

The meeting will be preceded by training starting at 9.30am on Scoring Risks in Practice.

Agenda



AGENDA for a meeting of the AUDIT COMMITTEE in COMMITTEE ROOM B at County Hall, Hertford on TUESDAY, 15 MAY 2018 at 10.00 AM

MEMBERS OF THE COMMITTEE (10) (Quorum 3)

P Bibby, S N Bloxham, F Button (*Chairman*), J M Graham, A K Khan, A J S Mitchell, T J Williams, W J Wyatt-Lowe (*Vice-Chairman*), P M Zukowskyj

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.

Members are reminded that all equalities implications and equalities impact assessments undertaken in relation to any matter on this agenda must be rigorously considered prior to any decision being reached on that matter.

Members are reminded that:

- (1) if they consider that they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting they must declare that interest and must not participate in or vote on that matter unless a dispensation has been granted by the Standards Committee;
- (2) if they consider that they have a Declarable Interest (as defined in paragraph 5.3 of the Code of Conduct for Members) in any matter to be considered at the meeting they must declare the existence and nature of that interest. If a member has a Declarable Interest they should consider whether they should participate in consideration of the matter and vote on it.

The meeting will be preceded by training starting at 9.30am on Scoring Risks in Practice.

PART I (PUBLIC) AGENDA

1. MINUTES

To confirm the PART I and PART II minutes of the meeting held on 26 March 2018.

2. 2017/18 AUDIT PLAN (including External Auditor reports)

Report of the Director of Resources

3. HCC 2017/18 ANNUAL ASSURANCE STATEMENT and INTERNAL AUDIT ANNUAL REPORT

Report of the Director of Resources

4. ANNUAL GOVERNANCE STATEMENT 2017/18 and CODE OF CORPORATE GOVERNANCE 2018/19

Report of the Director of Resources

5. RISK FOCUS REPORT – PREVENT – Radicalisation

Report of the Director of Community Protection and Chief Fire Officer

6. FUTURE WORK PROGRAMME

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

<p>Wednesday, 18 July 2018: 10.00 am</p>	<ul style="list-style-type: none"> • Internal Audit Progress Report • Risk Management Update Report • Risk Focus Report : Risk R05 “<i>Insufficient skill in commissioning / contract management and competencies</i>” • HCC Audit Results Report 2017/18 • Response To The Audit Results Report – HCC (Including Fire Fighters’ Pension Fund) Financial Statements • Annual Statement Of Accounts 2017/18– HCC (Including Fire Fighters’ Pension Fund) Financial Statements • Audit Results Report 2017/18 – HCC Pension Fund • Response To The Audit Results Report 2017/18 – HCC Pension Fund • Annual Report 2017/18 • End of Year Report on the Treasury Management Service and Prudential Indicators 2017/18 • Whistle Blowing Annual Report 2017/18
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The meeting will be preceded by training starting at 9.30am on Scoring Risks in Practice.

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7. OTHER PART I BUSINESS

Such other part I (public) business which the Chairman agrees is of sufficient urgency to warrant consideration.

PART II ('CLOSED AGENDA')

EXCLUSION OF PRESS AND PUBLIC

The Chairman will move:-

“That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they/it involve/s the likely disclosure of exempt information as defined in paragraph/s.....of Part 1 of Schedule 12A to the said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.”

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

Agenda documents are also available on the internet at:
<https://cmis.hertfordshire.gov.uk/hertfordshire/Calendarofcouncilmeetings.aspx>

Minutes



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 26 MARCH 2018

ATTENDANCE

MEMBERS OF THE PANEL

P Bibby, S N Bloxham, F Button (Chairman), J M Graham, S J Taylor (substituted for A K Khan), A J S Mitchell, T J Williams, W J Wyatt-Lowe (Vice-Chairman), P M Zukowskyj

OTHER MEMBERS

Upon consideration of the agenda for the Audit Committee meeting 26 March 2018, as circulated, copy annexed, conclusions were reached and are recorded below:

Note: A conflict of interest was declared by a member of the Cabinet Panel in relation to the matters on which conclusions were reached at this meeting and are recorded at item 6

Chairman's Announcements:

- i. Charlotte Hogg had resigned from the Council & thus Audit Committee;
- ii. Members' visits to homecare providers had been of value in understanding the pressures faced and highlighted the staff passion for care of their clients.

PART I ('OPEN') BUSINESS

1. MINUTES

- 1.1 The minutes of the Committee meeting held on 1 December 2017 were confirmed as a correct record and signed by the Chairman.

2. UPDATE ON PREPARATIONS FOR 2017/18 AUDIT

[Contact: Owen Mapley, Director of Resources (Tel: 01992 555601)]

- 2.1 The Committee received an update on actions under way in preparation for the 2017/18 Statement of Accounts and to address the earlier statutory closedown time scale i.e. draft accounts by 31 May and final audited accounts by 31 July.

ACTION

- 2.2 N Harris (EY) apologised for the delay in delivering the external audit plan and explained that this stemmed from the coincidence of both an internal and an external review of the County Council audit engagement, however it offered additional assurance that the audit plan, when presented, would have been subjected to thorough review and detailed testing. It was anticipated that the final audit plan would be issued in mid-April and brought to the May meeting of the Committee. Members expressed their disappointment but understood the pressures EY faced.
- 2.3 No substantial changes were required to the accounting requirements. Members expressed concern at the recommendation to move to single accounts from group accounts particularly with the increase in the number of trading companies being set up by the Council. They stressed this decision was for this year only, and expected to review the position for the following year.
- 2.4 Although the increase in materiality from 1 to 2% reflected the County Council's good track record, the 1% represented fluctuations within a range of £16m of public money that would not be reported. N Harris clarified that gross materiality described the level of test required on income expenditure and not the balance sheet; other areas of the council were subject to lower levels of materiality. For transparency members requested figures rather than percentages.

N Harris

Conclusions:

- 2.5 The Committee RESOLVED to
- Note the preparation for the 2017/18 accounts close and audit, in particular the earlier deadlines to be achieved in 2017/18 for draft accounts and audit conclusion,
 - Note a potential delay in the internal EY sign off for issuing the 2017/18 audit plan, that this was unfortunate but unavoidable and the EY team were seeking to minimise any delay, and that Herts Finance officers had reviewed the risks arising and were confident that they would not jeopardise the overall timetable,
 - Note that there were no significant changes required to the accounting policies for 2017/18,
 - Note the intention to move from 'group entity' to 'single entity' accounts in 2017/18, but to hold this under annual review for future years
- and commented as above.

3. REPORT ON LETTERS OF REPRESENTATION ON MANAGEMENT AND OVERSIGHT OF THE HERTFORDSHIRE COUNTY COUNCIL (INCLUDING FIREFIGHTERS' PENSION FUND) AND HERTFORDSHIRE PENSION FUND ACCOUNTS 2017/18

[Officer Contact: Steven Pilsworth, Assistant Director Finance (Tel:

01992 555737); Patrick Towey, Head of Specialist Accounting (Tel: 01992 555148)]

- 3.1 The Committee considered draft Letters of Representation to the External Auditors (EY) on management and oversight of both the General and Pension Fund accounts (Appendices A & B to the report), the Letters being required by Ernst & Young on an annual basis, in accordance with International Accounting Standards, to update their understanding of the management and processes of these accounts.
- 3.2 Members heard that EY were looking to avoid misstatement and that if materiality dropped below 2% it would be looked at individually.

Conclusions:

- 3.3 The Committee RESOLVED that, subject to any adjustments or amendments required as a result of the work still outstanding, the letters of representation to EY be approved for signature by the Chairman of Audit Committee.

F Button
O Mapley

4. RISK MANAGEMENT QUARTERLY UPDATE AND ANNUAL SUMMARY 2017/18

[Officer Contact: Fiona Timms, Risk & Insurance Manager
(Tel: 01438 843565)]

- 4.1 The Committee considered the quarterly update on risk management activity and the annual summary for risk management activity since March 2018
- 4.2 The report now differentiated between strategic and corporate risk via separate heat maps and separate definitions, the corporate risk register comprising both sets of data. The Committee acknowledged the volume of officer work undertaken to achieve this.
- 4.3 There was a wide-ranging discussion on various risks.
- 4.4 Corporate risk R05 'Insufficient skill in commissioning / contract management and competencies' was suggested as the risk to be reviewed at Audit Committee in July 2018.

Conclusions:

- 4.5 The Committee RESOLVED that
 - i. The changes in the Corporate Risks since the last report to the Committee be noted;
 - ii. That the Risk Management summary report be noted;
 - iii. Risk R05 "*Insufficient skill in commissioning / contract management and competencies*" be reviewed at its next meeting in July 2018.

S Pilsworth

5. RISK FOCUS REPORT – Recruitment and Retention

[Contact: Sally Hopper, Assistant Director Human Resources
(Tel: 01992 556920)]

- 5.1 The Committee considered a report which provided further information on the risk (and associated controls) Corporate Risk Register number HR0021 'If we fail to retain, attract and recruit the right people (managers, officers and volunteers) and right skills and maintain engagement at all levels, there may be a significant impact on service delivery and major cost implications', and sought endorsement of the overall approach the Council was taking to mitigate this risk (excluding volunteers).
- 5.2 Members noted the daily practical challenges the County Council faced in recruitment and retention and the known shortage skills and hard to fill posts. Workforce planning included a commitment to optimise the Apprenticeship Levy so that the skills required and opportunities for learning aligned with the skills shortage. The significant geographic variations across Hertfordshire were noted.
- 5.3 The Committee heard that the benefits of the Hertfordshire social work academy, in conjunction with regional agreements on capping pay rates, made Hertfordshire very attractive to social workers. Members noted that social workers leaving permanent employment with the County Council now could not return as a locum within 1 year of leaving.
- 5.4 The reduction in spend on agency workers from £15.1m in 2015 to £11.1m in 2017 was welcomed, evidencing the ongoing success of the Council's recruitment and retention activities. There was a wide discussion about the increasing competition for well-qualified talent and unskilled labour.

Conclusions:

- 5.5
1. The Committee's comments on the information provided within the report were noted.
 2. The Committee supported the officer recommendation to downgrade the risk score from 32 to 24 nem. con. with two abstentions.

6. HERTFORDSHIRE COUNTY COUNCIL INTERNAL AUDIT PROGRESS REPORT

[Officer Contact: Darren Williams, Client Audit Manager
(Tel: 01438 844341)]

S J Taylor declared a non-prejudicial interest in relation to item 6 of

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INITIALS**

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the agenda as she is a member of the LEP Board. She remained in the room and participated in the debate and vote.

- 6.1 The Committee received an internal audit progress report (as at 12 March 2018) on Shared Internal Audit Service (SIAS) delivery of the Hertfordshire County Council Internal Audit Plan for 2017/18; proposed amendments to the approved 2017/18 Audit Plan; 'Limited Assurance' audits issued since the last meeting of the Committee; the implementation status of previously agreed high priority audit recommendations and agreement to remove completed actions, also medium priority recommendations; an update on performance management information.
- 6.2 Members noted the following key updates within the progress report:
- Audit Plan 2017/18: 15 final reports and 13 draft reports had been issued since the 1 December 2017 committee update;
 - Remaining Activity from the 2016/17 Audit Plan: SIAS Partnership Joint Review of Trading Activities had been completed on 16 March 2018;
 - Delivery of remaining audits within the 2017/18 audit plan: 17 projects were outstanding and 9 due for completion by the end of March;
 - Schools Audit Activity since the 1 December 2017 committee update:
 - All school visits for 2017/18 had been completed and most reports finalised;
 - Plan Amendments since the 1 December 2017 committee update: 7 plan amendments had been reported, including 2 cancelled / deferred audits and 1 new audit;
 - Limited Assurance Audits: none since 1 December 2017 committee update;
 - High Priority Recommendations Follow Up's since 1 December 2017: 1 had been implemented and recommended for removal and 1 with a revised implementation date had been reported.
 - Performance Management: performance indicators were on track to achieve the 31 March 2018 target, with the exception of planned projects which would reach 93 or 94% against a target of 95%.
- 6.3 It was observed that the Members' role in GDPR should be taken into account during the proposed assurance work.

Conclusions:

- 6.4 The Committee RESOLVED to:
- note the Internal Audit Progress report
 - agree changes to the audit plan;
 - agree to the removal of high priority actions now complete.

7. 2018/19 INTERNAL AUDIT PLAN REPORT

[Officer Contact: Terry Barnett, Head of Assurance Services
(Tel: 01438 845508);
Chris P Wood, SIAS Audit Manager (Tel: 01438 845513)]

7.1 The Committee received a report on proposed Hertfordshire County Council Internal Audit Plan for 2018/19, which sets out the programme of work for the year ahead and forms part of the Council’s wider assurance framework.

7.2 Members’ attention was drawn to the reduction of all SIAS partners’ existing Audit Plan days by 10%, allowing cashable savings to be achieved. For the County Council this equated to a reduction in Internal Plan days from 1637 days to 1473 days (164 days) with a significant proportion achieved through reducing strategic support activities (43 days), support and advice (20 days) and Key Financial Systems audits (25 days).

7.3 Officers clarified that:

- The reduced plan maintained focus on the key risks and whilst the amount of audit required to provide sufficient assurance was a judgment call, the assurance process was rigorous. Through the year, quarterly visits were made to each Service to discuss any emerging risks, and each Service was sighted on their portion of the plan, the contingency ensured that late changes could be made to respond to the unexpected issues that may arise.
- In the event of an audit being cancelled, items on the reserve list are moved to the actual plan and Members are informed of these changes via the update reports. Items remaining on the reserve list and on the actual plan itself are carried through to the following year if officers believe there remains a need for them to be covered by the audit process.

Conclusions:

7.4 The Committee Members RESOLVED to approve the proposed Hertfordshire County Council Internal Audit Plan for 2018/19

8. HERTFORDSHIRE COUNTY COUNCIL ANTI FRAUD ACTION PLAN - PROGRESS FOR 2017/18 AND PLAN FOR 2018/19

[Officer contact: Nick Jennings Counter Fraud Manager
(Tel: 01438 844705)]

8.1 The Committee received a report which provided information on progress on the SAFS / HCC Anti-Fraud Action Plan for 2017/18, a proposed SAFS / HCC Anti-Fraud Action plan for 2018/19 and Transparency Code data.

8.2 Members heard that the 112 case of fraud reported to SAFS exceed the target of 100, most incidents being Blue Badge fraud. Financial savings in excess of £1.8m and fraud losses of £92k had been identified in the 24 cases where action had been taken and investigations closed to the end of quarter 3. In addition, of the total £178k in Council Tax Revenue fraud identified by SAFS with the District Councils, £140k would come to the County Council.

8.3 Members heard that the Council's financial contribution to antifraud services was £110k in relation the total financial benefit (see 8.2) accruing to it from SAFS antifraud activity.

8.4 Officers agreed to provide Members with the full version of the SAFS / HCC Anti-Fraud Action Plan 2018/2019 (Appendix B to the report) for review and approval, as an attenuated version had mistakenly been provided with the original report. Members were requested to email any questions to N Jennings.

