targeted Youth Support Team (TYST) which aims to help change behaviours and attitudes in young people convicted of a car related crime and to prevent re-offending. To date the results are excellent with 177 convicted offenders put through the scheme with only two re-offending.

The Resilience team was fully involved and active in the groups supporting the Hertfordshire Local Resilience Forum (LRF). This support encompassed the development of civil resilience capacity and capability through the formation of emergency response plans, procedures and policies for both geographical and prevailing risks within the county.

In November the team supported the Environment Agency's national flooding and
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campaign which was designed to raise

awareness of flooding and the ways in which homes and businesses can be protected.

The Service continues to devote considerable effort to working with vulnerable adults, providing information that will help to keep them safe by recognising areas of risk and how to report concerns when necessary. The 'Think Safe' and 'OPALS' (Older Persons Activity Learning and Safety) programmes are two examples of this commitment.

HFRS was also proactive in working and engaging with communities through a wide range of activities and initiatives including Electrical Fire Safety Week, Saturday Surgeries, drugs awareness campaigns e.g. 'Legal Highs - why gamble with your life?' and Escape Month when HFRS enlisted the help of local media to highlight to residents the importance of having an escape plan.

In July, as part of the national Scams Awareness Month, HFRS and the wider Directorate worked with residents to highlight the need to be more vigilant to scams arriving by any means including the internet, the

phone and doorstep calling. This work included Trading Standards colleagues working with Royal Mail to deliver training to postal workers in order to identify households being targeted with scam mail.

Detailed information in respect of the protection and prevention activities and community engagement initiatives that HFRS carried out in 2015/16 can be viewed via the Community Protection area on hertfordshire.gov.uk.

Partnership working

HFRS continued to make a real difference to people's lives not only through delivery of its core organisational objectives, but also by the important contribution it makes, together with CPD colleagues, to the delivery of much wider community priorities, such as Health and Wellbeing, Protecting Vulnerable Adults (HFRS co-chairs the Adults Safeguarding Board), Safeguarding Children and Economic Wellbeing.

As a "responsible authority" within the context of the *Crime and Disorder Act 1998*, HFRS and

the wider CPD worked with other responsible authorities i.e. local authorities; the police; primary care trusts and the probation service to reduce reoffending, tackle crime and disorder including anti-social behaviour and other behaviour damaging to the local environment as well as the misuse of substances. These statutory partnerships, known as Community Safety Partnerships (CSP), are set up in each of the 10 districts and boroughs within Hertfordshire. This approach enabled HFRS and the CPD to deliver coordinated, effective outcomes for the most vulnerable and disadvantaged members of the community.

HFRS have a team of five trained Home Safety Technicians who, in addition to carrying out Home Fire Safety Visits (HFSV) also undertake security checks as part of the Hertfordshire Home Safety Service (HHSS) which is managed by JPS. The HHSS is a county wide service which provides advice, guidance and security solutions to victims of crime, those at risk from crime, and domestic abuse victims as well as solutions and equipment in respect of falls prevention to make their homes safer

Potentially dangerous phone chargers seized

A fire crew attended an incident relating to a potentially unsafe mobile phone charger, which was purchased from a shop for £1. Fortunately the consumer was present when the charger caught fire and was able to prevent the situation from becoming more serious.

The crew immediately referred the matter to Fire Protection within JPS, who in turn liaised with Trading Standards colleagues. It transpired that neither the packaging nor the charger itself bore any details of the manufacturer, which is required by the Electrical Equipment (Safety) Regulations 1994 and the General Product Safety Regulations 2005.

Trading Standards visited the business premises in question and seized the remaining 23 chargers that were in stock – all on the same day as the referral and thereby preventing a further 23 potential incidents. **Agenda Pack 132 of 140**



Fire Cadets Scheme

The Fire Cadet Scheme is a long term youth engagement programme that works with young people aged 14-17 years old over a three year period. Young people take part in modular activities which are currently linked into a Level 2 BTEC award in Fire and Rescue Services in the Community.