N Jennings
T Baker

Conclusions:

8.5 The Committee RESOLVED to:

1. Note the progress on the 2017/18 Action Plan;
2. Review the corrected version of the SAFS / HCC Anti-Fraud Action Plan 2018/2019, with a view to belated approval at the May 2018 meeting;
3. Read and review the LGA Councillors' Workbook on fraud and Bribery Prevention 2017

Audit
Committee
Members

8.6 The Chairman moved the meeting into PART II (Closed Session) and passed the decision at paragraph 8.7:

8.7 That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 7 of Part 1 of Schedule 12A to the said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

PART II ('CLOSED') AGENDA

1 MINUTES

The Minute of this item of business is set out in the separate Part II Minutes.

2. RISK FOCUS REPORT – PREVENT – Radicalisation

The Minute of this item of business is set out in the separate Part II Minutes.

8.8 Following discussion on the Part II report and Recommendations, the Chairman moved the meeting back into Part I (Open Session)

9. FUTURE WORK PROGRAMME

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

9.1 Tuesday, 15 May 2018: 10.00am

(Meeting be preceded by 'Lite Bite' training on Risk Scoring)

- **Audit Plan 2018/19 – County Council**
- **Audit Plan 2018/19 – Pension Fund**
- Annual Governance Statement 2017/18 and Code of Corporate Governance - moved forward from July meeting
- Annual Assurance Statement and Internal Audit Annual Report 2017/18- moved forward from July meeting
- **PREVENT - final report**

Wednesday, 18 July 2018: 2.00pm

- Internal Audit Progress Report
- Risk Management Update Report
- Risk Focus Report: Corporate risk R05 '*Insufficient skill in commissioning / contract management and competencies*'
- HCC Audit Results Report 2017/18
- Response To The Audit Results Report – HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Annual Statement Of Accounts 2017/18– HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Audit Results Report 2017/18 – HCC Pension Fund
- Response To The Audit Results Report 2017/18 – HCC Pension Fund
- Annual Report 2017/18
- End of Year Report on the Treasury Management Service and Prudential Indicators 2017/18
- Whistle Blowing Annual Report 2017/18

ANY OTHER BUSINESS

There being no further PART I business the Chairman closed the meeting.

KATHRYN PETTITT
CHIEF LEGAL OFFICER

CHAIRMAN _____

CHAIRMAN'S
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HERTFORDSHIRE COUNTY COUNCIL**AUDIT COMMITTEE
MONDAY 15 MAY 2018 AT 10.00 AM****2017/18 AUDIT PLAN**Report of the Director of Resources

Author: Ben Jay (Tel: 01992 556257)

1. Purpose of the Report

- 1.1 To present to the Committee the Audit Plans for the 2017/18 audits of the Council and Pension Fund accounts.

2. Summary

- 2.1 Ernst Young LLP (EY) have provided the Council with their Audit Plans for the audit of the Council accounts (Appendix 1) (p3) and Pension Fund accounts (Appendix 2) (p45) for the financial year 2017/18.
- 2.2 The Audit Plan is a standard annual document that is updated for latest information each year. It is a formal aspect of the annual audit of the Hertfordshire County Council accounts undertaken by the External Auditor. It follows the letters recently exchanged between the Chairman of the Audit Committee, the Director of Resources, and the External Auditor (EY), which set out any changes or issues encountered during the last year and which confirm the Council's management arrangements.
- 2.3 The Committee is invited to note the reports. The content of the plans is determined by the External Auditor independently of the governance of the Council, so the Committee is unable to request changes to the plan. The plans are prepared on the basis of an assessment made by EY of the risks being faced by the Council.
- 2.4 As noted by the Committee in the last meeting, the Audit Plans were not ready for the meeting as was expected. This was due to unavoidable delays in the final sign off of the plan within EY (the plans themselves had been prepared and all necessary early actions were under way).
- 2.5 The plans set out
- A summary of areas of focus indicating changes from last year's approach
 - Materiality thresholds
 - Audit risk assessment
 - Value for Money Risks (for the Council's accounts)
 - Audit Materiality
 - Audit Scope
 - Audit Team and Timeline

- 2.6 Materiality thresholds have been reviewed and the Committee should note that, for the Council's accounts, all uncorrected misstatements greater than £1.78m will be reported to the Committee (p21). For the Pension Fund, uncorrected misstatements greater than £4.2m will be reported (p50). For both audits there is an overall change to 2% materiality: this will not affect the level of detail reported to the Committee.
- 2.7 Fees are expected to be £142,067 for the audit of the Council's financial statements which is the same as the 'scale fee' (the estimated charge based on the relative scale and complexity of the organisation). The fee for the Pension Fund audit is expected to be £33,491, which is the scale fee plus £5,500 for additional work required to respond to IAS19 assurance requests from scheduled bodies. This fee is consistent with that agreed for 2016/17.
- 2.8 Also attached is an 'Audit Progress Report' (Appendix 3) (p77) for the audit of the Council's accounts. Recognising the delay in presentation of the plan, the audit team have provided a report which sets out the progress already made on this audit plan in more detail, by way of reassurance to the Committee that good progress is being made towards the reporting deadlines.

3. Recommendations

- 3.1 The Committee is invited to note and comment upon the EY audit plans for the Council and Pension Fund accounts, and their audit progress report.



Hertfordshire
County Council
Audit planning report
Year ended 31 March 2018

15th May 2018

APPENDIX 1



Private and Confidential

Hertfordshire County Council
County Hall
Hertford
SG13 8DQ

30 April 2018

Dear Audit Committee Members,

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 15 May 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris

For and on behalf of Ernst & Young LLP

United Kingdom

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Hertfordshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Hertfordshire County Council those matters where we are required to do so in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hertfordshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Management Override: Misstatements due to fraud or error	Fraud risk	No change in risk	As identified in ISA 240, 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 would otherwise appear to be operating effectively. For the County Council, we consider that the potential for the incorrect classification of revenue spend as capital is a particular area of risk.
Property, Plant & Equipment Asset Valuation	Significant risk	Change in focus	Property, plant and equipment (PPE) represents a significant balance of £2.2billion in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the statement of accounts. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a significant risk that PPE may be under/overstated or the associated accounting entries are incorrectly posted. ISAs (UK and Ireland) 500 and 540 also require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.
Pension Liability Valuation	Significant risk	Change in focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit of £1.066billion is a highly material item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a significant risk.

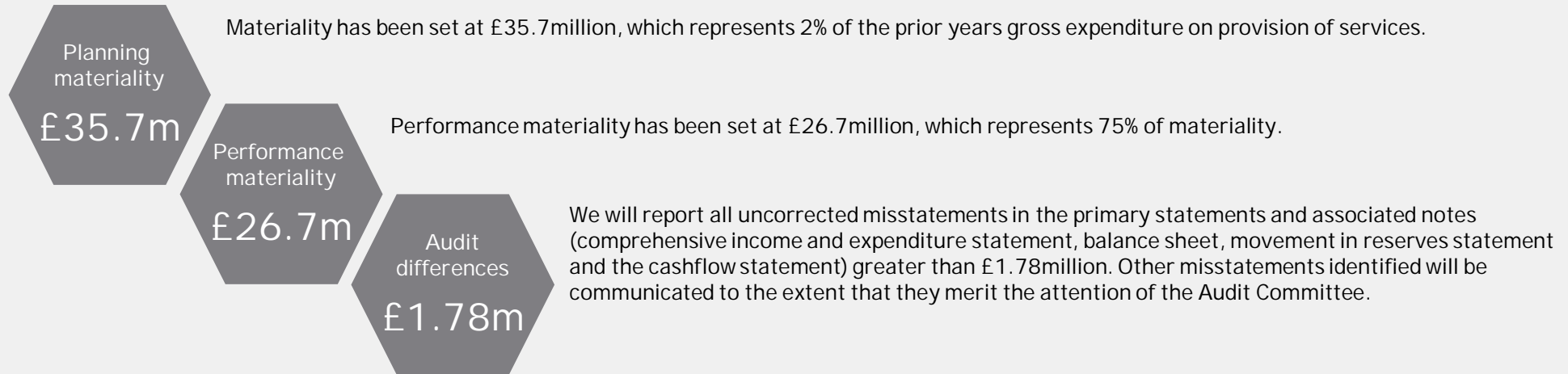
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Overview of our 2017/18 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Assessment of Group boundary	No significant or inherent risk	Change in focus	Since September 2013, the County Council has consolidated two entities, Hertfordshire Catering Limited and Hertfordshire for Learning Limited. The County Council reviews its relationship with HCL and HFL on an annual basis to determine in accordance with accounting standards whether both form part of its group boundary. The County Council have concluded for the financial year ended 31 March 2018 that they do not have a material qualitative and quantitative interest in HCL and HFL and do not intend to prepare group accounts. We have reviewed the County Council's assessment and are not minded to challenge this.
PFI - Schemes	Inherent Risk	No change in risk or focus	The Council has two high value PFI contracts. As the values and complexities of these arrangements are significant the balances are inherently more risky as transactions are drawn from a complex model which reflects a number of assumptions which may change over the life of the contract.

Overview of our 2017/18 audit strategy

Materiality



The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

Overview of our 2017/18 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- § Our audit opinion on whether the financial statements of Hertfordshire County Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- § Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- § Strategic, operational and financial risks relevant to the financial statements;
- § Developments in financial reporting and auditing standards;
- § The quality of systems and processes;
- § Changes in the business and regulatory environment; and,
- § Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.



02 Audit risks

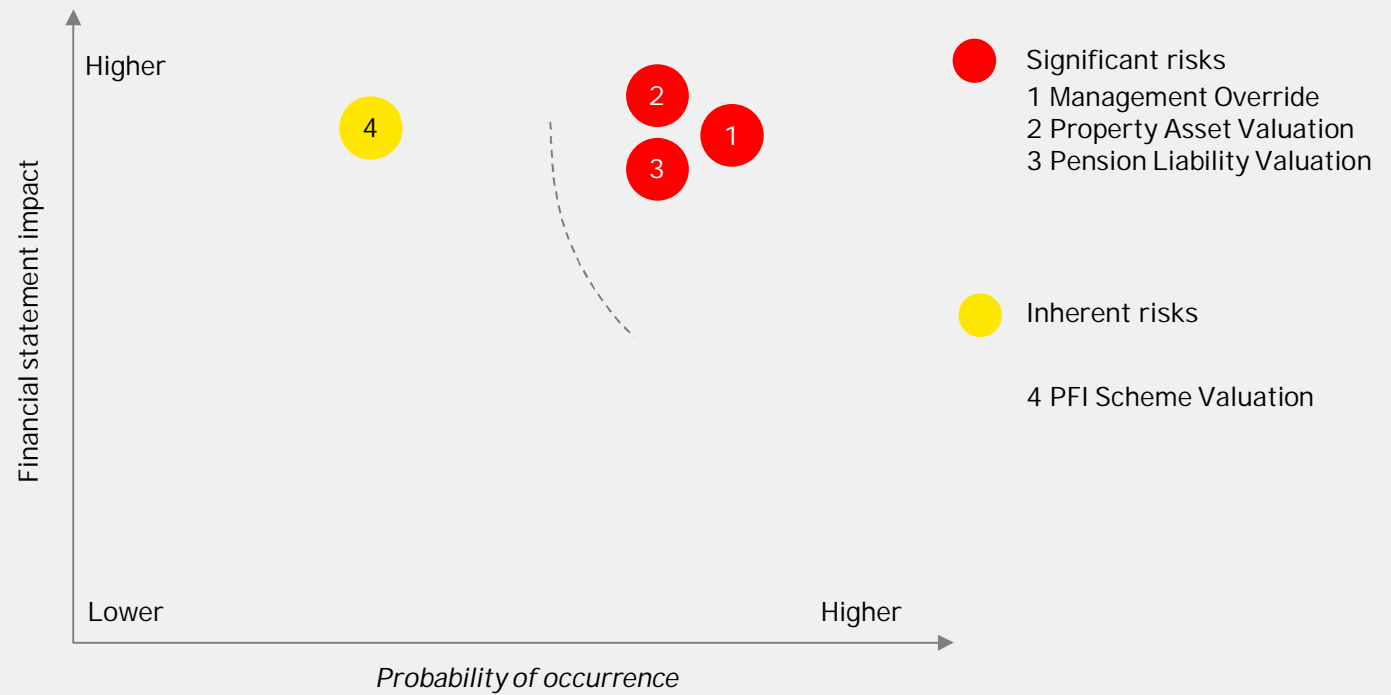


Risk assessment

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2016-17 Annual Report and Accounts and combined it with our understanding of the sector to identify key risks that impact our audit for 2017-18.

The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:



Our response to significant risks

Management Override:
Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error due to management override of internal controls.

As identified in ISA (UK and Ireland) 240, 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. We identify and respond to this fraud risk on every audit engagement.

For Hertfordshire County Council, we have assessed that this risk could manifest in:

- The incorrect classification of revenue spend as capital;
- The inappropriate classification of revenue spend as Revenues Expenditure Financed from Capital Under Statute (REFCUS); and
- Failure to make a prudent assessment of the Minimum Revenue Provision (MRP).
- Depreciation, impairment and revaluation losses not being completely and accurately removed from the Council's general fund balance through Movement in Reserves Statement.

What will we do?

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Review critical judgements made by management in applying accounting policies.
- Assess management's assumptions made about the future regarding major sources of uncertainty.
- Test a sample of capital expenditure, including Revenue Expenditure Funded from Capital Under Statute (REFCUS) to verify that revenue costs have not been inappropriately capitalised.
- Verify that adjustments between the accounting basis and funding basis have been correctly made in accordance with the Code, and reflected appropriately in the Council's Movement in Reserves Statement.
- Verify that the Capital Financing Requirement (CFR) has been calculated in accordance with the Code.
- Verify that the Minimum Revenue Provision (MRP) has been appropriately calculated in accordance with the prudential code.

Our response to significant risks (continued)

Property, Plant & Equipment Asset Valuation

What is the risk?

Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

For Hertfordshire County Council, as at 31st March 2017, the fair value of the Council's property, plant and equipment was £2.27billion, of which £2.1billion of this is land and buildings. The Council's assets are revalued on a rolling three-year basis with a valuation date of 1 April 2017. There is a risk that:

- The assumptions used in the valuation of specialised assets such as schools, fire stations and libraries valued using Modern Equivalent Asset are not appropriate.
- That the valuation carried out twelve months before the year end date does not remain reasonable.
- That the assets identified for a revaluation during the financial year are not complete and accurate.

What will we do?

Our approach will focus on:

- Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Robustly challenging the assumptions used by the valuers relating to Modern Equivalent Asset, componentisation and build cost. We will sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 3 year rolling programme as required by the Code for PPE. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation;
- Testing accounting entries have been correctly processed in the financial statements;
- Challenge and assess the completeness of the assets identified for revaluation during the year; and
- Use of our own valuation experts where significant unexplained variations are identified or where assets are difficult to value, such as those using Modern Equivalent Asset and Depreciated Replacement Cost.

Our response to significant risks (continued)

Pension Liability Valuation

What is the risk?

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 the net pension liability was £1.066billion.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What will we do?

We will:

- Put in place a programme of work and instruct the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Hertfordshire County Council;
- Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

What will we do?

Private Finance Initiative Schemes

The Council is party to two high value PFI contracts. As the values and complexities of these arrangements are significant the balances are inherently more risky as transactions are drawn from a complex model which reflects a number of assumptions which may change over the life of the contract.

We will:

- Review the PFI models and ensure the inputs and accounting is correct and in line with our expectations and reviews of the models in prior years.

Assessment of the Group Boundary

Since September 2013, the County Council has consolidated two entities, Hertfordshire Catering Limited and Hertfordshire for Learning Limited. The County Council reviews its relationship with HCL and HFL on an annual basis to determine in accordance with accounting standards whether both form part of its group boundary. The County Council have concluded for the financial year ended 31 March 2018 that they do not have a material qualitative and quantitative interest in HCL and HFL and do not intend to prepare group accounts. At this stage, we are not minded to challenge the Council's assessment.

We will:

- As a result of audit of the Council's accounts, overall analytical procedures, enquiries of management and review of Council's minutes of key meetings before the audit opinion date, we will continue to review and where appropriate challenge the assessment made by the County Council in its assessment not to prepare Group Accounts.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements.

The Council now has less time to prepare the financial statements and supporting working papers.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

What will we do?

We have

- Worked with the Council to engage early to facilitate early substantive testing. We are providing a separate progress report to the Audit Committee summarising the substantive testing we have undertaken in the period to 31 March 2018.
- Provided an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitated faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Worked with the Council to implement EY Client Portal, which will:
 - Streamline our audit requests through a reduction of emails and improved means of communication;
 - Provide on-demand visibility into the status of audit requests and the overall audit status;
 - Reduce risk of duplicate requests; and
 - Provide better security of sensitive data.
- Agreed the team and timing of each element of our work with you.
- Agreed the supporting working papers that we require to complete our audit.

The Council also attended a faster close workshop within our Luton office. This provided an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.



03

Value for Money Risks



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Background

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.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

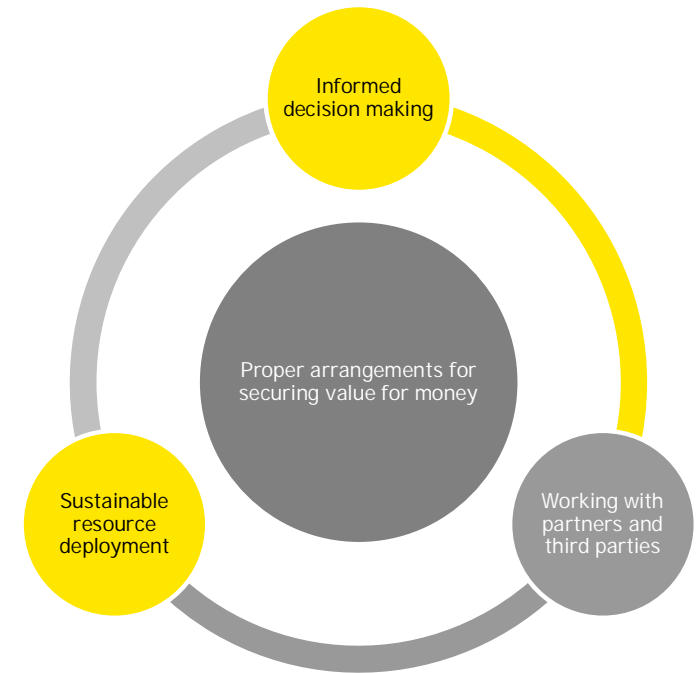
We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks to our value for money conclusion. We will continue to review the resilience of the Council's MTFS during the course of the audit.

We will continue to revisit this assessment as our audit progresses and update the Audit Committee of any changes.





04

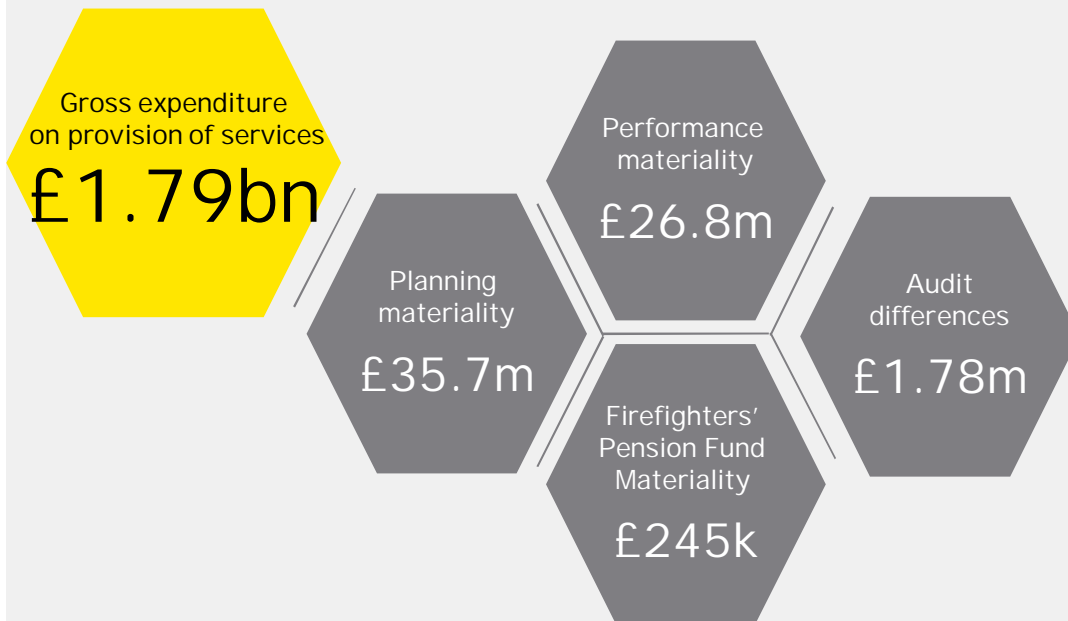
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £35.7m. This represents 2% of the Council's prior year gross expenditure on provision of services. In the prior year we applied a threshold of 1%. Although the Council is a major local audit based on its size, we have considered its overall risk profile and public interest in comparison to other Council's, and do not consider there to be any heightened risks that would mean we need to adopt a lower level of materiality. As such we have raised materiality to 2%. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels. **Agenda Pack 32 of 171**

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. We have set planning materiality at £35.7m for the planning stage of the audit.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £26.8m which represents 75% of planning materiality. This percentage has been set at 75% because of the robust internal control environment of the council and our low expectation of misstatements based on prior knowledge of the council.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet that have an effect on income or that relate to other comprehensive income.

For firefighters' pension fund financial statements the audit difference threshold has been set at £12,300.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of £50,000 for Senior Officer's Remuneration and Exit Packages disclosures which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

2. Arrangements for securing economy, efficiency and effectiveness (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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit (SIAS), and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



06

Audit team



Audit team

Audit team structure:

Neil Harris
Associate Partner



Natalie Clark
Manager



Robert Garnett
Senior



EY Real Estate
(Valuations
Specialist)

EY Pensions
(Pensions
Specialist)

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Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Hertfordshire County Council Internal and External Valuers EY Valuations Team
Pensions disclosure	EY Actuaries / Hymans Robertson / PwC
Fair Value Investment Measurement	Arlingclose

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work;
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements; and
- Where appropriate, engage our own specialist support in any areas where we identify concerns, trigger events and/or estimations that are outside of our assessed acceptable range.



07

Audit timeline





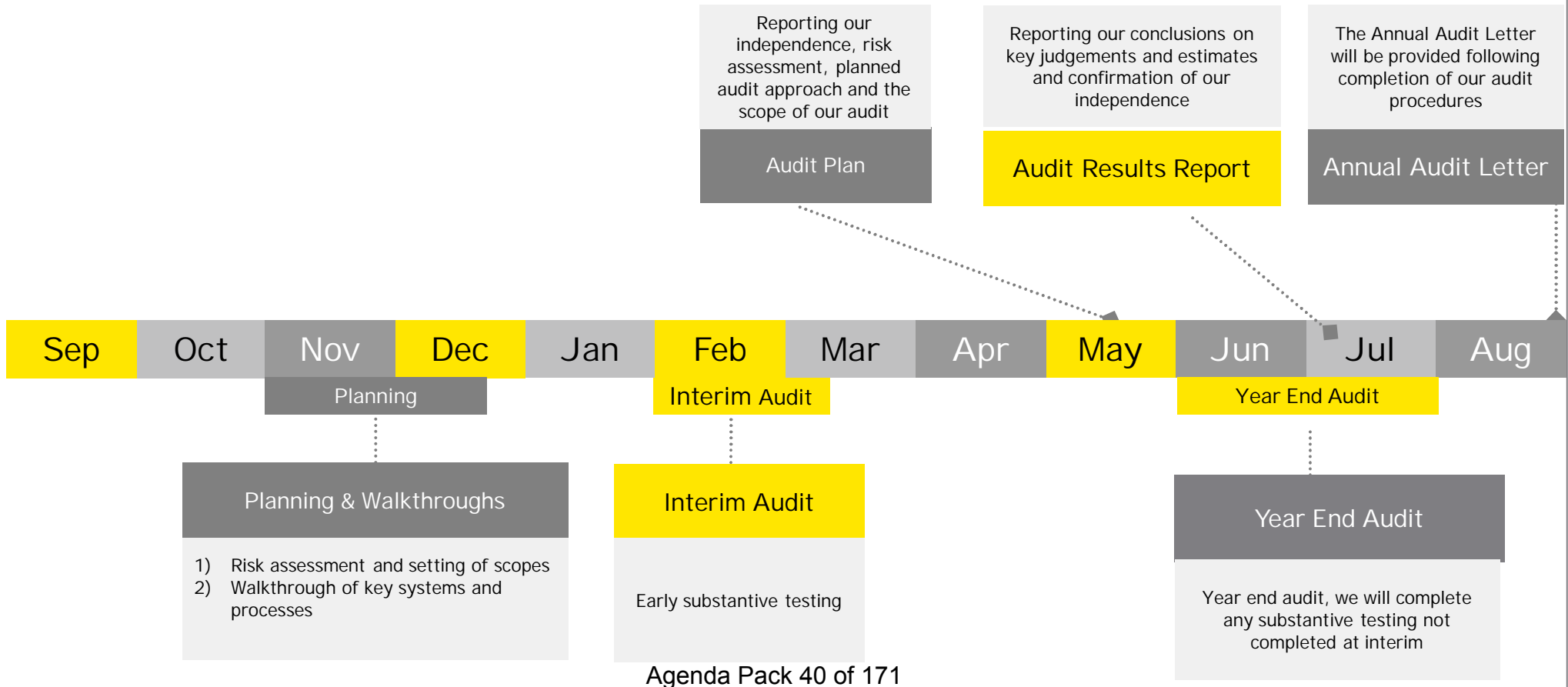
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



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08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 1:11. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Relationships, services and related threats and safeguards

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee - Code work	142,067	142,067	142,067
Total audit	142,067	142,067	142,067
Other non-audit services not covered above (Teacher's Pensions)	TBC	TBC	13,475
Total other non-audit services	TBC	TBC	13,000
Total fees	TBC	TBC	155,067

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.



Appendix B

Required communications with the Audit Committee



We have detailed the communications that we must provide to the Audit Committee.







Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit planning report May 2018
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report July 2018



Required communications with the Audit Committee (continued)

Required communications	 What is reported?	 When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the Audit Committee include:</p> <ul style="list-style-type: none"> • A declaration of independence • The identity of each key audit partner • The use of non-member firms or external specialists and confirmation of their independence • The nature and frequency of communications • A description of the scope and timing of the audit • Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits • Materiality • Any going concern issues identified • Any significant deficiencies in internal control identified and whether they have been resolved by management • Actual or suspected non-compliance with laws and regulations identified relevant to the Audit Committee • The valuation methods used and any changes to these including first year audits • The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework • The identification of any non-EY component teams used in the group audit • The completeness of documentation and explanations received • Any significant difficulties encountered in the course of the audit • Any significant matters discussed with management • Any other matters considered significant 	<ul style="list-style-type: none"> • Audit planning report May 2018 • Audit results report July 2018

Required communications with the Audit Committee (continued)





			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report July 2018	
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report July 2018	
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report July 2018	
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report July 2018	

Required communications with the Audit Committee (continued)

Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> • Relationships between EY, the Council and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Planning Report May 2018</p> <p>Audit results report July 2018</p>





Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report July 2018
Consideration of laws and regulations	<ul style="list-style-type: none"> Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit results report July 2018
Internal controls	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit 	Audit results report July 2018

Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report July 2018	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report July 2018	
Auditors report	<ul style="list-style-type: none"> • Key audit matters that we will include in our auditor’s report • Any circumstances identified that affect the form and content of our auditor’s report 	Audit results report July 2018	
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit planning report May 2018 Audit results report July 2018	

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Hertfordshire Pension
Fund
Audit planning report
Year ended 31 March 2018

16 April 2018

16 April 2018



Hertfordshire County Council
County Hall
Hertford
SG13 8DQ

Dear Audit Committee / Pension Committee Members,
2017/18 External Audit plan – Hertfordshire Pension Fund

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee, the Pension Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 15 May 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris
For and on behalf of Ernst & Young LLP
Enc

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Hertfordshire Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Hertfordshire Pension Fund those matters we are required to state in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hertfordshire Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

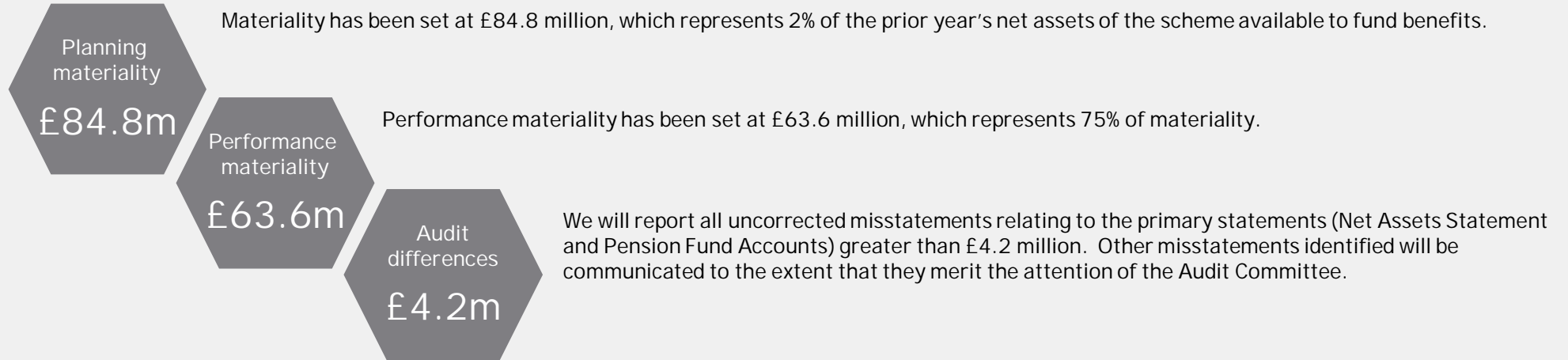
Risk / area of focus	Risk identified	Change from PY	Details
Risk of Management Override	Fraud risk	No change in risk or focus	As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
Valuation of complex investments (Unquoted investments)	Fraud Risk	No change in risk or focus	<p>The Fund's investments include unquoted pooled investment vehicles such as private equity and global alternative funds (Level 3 Investments).</p> <p>Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.</p> <p>As these investments are more complex to value, we have identified the Fund's investments in private equity and global alternative funds (Level 3 investments) as a significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.</p>

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Overview of our 2017/18 audit strategy

Materiality



Overview of our 2017/18 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- § Our audit opinion on whether the financial statements of Hertfordshire Pension Fund (the Pension Fund) give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018; and
- § Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Hertfordshire County Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- § Strategic, operational and financial risks relevant to the financial statements;
- § Developments in financial reporting and auditing standards;
- § The quality of systems and processes;
- § Changes in the business and regulatory environment; and
- § Management's views on all of the above

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.