Young people attend a fire station one evening a week to take part in a range of activities related to the Fire

and Rescue service with a developmental educational outcome and work alongside operational staff and CPD volunteers.

HFRS expanded Fire Cadets and now have 5 Fire Cadet Units established at fire stations across the county at:

**Watford
Royston
St Albans
Cheshunt
Stevenage**



...and now welcomes 70 + young people to these meetings every week!

and more secure.

HFRS continued to make a difference to the lives of young people, many from hard to reach backgrounds, as well as local communities, through the successful delivery of Prince's Trust Team programmes. These programmes deliver community projects in partnership with organisations such as Herts Regional College, North Herts College, The Prince's Trust, Hertfordshire Constabulary, B3 living, Arriva Buses, Uno Buses, Child UK, Welwyn and Hatfield Community Housing Trust and Job Centre Plus and internal departments within HFRS/HCC such as Local Fire Crews, Herts Training, Trading Standards, Money Advice Unit, Thriving Families, Hertfordshire Adult and Family Learning Service (HAFLS) and Youth Connexions.

In February the County Community Safety Unit (CCSU) published a draft Domestic Abuse Strategy for consultation, which aims to deliver a common approach to preventing domestic abuse and providing proper support for victims. The Strategy was developed in collaboration with the key agencies that deal with domestic abuse in the county, including

Hertfordshire County Council, district and borough councils, the police, local health services and charities.

Community Protection (CP) Volunteers continued to deliver a wide range of duties including regular arson and reassurance patrols, on horseback and on bicycles, firework and bonfire safety patrols, HFSVs and the Volunteer Incident Support scheme which provides a post incident clear up service to those in the community who are most in need.

The Resilience team worked with members of Sky Watch Civil Air Patrol (SWCAP) which is a national charity established to support qualified private pilots in offering their services and aircraft to assist their local communities. SWCAP's ability to cover vast amounts of ground means that they can provide valuable help to the emergency services by extending searches for missing people, particularly in rural areas. SWCAP's ability to deploy aerial photographic capabilities can also be used in a number of different situations, whether it's related to monitoring large-scale public events or monitoring the extent of flooding.

Cambridgeshire's SWCAP has now extended its area of operations to include Hertfordshire and can be deployed in response to specific support requests.

JPS continued to play a leading role in Hertfordshire's Better Business for All (BBfA) partnership which seeks to reduce the regulatory burdens on business and aims to support growth by building stronger relationships between businesses, local regulators and other interested parties.

The teams excellent work resulted in it being shortlisted in two categories at the BBfA Awards 2016.

National Resilience and Interoperability

HFRS continued to work with the Government, other FRAs and fire and rescue professionals in order to ensure continued national resilience. HFRS have signed up to the National Mutual Aid Protocol, this agreement establishes the terms under which an authority may expect to request assistance

from, or provide assistance to, another authority in the event of a serious national incident. Additionally, in **sections 13 and 16** of the **Fire Services Act 2004** there is a legal requirement for neighbouring FRAs to enter into formal reinforcement arrangements. HFRS has formal mutual aid arrangements in place with its neighbouring FRAs to provide mutual cross border support and assistance in the event of a fire or other emergency incident.

To ensure operational preparedness and to satisfy local and national assurance processes HFRS takes a leading role in the design, delivery and participation of local, regional and national exercises to test all stages of command within FRS operations. HFRS is a key member within the county's LRF, Hertfordshire Resilience, a multi-agency partnership consisting of the emergency services and all other organisations and agencies involved with emergency response in communities. A member of HFRS Senior Leadership Group chairs the executive group and the Resilience team provides a secretariat function. The LRF partnership develops civil

Incident Command team training



HFRS updated its Incident Command policies and commenced revised training in respect of its protocols based on the new National Operational guidance, embedding the new procedures in all courses including ICL 1 and ICS reassessments.

Following a review of the incident command training system Hydra which is used by a number of FRS, HFRS embarked on developing collaborative working arrangements to share best practice and look into the viability of introducing Hydra into Hertfordshire.

Candidates have taken part in a wide range of exercises and have proven that they will be effective, and safe incident commanders.