02 Audit risks



Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<p>Risk of Management Override</p>	<p>What is the risk?</p> <p>As identified in ISA (UK and Ireland) 240, 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>We identify and respond to this fraud risk on every audit engagement.</p>	<p>What will we do?</p> <p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewing accounting estimates for evidence of management bias; and • Evaluating the business rationale for significant unusual transactions.
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<p>What is the risk?</p> <p><u>Valuation of Complex Investments (Unquoted Investments)</u></p> <p>The Fund's investments include unquoted pooled investment vehicles such as private equity and global alternative funds (Level 3 Investments).</p> <p>Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error.</p> <p>Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.</p> <p>As these investments are more complex to value, we have identified the Fund's investments in private equity and global alternative funds (Level 3 investments) as a significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.</p>	<p>What will we do?</p> <p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> • Assessing the competence of management experts; • Reviewing the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used; • Where available, reviewing the latest audited accounts for the relevant fund managers and ensuring there are no matters arising that highlight weaknesses in the funds valuation; and • Performing analytical procedures and checking the valuation output for reasonableness against our own expectations.
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Other areas of audit focus

We have identified an other area of the audit, that has not been classified as a significant risk, but is still important when considering the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements.

The Council and Pension Fund now has less time to prepare the financial statements and supporting working papers.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council and Pension Fund staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

What will we do?

We will:

- Work with the Council and Pension Fund to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council and Pension Fund's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Work with the Council and Pension Fund to implement EY Client Portal, this will:
 - Streamline our audit requests through a reduction of emails and improved means of communication;
 - Provide on-demand visibility into the status of audit requests and the overall audit status;
 - Reduce risk of duplicate requests; and
 - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.



03

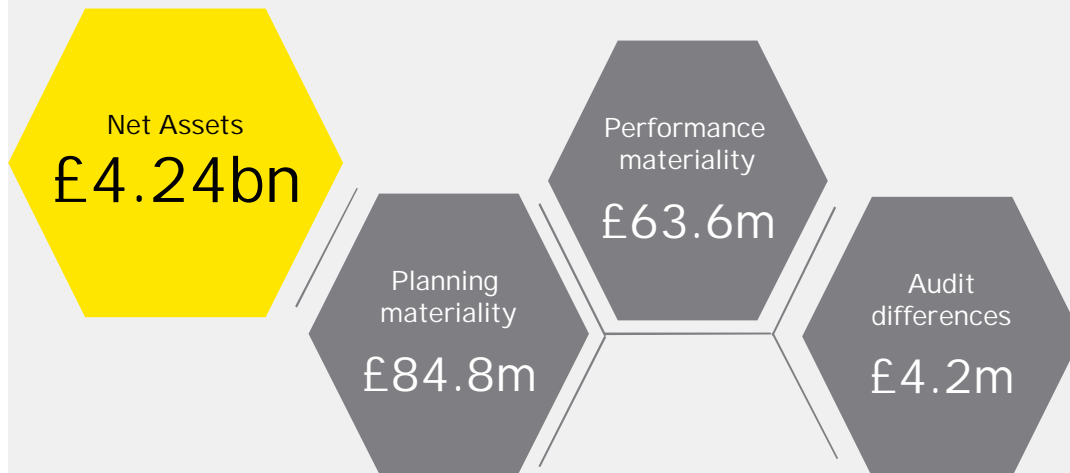
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £84.8 million. This represents 2% of the Pension Fund's prior year net assets. In the prior year we applied a threshold of 1%. Although the Pension Fund is a major local audit based on its size, we have considered its overall risk profile and public interest in comparison to other Pension Funds, and do not consider there to be any heightened risks that would mean we need to adopt a lower level of materiality. As such we have raised materiality to 2%. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels. **Agenda Pack 67 of 171**

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £63.6 million which represents 75% of planning materiality. We have considered a number of factors such as the number of errors in prior year and any significant changes in 2017/18 when determining the percentage of performance materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the Fund Account and Net Asset Statement.

Other uncorrected misstatements, such as reclassifications, misstatements in disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.



04

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers the financial statement audit.

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland) as well as on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Hertfordshire County Council.

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance

We are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls;
- Substantive tests of detail of transactions and amounts; and
- Reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

As in the prior year we will review internal audit plans and the results of their work. We consider these when designing our overall audit approach and when developing in our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that we assess could have a material impact on the year-end financial statements.



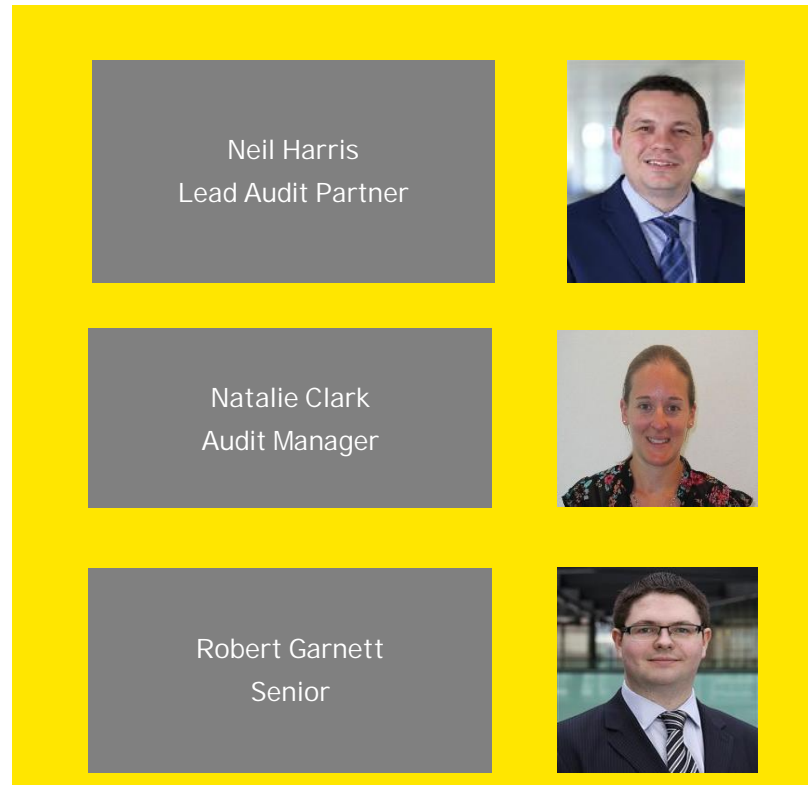
05

Audit team



Audit team

Audit team structure:



The engagement team is led by Neil Harris, who has significant experience on Local Authorities and their audits. Neil is supported by Natalie Clark who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions Liability	Hymans Robertson (Hertfordshire Pension Fund actuary) PwC (Consulting Actuary to the NAO) EY Pensions Advisory Team
Investment Valuation	The Pension Fund's custodian and fund managers

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



06 Audit timeline





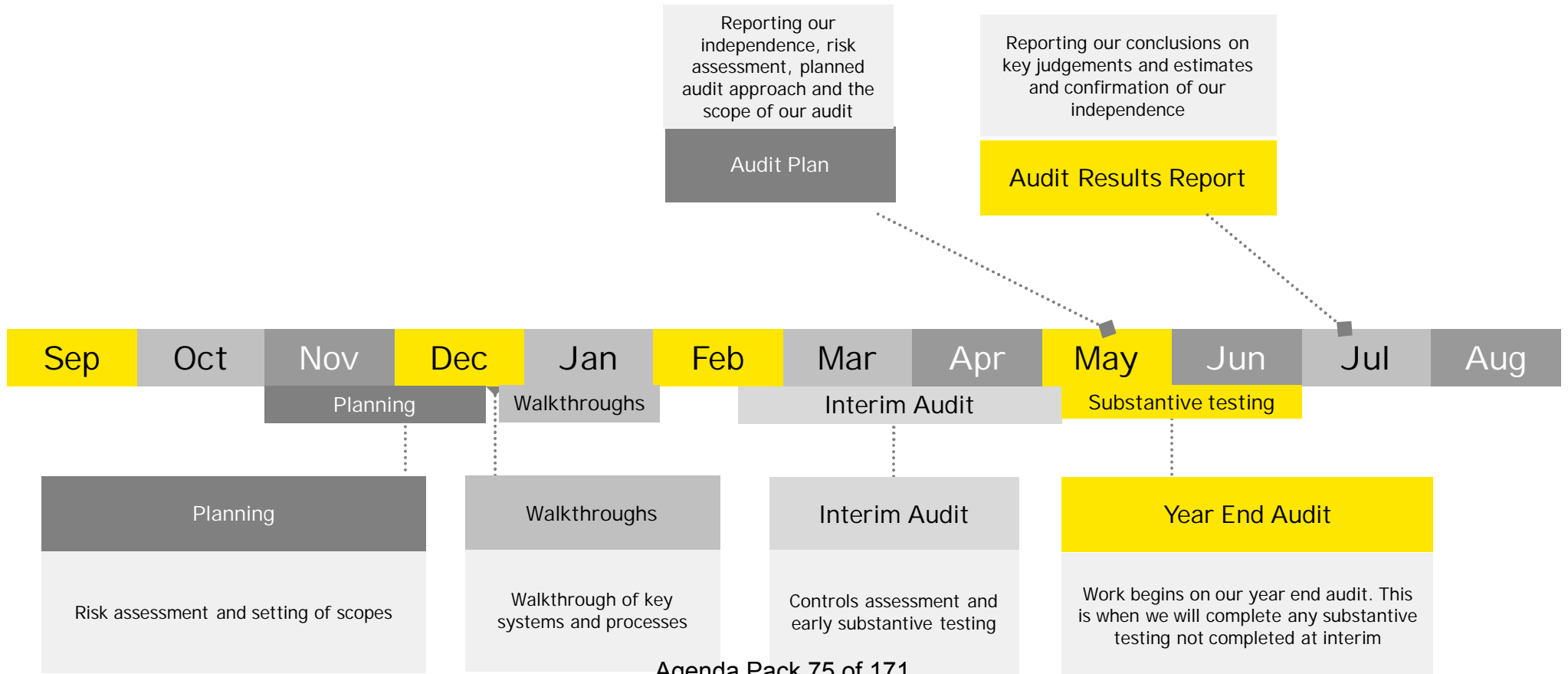
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





07

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, there are no non-audit services provided by us to the Pension Fund.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£'s	£'s	£'s
Total Fee - Code work	33,491	27,991	33,491
Total fees	33,491	27,991	33,491

All fees exclude VAT

We anticipate charging an additional fee of £5,500 in 2017/18 to take into account the additional work required to respond to IAS19 assurance requests from scheduled bodies. This is consistent with the additional fee agreed in 2016/17. The scale fee variation is subject to PSAA approval.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment.





If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Pension Fund in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B




Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	Audit Plan May 2018
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report July 2018





Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit Results Report July 2018	
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit Results Report July 2018	
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit Results Report July 2018	
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report July 2018	




Appendix B

Required communications with the Audit, Governance and Standards Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> The principal threats Safeguards adopted and their effectiveness An overall assessment of threats and safeguards Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan May 2018 Audit Results Report July 2018	
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report July 2018	
Consideration of laws and regulations	<ul style="list-style-type: none"> Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off Enquiry of the Audit, Governance and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit, Governance and Standards Committee may be aware of 	Audit Results Report July 2018	
Internal controls	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit 	Audit Results Report July 2018	

Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report July 2018	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report July 2018	
Auditors report	<ul style="list-style-type: none"> • Key audit matters that we will include in our auditor’s report • Any circumstances identified that affect the form and content of our auditor’s report 	Audit Results Report July 2018	
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit Plan May 2018 Audit Results Report July 2018	

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Hertfordshire County Council
Audit Committee Progress Report
April 2018
Year ended 31 March 2018

15 May 2018

Audit Committee
Hertfordshire County Council

Dear Committee Members

Progress Report: Year ending 31 March 2018

We are pleased to attach our Audit Update Report. This report summarises the work we have undertaken to date and our plans for the remainder of the 2017/18 year. The purpose of the report is to provide the Audit Committee with an overview of the stage we have reached in our planning for the 2017/18 audit and ensure our audit is aligned with the Committee's service expectations.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audits.

Yours faithfully

Neil Harris
Associate Partner for and on behalf of Ernst & Young LLP
United Kingdom
Enc



2017/18 audit

Faster close

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year with the Council needing to prepare draft accounts by 31 May and publish audited accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- ▶ The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required.
- ▶ As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- ▶ Good quality draft financial statements and supporting working papers by the agreed deadline;
- ▶ Appropriate Council staff to be available throughout the agreed audit period; and
- ▶ Complete and prompt responses to audit questions.

If the Council is unable to meet key dates within our agreed timetable, we will notify your Section 151 Officer of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify the Section 151 Officer of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to the audit while we complete other work elsewhere.

To support the Council we will:

- ▶ Work with the Council to engage early to facilitate early substantive testing where appropriate. We have set out below in a table where we had planned to undertake early work following a meeting with officers in November 2017 and whether we have successfully completed that work.
- ▶ Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- ▶ Work with the Council to implement EY Client Portal, this will:
 - Streamline our audit requests through a reduction of emails and improved means of communication;
 - Provide on-demand visibility into the status of audit requests and the overall audit status;
 - Reduce risk of duplicate requests; and
 - Provide better security of sensitive data.
- ▶ Agree the supporting working papers that we require to complete our audit.



2017/18 audit

Update on planned early work

Early testing	EY Update
Income testing period 1-9	In Progress – awaiting some final responses and bank statement evidence
Expenditure P1-9	Interim work complete.
Payroll 1-9	Interim work complete.
Accounting policies	Not available to audit in February
PPE - Additions P 1-9	Interim work complete.
PPE- Disposals	Interim work complete.
Related party transactions	Not available to audit in February
Exit Packages 1-9 & Senior Officers Remuneration	Interim work complete.
Leases	Interim work complete.
REFCUS P1-9	Interim work complete.
PPE Depreciation	Interim work complete.
Grant income	Interim work complete.

Planning and interim visit

We are required to give an audit opinion on whether the financial statements of Hertfordshire County Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended.

We have completed our interim audit and have

- ▶ Undertaken our walkthroughs; and
- ▶ Performed early substantive testing as set out in the table in the preceding section.

We have used our computer-based analytics tools to enable us to capture and analyse whole populations of your financial data, in particular payroll, and journal entries.



2017/18 audit

Post statements visit

We have agreed the dates for our post statements audit visit, and we will have early discussions on your supporting working papers and their availability for the audit.

We introduced the finance team to our online Client Portal. This will enhance our communication on raising critical issues as soon as they arise and enable us to work even better with them to propose pragmatic solutions. It also enables the finance team to make real time updates to the Client Assistance Schedule and see our progress with the audit.

Value for money

We will be completing as much of our value for money conclusion work as we can in April and early May. Our work will then need to be updated in the light of the Council's outturn position and by our review of the annual governance statement, narrative report and the Head of Internal Audit report.

Other issues of interest

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings.





Timetable

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	April 2017	Completed
Risk assessment and setting of scope of audit	Jan '18 - Feb '18	Audit Plan	May 2018	Completed
Testing of routine processes and early substantive testing	Jan '18 - Apr '18	If required reporting to management and the Audit Committee	May 2018 (this update)	In progress
Year-end audit	Beginning 4 June for 3 weeks	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	July 2018	Yet to commence
Completion	Sept '18	Annual Audit Letter	September 2018	Yet to commence

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ED None

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**Hertfordshire County Council
2017/18 Annual Assurance
Statement and Internal Audit Annual Report**

15 May 2018

Recommendations

Members are recommended to:

Note the Annual Assurance Statement and Internal Audit Annual Report

Note the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP)

Accept the SIAS Audit Charter

Seek management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2017/18

Contents

1. Purpose and Background
 - 1.1 Purpose
 - 1.2 Background

2. Annual Assurance Statement for 2017/18
 - 2.1 Context
 - 2.2 Control Environment
 - 2.4 Review of Effectiveness - compliance with the PSIAS and QAIP
 - 2.10 Confirmation of independence of internal audit and assurance on limitations
 - 2.11 Assurance Opinion on Internal Control
 - 2.12 Assurance Opinion on Corporate Governance and Risk Management

3. Overview of Internal Audit Activity at the Council in 2017/18

4. Performance of the Internal Audit Service in 2017/18
 - 4.1 Performance Indicators
 - 4.2 Service Developments

5. Audit Charter 2018/19

Appendices

- A Final position against the Council's 2017/18 Audit Plan

- B Definitions of Assurance Levels and Priority of Recommendations

- C Position against Public Sector Internal Audit Standards as at May 2018

- D Internal Audit Charter 2018/19

1. Purpose and Background

Purpose of Report

1.1 This report:

- Details the Shared Internal Audit Service's (SIAS) overall opinion on the adequacy and effectiveness of Hertfordshire County Council's (the Council) control environment. Reference is made to significant matters and key themes
- Shows the outcomes of the self-assessment against the Public Sector Internal Audit Standards (PSIAS) incorporating the requirements of the Quality Assurance and Improvement Programme (QAIP)
- Summarises the audit work that informs this opinion
- Shows SIAS's performance in respect of delivering the Council's audit plan
- Presents the 2018/19 Audit Charter

Background

1.2 A key duty of the Head of Assurance is to provide an annual opinion on the Council's internal control environment. This opinion informs the conclusions of the Council's Annual Governance Statement.

1.3 The assurance opinion in this report is based on the 2017/18 internal audit work which was planned and amended to give sufficient assurance on the Council's management of its key risks. Also considered is any relevant work undertaken in 2018/19 before the audit committee report deadline.

1.4 SIAS is grateful for the co-operation and support it has received from client officers during 2017/18.

2. Annual Assurance Statement 2017/18

Context

Scope of responsibility

2.1 Council managers are responsible for ensuring Council business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. They are also responsible for ensuring internal controls are robust and risk management arrangements are appropriate.

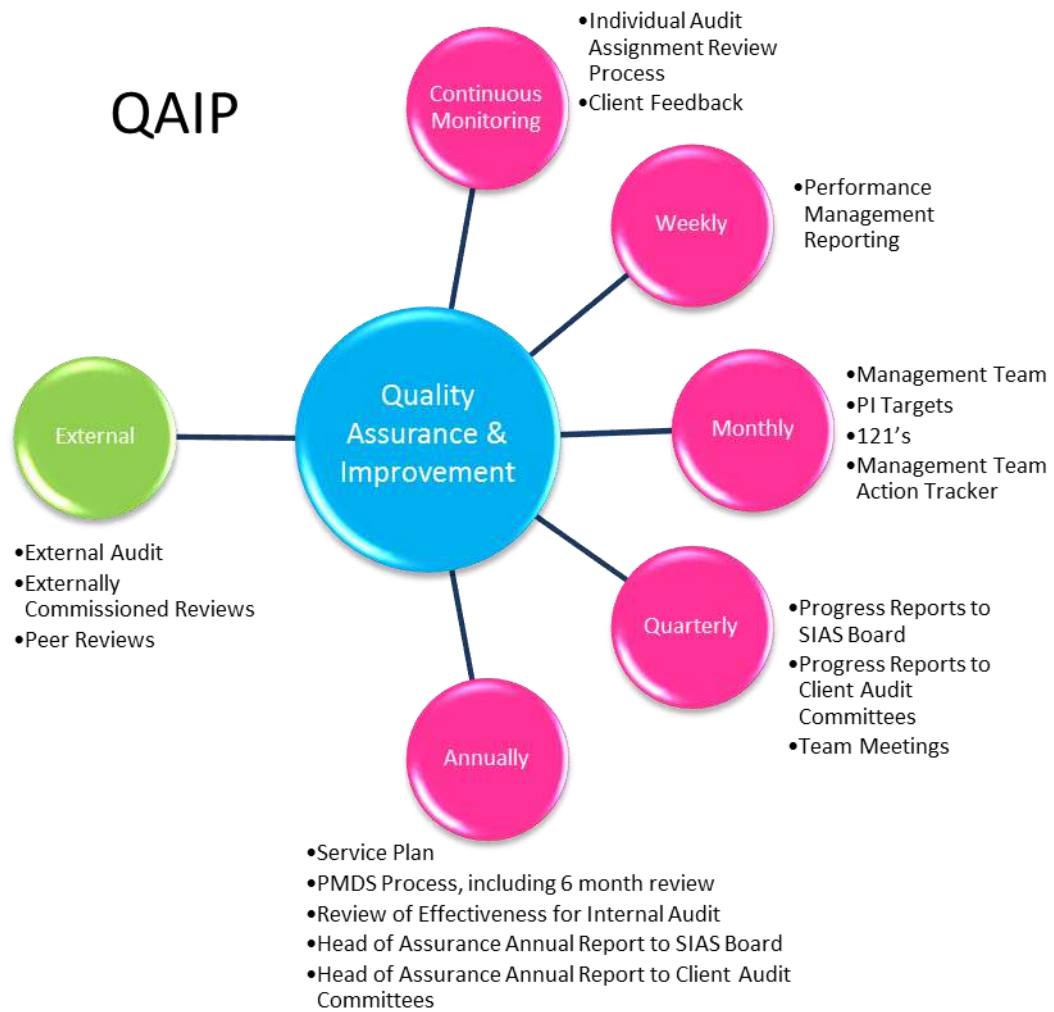
Annual Assurance Statement and Internal Audit Annual Report Hertfordshire County Council

Control environment

- 2.2 The control environment comprises three key areas: governance; risk management; and internal control. Together these aim to manage risk to an acceptable level but it is accepted that it is not possible to completely eliminate it.
- 2.3 A robust control environment helps ensure that the Council's policies, priorities and objectives are achieved.

Review of effectiveness

- 2.4 The Head of Assurance must confirm annually that the internal audit function is suitably qualified to carry out the work that informs the assurance opinion.
- 2.5 As part of a QAIP, a self-assessment was conducted against the Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF). They promote professionalism, quality, consistency and effectiveness of internal audit across the public sector. They highlight the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances needed to support them in both managing the organisation and producing the Annual Governance Statement.
- 2.6 The 2017/18 self-assessment identified 2 areas of agreed non-conformance. These are detailed in Appendix C. There are no significant deviations from Standards which warrant inclusion in the Council's Annual Governance Statement
- 2.7 The Head of Assurance has concluded, therefore, that SIAS 'generally conforms' to the PSIAS, including the Definitions of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. 'Generally conforms' is the highest rating and means that SIAS has a charter, policies and processes assessed as conformant to the Standards and is consequently effective.
- 2.8 The SIAS QAIP includes both internal and external monitoring and reporting to assess the efficiency and effectiveness of internal audit activity and identify opportunities for improvement. The diagram below details the methods used to monitor and report on these. Detailed information outlining activity in each area is contained in the SIAS Audit Manual.
- 2.9 The Head of Assurance confirms that during 2017/18 SIAS operated according to its QAIP with evidence available within the service to support the achievement of each QAIP element.



Confirmation of independence of internal audit and assurance on limitations

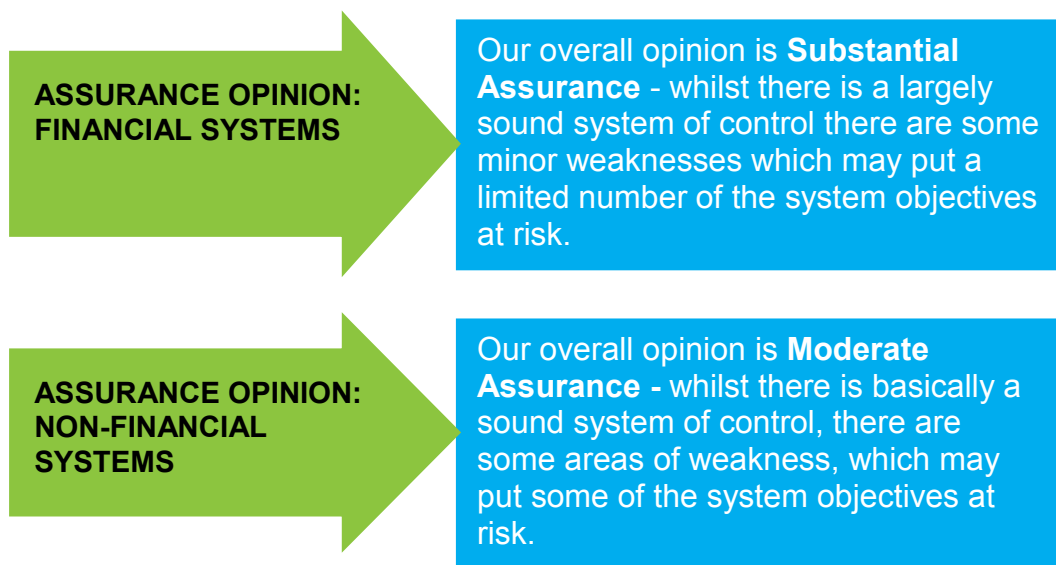
2.10 The Head of Assurance confirms that during the year:

- No matters threatened SIAS's independence; and
- SIAS was not subject to any inappropriate scope or resource limitations.

Annual Assurance Statement for 2017/18

Assurance opinion on internal control

- 2.11 Based on the internal audit work undertaken at the Council in 2017/18, SIAS can provide the following unqualified opinion on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems.



Assurance opinion on Corporate Governance and Risk Management

- 2.12 SIAS has concluded that the corporate governance and risk management frameworks substantially comply with the CIPFA/SOLACE best practice guidance on corporate governance. This conclusion is based on the work undertaken by the Council and reported in its Annual Governance Statement for 2017/18. Although SIAS did not undertake a specific risk management audit in 2017/18, risk management arrangements are considered during annual audit planning and the delivery of individual audit assignments.

**Head of Assurance for the Shared Internal Audit Service
May 2018**

3. Overview of Internal Audit Activity at the Council in 2017/18

- 3.1 This section summarises work undertaken at the Council by SIAS in 2017/18. It highlights significant internal control matters and opportunities for improvement.
- 3.2 Appendix A shows the final position against the agreed revised audit plan, assurance levels and the number of recommendations made. A summary of assurance levels and recommendation priorities is shown in the tables below and compared to 2016/17.

Assurance Level	Number of reports 2017/18 (2016/17 data in brackets)	Percentage of reports 2017/18 (2016/17 data in brackets)
Full	1 (2)	2% (3%)
Substantial	27 (38)	56% (65%)
Moderate	7 (8)	15% (14%)
Limited	0 (1)	0% (2%)
No	0 (0)	0% (0%)
Unqualified *	11 (0)	23% (0%)
Not Assessed	2 (9)	4% (16%)
Total	48 (58)	100% (100%)

Recommendation Priority Level	Number of recommendations 2017/18 (2016/17 data in brackets)	Percentage of recommendations made 2017/18 (2016/17 data in brackets)
High	2 (5)	2% (3%)
Medium	64 (95)	46% (54%)
Merits Attention	72 (76)	52% (43%)
Total	138 (176)	100% (100%)

* An "Unqualified" assurance level is only applicable to grant or account certification activities, indicating that the grant submission or accounts represented a true and fair view - based on the results of audit testing.

- 3.3 **The substantial assurance opinion overall on financial systems** (same as 2016/17) has been concluded from the 9 financial systems audits where an opinion has been given. One received full assurance and eight received substantial assurance.
- 3.4 **The moderate assurance opinion overall on non-financial systems** has been concluded from the 37 audits where an opinion has been given. 19 received substantial assurance, seven received moderate assurance

Annual Assurance Statement and Internal Audit Annual Report Hertfordshire County Council

and eleven grant certification activities received an unqualified opinion. Further details on the audits where moderate assurance opinions were provided is given in paragraph 3.13 of this report.

- 3.5 In arriving at our overall opinion for non-financial systems we highlight that 81% of opinions issued for individual assignments during the year were assessed at substantial assurance (or equivalent). This demonstrates that the Council has satisfactory or good systems of internal control for a wide range of areas. However, our opinion has also considered the risks and impacts associated with any potential control failures in those areas receiving moderate assurance. Given the corporate importance of several of those areas, this has led us to reduce our overall opinion for non-financial systems accordingly. It should be noted that moderate assurance still concludes that the Council has, overall, a sound system of control, but with some areas where improvements could be made.

Schools Audit Plan

- 3.6 The schools' audit plan for 2017/18 identified three streams of activity:

Theme 1 - Assessment of the effectiveness of internal control in relation to the requirements of the Schools Financial Value Standard (SFVS) (sample of 26 schools)

Theme 2 – Safe Recruitment – to provide assurance that the sample schools comply with statutory guidance (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). Given that the above theme only focused on one element of the wider area of safeguarding, we did not provide formal opinions within reports issued to individual schools. This approach (agreed by the Director of Children's Services in 2016/17) was to avoid any misinterpretation of the audit outcomes by external regulators such as Ofsted. However, recommendations for improvement were made within each report as appropriate.

Theme 3 – IR35 (Intermediaries legislation) – to review the effectiveness of the internal control environment in place to allow compliance with the requirements of IR35 (sample of 14 schools). Given the fact finding nature of this theme, supporting wider work being undertaken by the Council's IR35 Project Group, formal audit reports and opinions were not provided to individual schools. However, each school visited was provided with a "summary of findings" highlighting any recommendations for improvement.

- 3.7 In addition to the above, Children's Services or individual schools requested audit visits under the SFVS theme. In total, one additional review was undertaken using the SFVS approach.

Annual Assurance Statement and Internal Audit Annual Report Hertfordshire County Council

3.8 A summary is provided below of the outcomes from the schools theme reviews undertaken during 2017/18.

Assurance Level	SFVS compliance review	Safe Recruitment	IR35	Follow-up	Total
Full	0	0	0	1	1
Substantial	20	0	0	1	21
Moderate	5	0	0	0	5
Limited	0	0	0	0	0
Not assessed	0	17	14	0	31
Draft Report	1	1	0	0	2
Total	26	18	14	2	60

High Priority Recommendations

- 3.9 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.
- 3.10 Two high priority recommendations were made within audits completed during 2017/18, across two different audits. In respect of both recommendations, the agreed management actions were not due for completion until quarter one of 2018/19.
- 3.11 Members will continue to receive updates on the implementation progress of high priority recommendations through the SIAS quarterly progress reports to the Audit Committee.
- 3.12 High priority recommendations relating to schools are excluded from the above analysis given both the volume of schools within the County and the relative risk of any single recommendation to the Authority as a whole.