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New road safety vehicles for Hertfordshire

The Hertfordshire Road Safety Partnership, made up of HFRS, other teams in the county council and Herts Police, unveiled its new crash car – a modified Ford Focus that acts as a simulator, using hydraulics, smoke and light systems to powerfully bring home the causes and effects of collisions on the roads.

The crash car is used to educate young drivers, who are at particular risk, about the dangers of speeding, drink driving, not wearing a seatbelt and driving while using a mobile phone.

HFRS also launched its new Rescue Support Unit (RSU) - a specialised fire engine that carries the latest equipment to help firefighters free drivers and passengers from crashed vehicles and provide trauma care at the scene.



resilience capacity and capability by preparing multi-agency, major incident response plans and organising training and exercises.

HFRS continued to work in collaboration with Norfolk, Lincolnshire and Humberside FRSS to implement appropriate support arrangements to facilitate the implementation of an integrated and resilient joint mobilising system.

The Service completed a review of all current procedures to include the Joint Emergency Services Interoperability Programme (JESIP) principles to promote joint ways of working.

Assets available for national deployment include High Volume Pump (HVP), Enhanced Logistic Support (ELS), and trained officers to deal with a Marauding Terrorist Firearms Attack (MTFA) and Water Rescue.

HFRS provide the Fire Service Strategic Lead for the Emergency Services Mobile Communications Programme (ESMCP). This is a major government led replacement project of the existing communication network used by all emergency services across the UK.

The HFRS CFO is the National lead on Operations for the Chief Fire Officers Association (CFOA) which saw him preside over discussions on major issues such as national operational guidance, national flood action plan, national resilience, new asbestos regulations and the Airwave radio replacement project.

The CFO also leads the National Strategic Advisory Team (NSAT) which provides strategic support and professional advice to government.

Review of effectiveness and commitment to continuous improvement

HFRS's internal Inspection and Audit process was used to audit and inspect operational stations and Fire Control in 2015/16. The process is designed to provide assurance that the required high standards in respect of operational competency, technical knowledge, risk critical recording and administration processes are being achieved/maintained. All stations that were visited and Fire Control were assessed as having passed the Inspection and Audit process.

The Rescue Support Unit (RSU) was replaced with a new vehicle which has proved invaluable at the attendance of road traffic collisions (RTCs) and technical rescues across the county.

For the second consecutive year Hertfordshire Resilience were awarded an RSPCA Bronze Community Animal Welfare Footprint (CAWF) Award in the 'contingency planning' category, in recognition of the excellent work completed by the Animal Welfare Task and Finish Group.

HFRS achieved significant reductions in gas consumption at all stations as part of the HCC Heating Controls project.

Seven of the 35 Primary Authority Partnerships (PAPs) which JPS has in place were extended to also include fire safety with officers in Fire Protection working alongside Trading Standards colleagues

The PAP scheme is designed to reduce the regulatory burden on businesses and to promote consistent, effective inspection and enforcement processes to Hertfordshire businesses.

Reducing CO2 emissions



Staff at Hemel Hempstead were at the forefront of the effort to reduce HFRS's impact on the environment by reducing CO2 emissions and they took part in an initial trial to reduce the CO2 emissions at their site by 25 per cent (heating and electricity) in line with the Government's Carbon Reduction commitment.

The system in place at Hemel Hempstead compared the use of electricity for each watch per month with the specific aim of encouraging competition and highlighting good practice. During an 8 month period ending in June 2015 Red Watch at Hemel Hempstead used the least electricity of all four watches, an outstanding achievement which has been recognised by Greenpeace UK who issued a certificate of commendation.

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Framework Requirements

HFRA is satisfied that systems and measures it has in place with respect to financial, governance and operational matters are robust, fit for purpose and effective. In order to enable HFRA to incorporate all of the requirements contained within the revised Framework a new IRMP will be developed over the course of the next two years.

Future Improvements

HFRS will extend the use of the Gartan rota system which was introduced in 2015 to further improve Retained Duty System (RDS) management and availability.

HFRS will seek to ensure that its workforce is representative of the communities it serves and that services it delivers take account of diversity and are accessible to all.

HFRS will, as part of a national programme manage the local implementation of the Emergency Services Mobile Communications Project (ESMCP). This is a major replacement project of the existing communications network, Airwave, used by all emergency services across the UK.

HFRS will plan, develop and implement a programme of 'Live Fire' training in order to improve the safety and competencies of operational firefighters.

HFRS will commence a comprehensive review of its IRMP in 2016/17 to ensure that attendance standards, crewing arrangements, the location of fire stations and allocation of resources reflect changes

to risk profiles and the built environment.

The review will aim to ensure that HFRSs structure and associated service delivery and support arrangements meet existing and future operational needs whilst also ensuring the provision of an effective, efficient, and economic service.

HFRS will commission, develop and implement electronic document management and recording systems to support improved and more effective performance.

HFRS will ensure that it is prepared for the new statutory duty for the emergency services to collaborate which Government propose to introduce in 2017.

JPS will contribute to and publish a multi agency county Road Safety Strategy and ensure that the Police and Crime Commissioners (PCC) road safety fund is efficiently managed.

JPS will conduct a review of the CCSU and implement the outcomes in order to ensure greater use of intelligence/mapping in order to deliver reduced demand for Police, Fire and Adult Care Services (ACS).

Links to documents

Fire and Rescue National Framework Document (the Framework)

Integrated Risk Management Plan (IRMP)

The Fire and Rescue Services Act 2004

Hertfordshire Community Protection Directorate's Corporate Plan 2013 – 2018, "Who we are and what we do for you".

Section 3 of the Local Government Act 1999

Code of Practice on Local Authority Accounting in the United Kingdom

Audit Commission Act 1998

Regulation 11 of the Accounts and Audit (England) Regulations 2011

Public Sector Internal Audit Standards

Local Government Act 1999

Delivering Good Governance in Local Government

The Civil Contingencies Act 2004

The Regulatory Reform (Fire Safety) Order 2005

The Fire and Rescue Services (Emergencies) (England) Order 2007

The Localism Act 2011

The Health and Safety Act at Work etc Act 1974

Community Protection Annual Performance Report 2013-14

Crime and Disorder Act 1998

Glossary of terms

Abbreviation	Definition	Abbreviation	Definition
ACS	Adult Care Service	KPI	Key Performance Indicator
BBfA	Better Business for All	LRF	Local Resilience Forum
CAWF	Community Animal Welfare Footprint	MTFA	Marauding Terrorist Firearms Attack
CCSU	County Community Safety Unit	NSAT	National Strategic Advisory Team
CFO	Chief Fire Officer	OPALS	Older Persons Activity Learning and Safety
CFOA	Chief Fire Officers Association	PAP	Primary Authority Partnership
CIPFA	Chartered Institute of Public Finance and Accountancy	PCC	Police and Crime Commissioner
CP	Community Protection	PSIAS	Public Sector Internal Audit Standards
CPD	Community Protection Directorate	RDS	Retained Duty System
CSP	Community Safety Partnership	RIASS	Relevant Internal Audit Standard Setters
ELS	Enhanced Logistic Support	RSU	Rescue Support Unit
ESMCP	Emergency Services Mobile Communications Programme	RTC	Road Traffic Collision
FRA	Fire and Rescue Authority	SWCAP	Sky Watch Civil Air Patrol
FRS	Fire and Rescue Service	TS	Trading Standards
HAFLS	Hertfordshire Adult and Family Learning Service	TYST	Targeted Youth Support Team
HCC	Hertfordshire County Council	VfM	Value for Money
HFRA	Hertfordshire Fire and Rescue Authority		
HFRS	Hertfordshire Fire and Rescue Service		
HHSS	Hertfordshire Home Safety Service		
HFSV	Home Fire Safety Visit		
HVP	High Volume Pump		
IPP	Integrated Planning Process		
IRMP	Integrated Risk Management Plan		
JESIP	Joint Emergency Services Interoperability Programme		
JPS	Joint Protective Services		