Moderate and Limited Assurance Opinions

- 3.13 Details of the moderate assurance audits for 2017/18 are as follows:
- **Resources - DBS and Risk Assessments** – whilst no omissions were identified in relation to the completion of DBS checks during the audit, opportunities were identified to enhance the existing quality assurance processes, consistency in updating DBS completion flags and the use of job families to streamline the identification of where DBS checks are required; Management agreed a comprehensive action plan to address the above issues;

Annual Assurance Statement and Internal Audit Annual Report Hertfordshire County Council

- **Resources - Cyber Security** – we identified several areas where existing security arrangements could be further strengthened; management have agreed a full action plan to address the improvement areas identified;
- **Resources - LEP – Compliance with the Assurance Framework** – whilst a detailed assurance framework was in place, areas were highlighted where arrangements could be strengthened to implement best practice and also recommendations arising from the Ney Review. The above included reviewing existing codes and policies, such as the code of conduct, expenses policy, gifts and hospitality guidance, conflicts of interest policy and whistleblowing arrangements. We also highlighted opportunities to improve existing systems for reporting project information, project monitoring and risk management. Management have provided a comprehensive action plan to address the audit findings;
- **Resources – General Data Protection Regulations Preparedness** – whilst it is evident that the Council have undertaken a number of actions to prepare for the implementation of GDPR, we identified that there was an absence of agreed deadlines for actions associated with the Council wide data audit. We also identified that a number of information asset owners had not yet provided the Information Governance Unit with completed privacy notices for their information assets. Management have confirmed that deadlines have now been set and a sub-group is reviewing privacy notices across the organisation;
- **Adult Care Services - Deputyships and Appointeeships** – we identified that whilst financial records were complete and accurate, further work was required to review roles and responsibilities (to assist in reducing referral to application timescales) and add further clarity to monitoring activities. We also identified scope to remind staff of interim arrangements during the Court of Protection (COP) application process, more consistent reviews of appointeeship account balances, more timely bank reconciliations and improvements to the audit trail for investment decisions; Management have provided a full action plan to address the audit findings;
- **Highways - Dropped Kerbs** – we identified that underlying systems and processes supporting the customer journey were robust, however we highlighted that further work was required to improve the timeliness of application assessments, validation processes for contractor invoices and improved tracking and recording of inspections during and post construction; Management have agreed to implement all audit recommendations;
- **Children’s Services – GDPR (Transmission of Sensitive Data)** – we identified that frontline officers had a strong awareness of good practice, however improvements were required in the areas of

Annual Assurance Statement and Internal Audit Annual Report Hertfordshire County Council

completion of mandatory training (and associated training records), consistent use of password protection / naming conventions when using HertsFX, and review of the content of i-Learn modules on data protection; Management have agreed to implement all audit recommendations.

- 3.14 No limited assurance opinions were provided for audits completed during 2017/18.

Audits to be finalised from the 2017/18 Plan

- 3.15 The following audits were at draft report stage at the time of writing this Annual Report:

- Adult Care Services – Data Security and Information Sharing
- Adult Care Services – Data Quality Business Process Compliance
- Adult Care Services – Market Oversight Programme (consultancy review)
- Children’s Services – Financial Monitoring of Schools
- Community Protection – Trading Standards - Management of Evidence
- Council Wide – Conflicts of Interest
- Council Wide – Business Continuity

Detailed management responses and target implementation dates for the recommendations proposed are awaited. The outcomes from these audits have not been taken into account when determining the overall assessment for the Council, although it is considered that none of the issues identified within the above reviews are sufficiently significant to alter the overall opinions reported in paragraph 2.11.

- 3.16 In addition, the following audits were still in fieldwork or quality review at the time of this report:-

- Council Wide – Safeguarding (focusing on Safe Recruitment)
- Cross Service – 0-25 Integrated Service
- Cross Service – Home to School Transport
- Environment – Bus Contracts
- Adult Care Services – Application of Eligibility Thresholds
- Adult Care Services – Direct Payments
- Adult Care Services – Learning Disability Service Demography and Budget Monitoring
- Children’s Services – Customer Service Centre (Safeguarding Enquiries)

The progress of the above reviews will be reported to the Audit Committee through the quarterly SIAS progress reports, with all remaining audits expected to be completed by the end of May 2018 and, where necessary, the outcomes reflected in the 2018/19 annual assurance opinion.

4. Performance of the Internal Audit Service in 2017/18

Performance indicators

4.1 The table below compares SIAS's performance at the Council against the 2017/18 targets set by the SIAS Board.

Indicator	Target 2017/18	Actual to 31 March 2018
1 SIAS Planned Days – percentage of actual billable days delivered against planned billable days	95%	94%
2 SIAS Planned Projects – actual completed projects to draft report stage against planned completed projects	95%	93%
3 External Auditors' Satisfaction – the Annual Audit Letter formally records that the External Auditors are able to rely upon the range and quality of SIAS' work	Formal Reliance	N/a
4 SIAS Annual Plan – presented to the March Audit Committee or the first meeting of the financial year should a March committee not meet.	Deadline met	Met - 2017/18 Audit Plan presented to the March 2017 Audit Committee
5 Client Satisfaction - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	100%	100% - 19 questionnaires were returned during 2017/18.
6 Head of Assurance's Annual Report – presented at the first Audit Committee meeting of the financial year.	Deadline met	Met - 2016/17 Annual Report Presented to the July 2017 Audit Committee
7 Number of High Priority Audit Recommendations agreed	95%	100%

Service Developments

4.2 During 2017/18 the development activities for SIAS included:

- Implementing the SIAS restructure in order to streamline the delivery of the Audit Service and meet future client needs.
- Implementing a new time recording and audit plan management database, allowing the service to make cost savings and improve the ability to streamline business processes in the future.
- Continued review of key business processes, including work allocation, to reduce administrative overheads and improve efficiency in delivering the audit plan.
- Piloting quarterly reporting to Hertfordshire County Council Service Boards on the delivery and outcomes of the internal audit plan.

5. Audit Charter 2018/19

5.1 The PSIAS require a local authority to formally adopt an Audit Charter which covers the authority and responsibility for an internal audit function.

5.2 The SIAS Audit Charter sets out the framework within which it discharges its internal audit responsibilities to those charged with governance in the partner councils. It details the permanent arrangements for internal audit and key governance roles and responsibilities to ensure the effectiveness of internal audit provision.

5.3 The Audit Charter is reviewed annually. The review in April 2018 did not result in any fundamental changes although a number of minor amendments were made. The 2018/19 Charter is attached at Appendix D.

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

2017/18 Hertfordshire County Council Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
Corporate						
Annual Governance Statement 2016/17	N/a				8	Complete
Annual Governance Statement 2017/18	N/a				5	Complete
Head of Internal Audit Opinion 2016/17	N/a				5	Complete
Whistleblowing - named contact and quarterly review	N/a				10	Complete
Resources						
Resources Queries < 3hrs Activities	N/a				10	Complete
Resources: Hertfordshire Business Services (HBS)						
Business Operations	Substantial	0	2	6	25	Final Report Issued
Resources: Finance						
Pensions - Administration	Substantial	0	1	1	30	Final Report Issued

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
Payroll	Substantial	0	0	3	25	Final Report Issued
Debtors	Substantial	0	0	1	25	Final Report Issued
Creditors	Substantial	0	0	1	25	Final Report Issued
General Ledger	Full	0	0	0	20	Final Report Issued
Treasury Management	Substantial	0	1	1	15	Final Report Issued
Adult Care Services – Feeder Systems	Substantial	0	0	1	20	Final Report Issued
SAP Systems Access	Substantial	0	2	2	15	Final Report Issued
eIncome	Substantial	0	1	0	15	Final Report Issued
Resources: Property						
Carbon Reduction Commitment	Unqualified Opinion	0	0	0	15	Final Report Issued
Resources: Technology						
GDPR Preparedness	Moderate	0	2	2	10	Final Report Issued
Cyber Security	Moderate	1	3	2	15	Final Report Issued

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
Segregation of Duties / Access Controls					0	Audit Deferred
Resources: Human Resources						
DBS and Risk Assessments	Moderate	0	2	1	10	Final Report Issued
Employee Expenses	Substantial	0	0	4	15	Final Report Issued
Off Payroll Working (consultancy)	N/a				5	Complete
Resources: Legal, Democratic & Statutory Services						
LEP - Compliance with Assurance Framework	Moderate	0	18	4	19	Final Report Issued
Resources: Customer Engagement & Libraries						
Blue Badges	Substantial	0	0	3	10	Final Report Issued
Council Wide Reviews						
Delegated Decision Making	Substantial	0	1	2	25	Final Report Issued

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
Volunteering	Substantial	0	0	4	25	Final Report Issued
Serious and Organised Crime Audit	Not Assessed	0	0	0	25	Final Report Issued
Conflicts of Interest					25	Draft Report Issued
Business Continuity					25	Draft Report Issued
Safeguarding					25	In Fieldwork
Cross Service Reviews						
Early Years Payment Run Processes	Not Assessed	0	0	8	5	Final Report Issued
0-25 Integrated Service (Children's Services and Adult Care Services)					20	In Fieldwork
Home to school / college transport (Children's Services and Environment)					15	In Fieldwork
Transport Infrastructure Assets (Resources and Environment)					1.5	Audit Cancelled
Adult Care Services						
Deputyship / Appointeeships	Moderate	0	7	2	18	Final Report Issued
Data Security and Information Sharing					15	Draft Report Issued

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
Data quality - Business Process Compliance – Older People Service					20	Draft Report Issued
Market oversight programme – consultancy activity / advice					20	Draft Report Issued
Provider Portal (Consultancy Advice)	N/a				5	Complete
Adult Care Services Queries < 3hrs Activities	N/a				10	Complete
ACS Client Finances (Older People Service)	N/a				5	Complete
Demography & Budget monitoring - Adult Disability Service					20	In Fieldwork
Application of Eligibility Thresholds (Older People Service & Adult Disability Service)					20	In Fieldwork
Direct Payments					15	In Planning
Payment of homes gross - Consultancy Support					1	Audit Cancelled
Accommodation for Independence Programme (Adult Disability Service)					1	Audit Cancelled
Integrated Commissioning Arrangements					1.5	Audit Cancelled
Environment Services						
Dropped Kerbs	Moderate	0	4	1	12	Final Report Issued

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
Highways Service - Highways Act 1980 Section 58	Substantial	0	2	2	15	Final Report Issued
Highways Services - PMnet Software Development Project	Substantial	0	2	1	10	Final Report Issued
Highways Service - Category 3 Works	Substantial	0	1	1	15	Final Report Issued
Compliance with CDM Regulations	Substantial	0	0	2	15	Final Report Issued
Bus Contracts					15	In Fieldwork
WAMS (Waste Management System) - Consultancy Advice	N/a				3	Complete
Environment Services Queries <3hrs activities	N/a				10	Complete
Development Management - Enforcement					0.5	Audit Deferred (see 18/19 Plan)
Children's Services						
GDPR – Transmission of Sensitive Data	Moderate	1	4	3	20	Final Report Issued
Financial Monitoring of Schools					15	Draft Report Issued
Family Finding model	N/a				5	Complete
Children's Services Queries <3hrs Activities	N/a				10	Complete

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
Customer Service Centre (safeguarding enquiries)					20	In Quality Review
Programme / Project Management					1.5	Audit Deferred (see 18/19 Plan)
Quality Assurance Systems (Consultancy)					4	Audit Deferred (see 18/19 Plan)
Public Health						
Commissioning, Contract Management and Contract Payments	Substantial	0	2	2	20	Final Report Issued
Immunisation in Schools					0.5	Audit Cancelled
Community Protection						
Service Performance Management	Substantial	0	2	2	15	Final Report Issued
Internal Quality Assurance Arrangements	Substantial	0	0	1	15	Final Report Issued
Trading Standards - Management of Evidence					10	Draft Report Issued
Shared Learning						

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
Shared Learning Newsletters and Summary Themed Reports	N/a				5	Through Year
Joint Review					0	Cancelled
Grant Claims						
Herts Chief Finance Officers Society	Unqualified Opinion	0	0	0	2	Final Report Issued
Hertfordshire Education Foundation	Unqualified Opinion	0	0	0	5	Final Report Issued
Hertfordshire Charity for Deprived Children	Unqualified Opinion	0	0	0	1	Final Report Issued
Autism Grant					0	Cancelled
LEP - Local Growth fund	Unqualified Opinion	0	0	0	3	Final Report Issued
Integrated and structural maintenance grant					0	Cancelled
Building Better Opportunities	N/a				3	Complete
Disabled Facilities Grants / Home Improvement Agency	Unqualified Opinion	0	0	0	5	Final Report Issued
LEP Capital Grant	Unqualified Opinion	0	0	0	4.5	Final Report Issued
Bus Subsidy Operators Grant	Unqualified Opinion	0	0	0	2	Final Report Issued

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
Pot Hole Action Fund	Unqualified Opinion	0	0	0	1.5	Final Report Issued
Local Transport Capital Block Funding	Unqualified Opinion	0	0	0	1.5	Final Report Issued
oneTRANSPORT	Unqualified Opinion	0	0	0	18	Final Report Issued
Other Chargeable						
Plan Delivery Monitoring	N/a				30	Complete
Recommendations Follow-Up - Q1	N/a				5	Complete
Recommendations Follow-Up - Q2	N/a				5	Complete
Recommendations Follow-Up - Q3	N/a				5	Complete
Recommendations Follow-Up - Q4	N/a				5	Complete
Client Liaison	N/a				10	Complete
Audit Committee	N/a				20	Complete
2018/19 Audit Planning	N/a				30	Complete
Performance Data	N/a				3	Complete

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
External Audit Liaison	N/a				2	Complete
SIAS Development	N/a				40	Complete
SIAS Board Meetings and Preparation	N/a				10	Complete
Management of Scrutiny	N/a				5	Complete
Management of Health & Safety	N/a				5	Complete
Management of Shared Anti-Fraud Service	N/a				5	Complete
Management of Risk Management and Insurance	N/a				5	Complete
Public Sector Internal Audit - Self Assessment 17-18	N/a				10	Complete
16/17 Projects requiring completion						
16-17 Projects requiring completion	N/a				10	Complete
16/17 Social Media	Substantial	0	0	0	9.5	Final Report Issued
16/17 Client Finances - Establishment Visits	Substantial	0	4	0	12.5	Final Report Issued
16/17 Training Records	Substantial	0	0	3	10	Final Report Issued

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
16/17 Ofsted Action Plan	Substantial	0	1	2	7.5	Final Report Issued
16/17 Overtime / Working Time Directive	Substantial	0	0	1	6	Final Report Issued
16/17 Pre-Paid Cards	Substantial	0	2	3	8.5	Final Report Issued
16/17 Joint Reviews	N/a				1	Final Report Issued
16/17 Ringway - Service Sector Improvements	Substantial	0	0	0	1	Final Report Issued
Contingency – Grants					4	
Contingency - General					49	
Schools						
Advice, queries and guidance for schools	N/a				16.5	Complete
Liaison, awareness raising and training	N/a				18.25	Complete
Theme 1 - SFVS (25 schools)	N/a				114	Final Reports Issued

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	STATUS/COMMENT
		H	M	MA		
Theme 2 - Safe Recruitment (18 Schools)	N/a				65	Final Reports Issued
Theme 3 – IR35 (15 schools)	N/a				60.25	Draft or Final Reports Issued
16-17 SFVS Returns Collation	N/a				10	Complete
17-18 SFVS Returns Collection	N/a				5	Complete
Reporting 16/17 themes	N/a				10	Final Reports Issued
Follow up schools with high priority recs or moderate assurance	N/a				10	Complete
Plan Monitoring	N/a				10	Complete
Completion of 16-17 Audits	N/a				8	Complete
Contingency - Schools Causing Concern	N/a				6	
Contingency - Academy Conversions	N/a				6	
Contingency - General					6	
Total		2	64	72	1637	

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

Key to Assurance Level and Recommendation Priority Levels:

N/a = Not Applicable

H = High priority recommendations; M = Medium priority recommendations; MA = Merits Attention priority recommendations

OUTCOMES FROM SCHOOL ASSURANCE THEMES

Theme 1 - SFVS Review – Reviews of compliance with Schools Financial Value Standard (SFVS)	
Ashtree Primary School & Nursery (Stevenage)	Substantial
Martins Wood Primary (Stevenage)	Moderate
Woolenwick JM (Stevenage)	Substantial
Thorn Grove Primary (East Hertfordshire)	Substantial
St Augustine's Catholic Primary (Broxbourne)	Moderate
Hunsdon JMI (East Hertfordshire)	Substantial
Wareside C of E Primary (East Hertfordshire)	Substantial
Longlands Primary School & Nursery (Broxbourne)	Substantial
Holwell Primary (Welwyn Hatfield)	Substantial
Creswick Primary and Nursery (Welwyn Hatfield)	Substantial

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

Northaw C of E Primary (Welwyn Hatfield)	Substantial
Parkside Community Primary (Hertsmere)	Moderate
Orchard Primary (The) (Watford)	Substantial
Chaulden Infants' and Nursery (Dacorum)	Substantial
St Bartholomew's C of E VA Primary (Wigginton) (Dacorum)	Substantial
St Ippolyts	Substantial
Giles	Substantial
Morgans	Substantial
Four Swannes	Moderate
St Bernadette	Moderate
Peartree	Substantial
Central	Substantial
Two Waters	Substantial
Reddings	Draft Report
Little Gaddesden	Substantial
Breakspear	Substantial

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

Theme 2 – Safe Recruitment	
Parkgate	Not Assessed (see paragraph 3.6)
Nascott Wood	
Hobbs Hill Wood	
Swing Gate	
Dundale	
Barley	
Preston	
Stevenage ESC	
Wormley	
Christchurch	
Margaret Wix	
Skyswood	
St Nicholas	
Birchwood	
Batchwood	

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

Holy Rood	
Leverstock Green	
Brockswood	
Great Gaddesden	
Theme 3 – IR35	
Marriotts	Not Assessed (see paragraph 3.6)
Hillmead Primary	
Jenyns First School and Nursery	
Abel Smith	
Roger de Clare C of E (V C) First and Nursery	
How Wood Primary School and Nursery	
Oaklands Primary	
Sacred Heart Catholic Primary School & Nursery	
The Russell	
Coates Way JMI and Nursery	
Holywell Primary	

APPENDIX A - FINAL POSITION FOR THE 2017/18 AUDIT PLAN

Goldfield	
Meadow Wood	
Edwinstree	

APPENDIX B - DEFINITIONS OF ASSURANCE LEVELS AND PRIORITY OF RECOMMENDATIONS

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.

APPENDIX C – PROGRESS AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT APRIL 2018 – ACTION PLAN

Section A: Conformance - During 2017/18 all areas apart from those identified in Section B below are conforming.

Section B: Intentional Non-Conformance

Ref	Area of Non-Conformance with the Standard	Commentary	
3.1a	<p>Purpose, Authority and Responsibility</p> <p>Does the board (defined as the Audit Committee) approve decisions relating to the appointment and removal of the Chief Audit Executive (CAE) (Head of Assurance)?</p>	<p>The Director of Resources, Hertfordshire County Council (HCC), in consultation with the Board of the Shared Internal Audit Services approves decisions relating to the appointment and removal of the CAE.</p> <p>This is as provided for in the governance of the Shared Internal Audit Service.</p>	<p>Non-conformance</p> <p>No further action proposed. The current arrangements are considered effective given the shared nature of SIAS.</p>
3.1c	<p>Purpose, Authority and Responsibility</p> <p>Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?</p>	<p>The performance appraisal is carried out by the Director of Resources (HCC).</p>	<p>Non-conformance</p> <p>No further action proposed. The appraisal process was carried out by the Director of Resources (HCC) with input from all partner chief finance officers. The current arrangements are considered effective given the shared nature of SIAS.</p>



Audit Charter 2018/2019

1. Introduction and Purpose

- 1.1. Internal auditing is an independent and objective assurance and consulting activity. It is guided by a philosophy of adding value to the operations of an organisation. It assists a council to achieve its objectives by systematically evaluating and improving the effectiveness and efficiency of risk management, control and governance processes.

2. Scope

- 2.1. This Charter applies to all SIAS clients.

3. Statutory Basis of Internal Audit

- 3.1. Local government is statutorily required to have an internal audit function. The Accounts and Audit Regulations 2015 require that 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 3.2. In addition, a council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To fulfil this requirement, the S151 officer relies, amongst other sources, upon the work of internal audit.

4. Role

- 4.1. SIAS internal audit activity is overseen by each council's committee charged with fulfilling audit committee responsibilities herewith referred to as the Audit Committee. As part of its oversight role, the Committee is responsible for defining the responsibilities of SIAS via this Charter.
- 4.2. SIAS may undertake additional consultancy activity requested by management. The Head of Assurance will determine such activity on a case by case basis assessing the skills and resources available. Significant additional consultancy

activity not already included in the audit plan will only be accepted and carried out following consultation with the SIAS Board.

5. Professionalism

- 5.1. SIAS governs itself by adherence to the Public Sector Internal Audit Standards (PSIAS). These standards include the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. They set out the fundamental requirements for the professional practice of internal auditing and the evaluation of the effectiveness of an internal audit function's performance.
- 5.2. SIAS also recognise the Mission of Internal Audit as identified within the IPPF, 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight' and the Core Principles for the Professional Practice of Internal Auditing, which demonstrate an effective internal audit function, achieving internal audit's mission.
- 5.3. SIAS's operations are guided by its operating procedures manual as well as applicable, CIIA Position Papers, Practice Advisories and Guides, and relevant council policies and procedures, including compliance with the Bribery Act 2010.
- 5.4. Should non-conformance with the Standards be identified, the Head of Assurance will investigate and disclose, in advance if possible, the exact nature of the non-conformance, the reasons for it and, if applicable, its impact on a specific engagement or engagement outcome.

6. Authority and Confidentiality

- 6.1. Internal auditors are authorised full, free, and unrestricted access to any and all of a client's records, physical properties, and personnel as required to carry out an engagement. All employees are requested to assist SIAS in fulfilling its roles and responsibilities. Information obtained during the course of an engagement is safeguarded and confidentiality respected.
- 6.2. Internal auditors will only use information obtained to complete an engagement. It will not be used in a manner that would be contrary to the law, for personal gain, or detrimental to the legitimate and ethical objectives of the client organisation(s). Internal auditors will disclose all material facts known which if not disclosed, could distort a report or conceal unlawful practice.

7. Organisation

- 7.1. The Head of Assurance and their representatives, have free and unrestricted direct access to Senior Management, the Audit Committee, the Chief Executive, the Chair of the Audit Committee and the External Auditor. The Head of

Assurance will communicate with any and all of the above parties at both committee meetings and between meetings as appropriate.

- 7.2. The Head of Assurance is line managed by the Director of Resources at Hertfordshire County Council (HCC), who approves all decisions regarding the performance evaluation, appointment, or removal of the Head of Assurance, in consultation with the SIAS Board. Each partner's Section 151 Officer is asked to contribute to the annual appraisal of the Head of Assurance.

8. Stakeholders

The following groups are defined as stakeholders of SIAS:

- 8.1. The Head of Assurance and the SIAS Audit Manager, both suitably experienced and qualified (CCAB and / or CMIIA), are responsible for:
- hiring, appraising and developing SIAS staff in accordance with the host authority's HR guidance
 - maintaining up-to-date job descriptions which reflect the roles, responsibilities, skills, qualifications, and attributes required of SIAS staff
 - ensuring that together, SIAS staff possess or obtain the skills, knowledge and competencies (including ethical practice) needed to effectively perform SIAS engagements
- 8.2. The Audit Committee, in its role of 'board', is responsible for overseeing the effectiveness of SIAS and holding the Head of Assurance to account for delivery. This is achieved through the approval of performance targets set by the SIAS Board and receipt of regular reports. The Audit Committee is also responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers to account for delivery.
- 8.3. Senior Management, defined as the Head of Paid Service, Chief Officers and their direct reports, are responsible for helping shape the programme of assurance work. This is achieved through analysis and review of key risks to achieving the Council's objectives and priorities.
- 8.4. The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS, including:
- resourcing and financial performance
 - operational effectiveness through the monitoring performance indicators
 - the overall strategic direction of the shared service

9. Independence and Objectivity

- 9.1. No element in the organisation should interfere with audit selection, scope, procedures, frequency, timing, or report content. This is necessary to ensure

that internal audit maintains the necessary level of independence and objectivity.

- 9.2. As well as being impartial and unbiased, internal auditors will have no direct operational responsibility or authority over any activity audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that might impair their judgment.
- 9.3. When asked to undertake any additional roles/responsibilities outside internal auditing, the Head of Assurance will highlight to the board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics as well as any relevant requirements set out in other professional bodies to which the CAE may belong. The Board will approve and periodically review any safeguards put in place to limit any impairments to independence and objectivity.
- 9.4. The Head of Assurance will confirm to the Audit Committee, at least annually, the organisational independence of SIAS.

10. Conflicts of Interest

- 10.1. Internal auditors will exhibit clear professional objectivity when gathering, evaluating, and communicating engagement information. When forming judgments, they will make a balanced assessment of all relevant circumstances and not be influenced by their own interests or the views and interests of others.
- 10.2. Each auditor will comply with the ethical requirements of his/her professional body and proactively declare any potential conflict of interest, whether actual or apparent, prior to the start of an engagement.
- 10.3. All auditors sign an annual declaration of interest to ensure that the allocation of work avoids conflict of interest. Auditors who undertake consultancy work or are new to the team will be prohibited from auditing in those areas where they have worked in the past year. Audits are rotated within the team to avoid over-familiarity and complacency.
- 10.4. SIAS has procured an arrangement with an external partner to provide additional internal audit days on request. The external partner will be used to deliver engagements as directed by the Head of Assurance in particular providing advice and assistance where SIAS staff lack the required skills or knowledge.
- 10.5. In the event of a real or apparent impairment of independence or objectivity, (acceptance of gifts, hospitality, inducements or other benefits) the Head of Assurance will investigate and report on the matter to appropriate parties.

11. Responsibility and Scope

- 11.1. The scope of SIAS encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes (as they relate to the organisation's priorities and objectives) and the promotion of appropriate ethics and values.
- 11.2. Internal control and risk management objectives considered by internal audit extend to the organisation's entire control and risk management environment and include:
- consistency of operations or programs with established objectives and goals, and effective performance
 - effectiveness and efficiency of governance, operations and employment of resources
 - compliance with significant policies, plans, procedures, laws, and regulations
 - design, reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information
 - safeguarding of assets
- 11.3. SIAS is well placed to provide advice and support on emerging risks and controls and will, if requested, deliver consulting and advisory services or evaluate specific operations.
- 11.4. SIAS is responsible for reporting to the Audit Committee and senior management, significant risk exposures (including those to fraud addressed in conjunction with the Shared Anti-Fraud Service), control and governance issues and other matters that emerge from an engagement.
- 11.5. Engagements are allocated to (an) internal auditor(s) with the appropriate skills, experience and competence. The auditor is then responsible for carrying out the work in accordance with the SIAS Audit Manual, and must consider the relevant elements of internal control, the needs and expectations of clients, the extent of work required to meet the engagement's objectives, its cost effectiveness, and the probability of significant error or non-compliance.

12. Role in Anti-Fraud

- 12.1. The SIAS work programme, designed in consultation with Senior Management, the Audit Committee and, where applicable, the Shared Anti-Fraud Service, seeks to help deter fraud and corruption.

- 12.2. In conjunction with the Shared Anti-Fraud Service SIAS shares information with relevant partners to increase the likelihood of detecting fraudulent activity and reducing the risk of fraud to all.
- 12.3. The Head of Assurance should be notified of all suspected or detected fraud, corruption or impropriety so that the impact upon control arrangements can be evaluated.

13. Internal Audit Plan

- 13.1. Following discussion with appropriate senior management, the Head of Assurance will submit a risk based plan to the Audit Committee for review and approval. This will occur at least annually. The plan sets out the engagements agreed and demonstrates the priorities of both SIAS (the need to produce an annual internal audit opinion) and those of the organisation. Also included will be any relevant declarations of interest.
- 13.2. The plan will be accompanied by details of the risk assessment approach used and will take into account the organisation's assurance framework. Also shown will be the timing of an engagement, its budget in days, details of any contingency for new or changed risks, time for planning and reporting and a contribution to the development of SIAS.
- 13.3. The plan will be subject to regular review in year, and may be modified in response to changes in the organisation's business, risks, operations, programmes, systems and controls. All significant changes to the approved internal audit plan will be communicated in the quarterly update reports.

14. Reporting and Monitoring

- 14.1. A draft written Terms of Reference will be prepared and issued to appropriate personnel at the start of an engagement. It will cover the intended objectives, scope and reporting mechanism and will be agreed with the client. Changes to the terms of reference during the course of the engagement may occur and will be agreed following consultation with the client.
- 14.2. A report will be issued on completion of an engagement. It will include a reasoned opinion, details of the time period and scope within which it was prepared, management's responses to specific risk prioritised findings and recommendations made and a timescale within which corrective action will be / has been taken. If recommended action is not to be taken, an explanation for this will also be included.
- 14.3. SIAS will follow-up the implementation of agreed recommendations in line with the protocol at each client. As appropriate, the outcomes of this work will be reported to the audit committee and may be used to inform the risk-based planning of future audit work. Should follow-up activity identify any significant error or omission, this will be communicated by the Head of Assurance to all

relevant parties. A revised internal audit opinion may be issued on the basis of follow-up activity.

- 14.4. In consultation with senior management, the Head of Assurance will consider, on a risk-basis, any request made by external stakeholders for sight of an internal audit report.
- 14.5. Quarterly update reports to the Audit Committee will detail the results of each engagement, including significant risk exposures and control issues. In addition, an annual report will be produced giving an opinion on the overall control, governance, and risk management environment (and any other issues judged relevant to the preparation of the Annual Governance Statement), with a summary of the work that supports the opinion. The Head of Assurance will also make a statement of conformance with PSIAS, and detail the nature and reasons for any impairments, qualifications or restrictions in scope for which the Committee should seek reassurances from management.

15. Periodic Assessment

- 15.1. PSIAS require the Head of Assurance and the SIAS Board to make arrangements for an independent review of the effectiveness of internal audit undertaken by a suitably knowledgeable, qualified and competent individual or organisation. This should occur at least five yearly.
- 15.2. The Head of Assurance will ensure that continuous efforts are made to improve the efficiency, effectiveness, and quality of SIAS. These will include the Quality Assurance and Improvement Programme, client feedback, appraisals and shared learning with the external audit partner as well as coaching, supervision, and documented review.
- 15.3. A single review will be carried out to provide assurance to all SIAS partners with the outcomes included in the partner's Annual Report.

16. Review of the Audit Charter

- 16.1. The Head of Assurance will review this charter annually and will present, to the first audit committee meeting of each financial year, any changes for approval.
- 16.2. The Head of Assurance reviewed this Audit Charter in April 2018. It will next be reviewed in April 2019.

Note:

For readability, the term 'internal audit activity' as used in the PSIAS guidance has been replaced with 'SIAS' in this Charter.

HERTFORDSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

15 MAY 2018 AT 10.00 AM

ANNUAL GOVERNANCE STATEMENT 2017/18 and CODE OF CORPORATE GOVERNANCE 2018/19

Report of the Director of Resources

Author: Terry Barnett, Head of Assurance Services
(Tel: 01438 845508)

Executive Member: David Williams, Resources, Property & the Economy

1. Purpose of Report

- 1.1 To set out the basis for the recently completed review of the Council's governance arrangements, including its system of internal control, and to present the draft Annual Governance Statement (AGS) 2017/18 for the Committee's consideration and approval.
- 1.2 The AGS is a tool to ensure the appropriate profile of governance arrangements in an organisation, and demonstrates the Council's commitment to good governance. To have the intended effect the AGS must be open, honest and balanced. The document should reflect contributions from across the organisation. The draft AGS is provided in Appendix A.
- 1.3 The AGS reviews and reflects upon the Council's governance arrangements at a specific point in time. This is distinct from the Council's Code of Corporate Governance which sets out the standing arrangements that the Council puts in place to ensure good governance. The Code of Corporate Governance is made available on the Council's public website. The annual review of the Code has been carried out and Appendix B sets out the updated version.

2. Background

- 2.1 The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including its system of internal control. The Council has charged the Audit Committee with keeping the effectiveness of the Council's system of internal control under review, and reporting any recommendations for improvement to the executive.
- 2.2 This year's review of effectiveness has been informed by:

- Assurance statements from the Council's Joint Leadership Team comprising the Strategic Management Board and Assistant Directors;
- A review of compliance against the Council's Code of Corporate Governance;
- The Head of Audit Annual Opinion, authored by the Head of Assurance Services and presented to the Committee elsewhere on this agenda;
- Any comments made by the Council's External Auditors, and other review agencies and inspectorates.

2.3 SIAS led this year's review of the effectiveness and a draft Annual Governance Statement has been prepared and reviewed by the Strategic Management Board. The Statement has been produced in line with the guidance produced by the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives.

3. Structure of the Annual Governance Statement

3.1 Sections 1 to 3 of the AGS provide context on governance and on the purpose of the Council's governance framework whilst Section 4 describes key elements of the framework. Section 5 sets out how these arrangements have been reviewed.

3.2 Section 6 details those group activities which involve the Council as a stakeholder or partner.

3.3 Sections 7 and 8 both report on 'significant governance issues' with Section 7 giving an update on the matters raised in the 2016/17 Statement and Section 8 detailing those matters raised as part of the 2017/18 review. The Auditing Practices Board Bulletin 2004/2 gives guidance on potential indicators of such issues and some are listed below:

- a) It seriously prejudices or prevents achievement of a principal objective of the authority;
- b) It has resulted in the need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
- c) It has led to a material impact on the accounts;
- d) The audit committee, or equivalent, advises it should be considered significant for this purpose;
- e) The Head of Internal Audit reports on it as significant, for this purpose, in the annual opinion on the internal control environment;
- f) The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
- g) The issue has resulted in formal action being undertaken by the Chief Financial Officer and / or the Monitoring Officer.

- 3.4 Section 9 of the document reports on opportunities to further improve and develop governance and internal control.

4. Recommendations

- a) That the Committee approves the draft Annual Governance Statement for 2017/18 prior to final sign off by the Leader of the Council and the Chief Executive.
- b) That the Committee approves the updated Code of Corporate Governance.

HERTFORDSHIRE COUNTY COUNCIL

ANNUAL GOVERNANCE STATEMENT

2017/18

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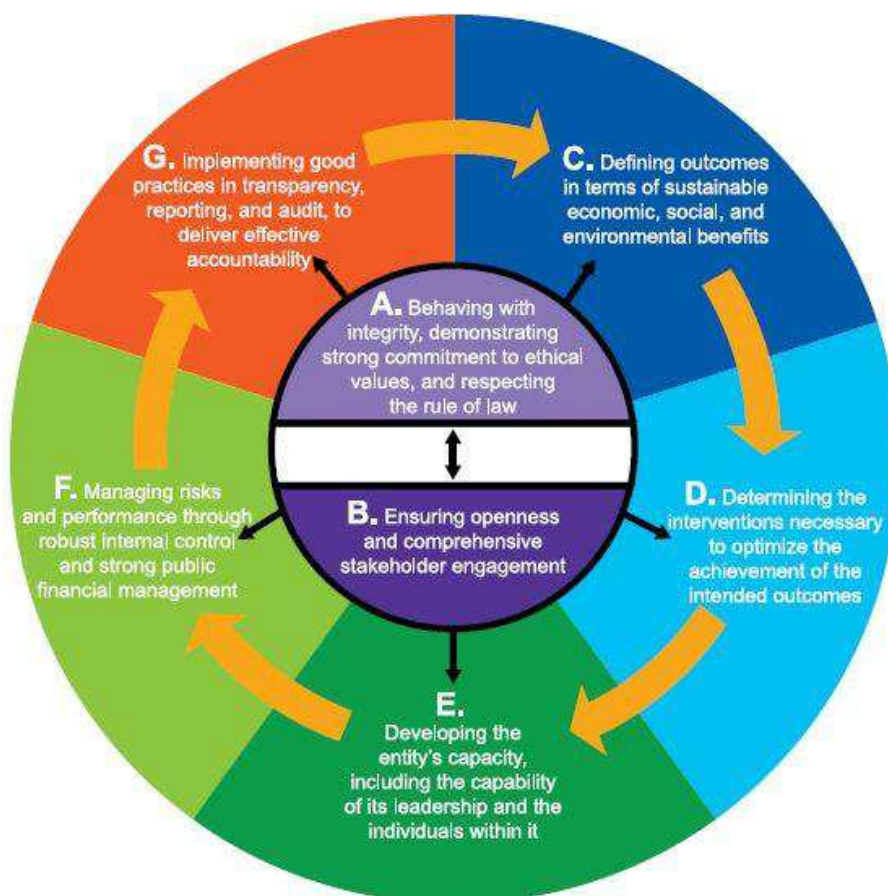
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1. Background

- 1.1. The Accounts and Audit Regulations (2015) require that Hertfordshire County Council prepare an annual governance statement to accompany its Annual Financial Report.
- 1.2. The term ‘governance’ generally refers to the arrangements put in place to ensure that intended outcomes are defined and achieved

2. The Code of Corporate Governance

- 2.1. Hertfordshire County Council’s Code of Corporate Governance is available on the Council’s website (www.Hertfordshire.gov.uk).
- 2.2. The code sets out how the Authority complies with the governance principles set out in ‘Delivering Good Governance in Local Government (2016)’ a document compiled as part of a joint initiative between the Chartered Institute of Public Finance and Accounting (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).
- 2.3. The principles and the way they integrate are set out in the international framework infographic below:



3. The Governance Framework

- 3.1. Hertfordshire County Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 3.2. In doing this, the Council is responsible for putting in place proper arrangements for the governance of its affairs as well as ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for; and used economically, efficiently and effectively.
- 3.3. The Hertfordshire County Council Governance Framework comprises both: the systems and processes; and the culture and values through which it directs and controls its operations as well as the mechanisms through which it engages with and leads the community.
- 3.4. This framework is designed to enable the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

4. Key Elements of The Governance Framework

- 4.1. The Governance Framework summarised in this Statement has been in place at the council for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts. Some of the key elements of the Authority's governance framework are described below.
- 4.2. The Council's **Constitution** sets out the rules under which the organisation conducts its business. The Constitution aims to enable the Council to provide clear leadership to the community, in partnership with the public, businesses and other organisations; support the active involvement of members of the public in decision-making; help Councillors represent their constituents; enable decisions to be taken efficiently and effectively; enable decision-makers to be held to account; and ensure that decision-makers are identifiable and that reasons are given for decisions. All the annexes to the Constitution were reviewed and where necessary updated during the year.
- 4.3. The Council's most recent **Corporate Plan** covers the period 2017-2021 and sets out a vision for Hertfordshire to remain a county where people have the opportunity to live healthy, fulfilling lives in thriving, prosperous communities. It outlines four cross-cutting themes that include key priorities for the County.

The four themes are:

- Opportunity to Thrive
- Opportunity to Prosper
- Opportunity to be Healthy and Safe
- Opportunity to Take Part.

- 4.4. The **Integrated Plan for 2017/18 – 2019/20** sets out the key outcomes toward which the Council is working. The Integrated Plan provides the associated financial and human resource plans together with information on how the Council achieves value for money in the provision of services, and the treasury management strategy. The Integrated Plan is developed through a robust review and challenge process involving both Cabinet Panel and Scrutiny.
- 4.5. The Authority utilises a system of all-party **Cabinet Panels** to consider policy development for each service area.
- 4.6. The Authority publishes an **Annual Report** which summarises significant developments and achievements for the period. The report sets out how the Council's finances have been applied to meet its priorities and also outlines some of the potential challenges and opportunities it will face in the coming year. The document also reinforces Hertfordshire County Council's commitment to working with communities and providing services through methods of delivery that demonstrate its values and behaviours.
- 4.7. The Council has well-established **Scrutiny Arrangements** which act to hold the Executive to account by scrutinising decisions made by, or on behalf of the Council or Cabinet and any operational or policy aspect of the Council's business. Additionally, the Council's Health Scrutiny Committee considers strategic countywide health matters. Councillors are also able to scrutinise any issue which affects the County and its residents which may be outside the Council's control. Full details of the topics under scrutiny can be accessed on the Council's website. Progress on the implementation of agreed scrutiny recommendations is monitored regularly.
- 4.8. Hertfordshire County Council works with partners through **Hertfordshire Forward**, the countywide strategic partnership. **The Hertfordshire Forward Strategy Group** draws the County's key partners and partnerships together to ensure that everyone is moving collectively in the same direction in the best interests of Hertfordshire. Membership of the Group comprises: the Leader of Hertfordshire County Council; the Hertfordshire Police and Crime Commissioner; the Chairs of the County's Health and Wellbeing Board and Local Enterprise Partnership; and the Chairman of the Hertfordshire Leaders Group (the grouping of all local authority leaders in the County).
- 4.9. An '**Ambition for Hertfordshire**' has been developed by the Hertfordshire Forward Strategy Group and the Hertfordshire Assembly, which draws together a wider range of partners to debate, shape and develop county-wide plans and strategies, is convened twice a year. An annual conference is also held each year to bring together Hertfordshire partners from across all sectors to discuss key issues facing the county. The theme of this conference in 2017 was prevention and working together to influence behaviour and help reduce demands on public services.

- 4.10. The Council has **Integrated Strategic and Service Level Performance Reporting** processes, which facilitate continuous improvement and identify and support early identification and rectification of any service delivery issues.
- 4.11. These arrangements are supported by the council's **Performance Management and Development Scheme** through which objectives for individual employees are set and monitored, and plans for individual development are agreed. This is underpinned by the **Staff Development Charter** which provides a framework for assessing and meeting the learning and development needs of officers. The Council has adopted a set of **Values and Behaviours** to reinforce what is expected of employees and managers.
- 4.12. There is an on-going **Councillor Development Programme** to support them in all their roles, with dedicated learning and development support and a system of deputy Cabinet members that facilitates succession planning. Work to support Councillors in their local work is part of the Council's approach to localism; this has included development of an IT portal to provide Councillors with ready access to a wide range of information about their local communities and Hertfordshire more widely.
- 4.13. The Council's systems of **Internal Control** are a significant part of the Governance Framework and are designed to manage risk to a reasonable level however they cannot eliminate all risk of failure to achieve policies, aims and objectives. The system of internal control is based around an on-going process designed to:
- Identify and prioritise the risks to the achievement of the Council's policies, aims and objectives;
 - Evaluate the likelihood of those risks being realised and the impact should they be realised; and
 - Manage them efficiently, effectively and economically.
- 4.14. The Council has a well-developed **Risk Management Strategy** and **Embedded Risk Monitoring Processes**, which operate at the highest levels of the organisation, and are overseen by the Council's Audit Committee. The risks associated with meeting budget targets are also considered as part of the integrated planning process, and then monitored in quarterly reports to Cabinet.
- 4.15. The Council has designated the Director of Resources as **Senior Information Risk Owner** and the Information Governance Unit and the IT Security Team provide advice and guidance on this area.
- 4.16. The Council has an **Anti-Fraud and Corruption Strategy** setting out its commitment to prevent and detect fraud and corruption.
- 4.17. The Council has a **Whistleblowing Policy** which clearly sets out arrangements in place for reporting and investigating any concern relating to a deficiency or breach in the provision of services; the guidance reassures that this may be done without fear of recrimination.

- 4.18. The Council has continued to maintain **Equality and Diversity** at the forefront of its service delivery and employment practices. The Council annually publishes evidence of its progress against the objectives contained in its **Equality Strategy** to demonstrate to the public of Hertfordshire how it intends to continue to meet the needs of all of Hertfordshire's communities. Equality impact assessments assess the impact of policies and proposals upon council employees and service users, and a cumulative impact assessment is carried out as part of the integrated planning process.
- 4.19. The Council's **Website** includes: facilities that allow members of the public to submit complaints relating to the various directorates; mechanisms for reporting suspected fraud and corruption (anonymously if required); and, access to information on current consultations, petitions etc.

5. **Review of Effectiveness**

- 5.1. Hertfordshire County Council has responsibility for conducting, at least annually, a review of the effectiveness of local governance arrangements including the system of internal control. The review of effectiveness is informed by: the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment; the Head of Assurance's Annual Report; and also by comments made by External Audit and other review agencies and inspectorates.
- 5.2. The preparation and publication of the **Annual Governance Statement** in accordance with 'Delivering Good Governance in Local Government Framework (2016)' fulfils the statutory requirement for the annual review of the effectiveness of systems of internal control and also meets the requirement for 'preparation in accordance with proper practice'.
- 5.3. The Executive, on behalf of the Council, charges the **Audit Committee** with keeping the effectiveness of the Council's systems for internal control under review. At its quarterly meetings the Audit Committee receives and considers reports on the Council's overall risk management arrangements and also receives reports on specific risk issues that are considered worthy of individual reporting by Internal Audit or the officers of the Council. The Audit Committee approves the **Internal Audit Plan** of work and receives regular updates on progress against the plan with summaries of both assurance opinions and key matters raised in individual reviews. The Audit Committee considers the overall annual opinion on internal control provided by the Shared Internal Audit Service along with the opinions on the Council's accounts provided by **External Audit**.
- 5.4. The **Head of Assurance's Annual Report** on the internal control environment, prepared in accordance with the Public Sector Internal Audit Standards, provides an independent opinion on the adequacy and effectiveness of the Council's system of internal control to inform the Annual Governance Statement.

- 5.5. The **Head of Assurance Opinion** in respect of 2017/18 is one of Substantial Assurance (defined as *‘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’*) for financial systems; and Moderate Assurance (defined as *‘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’*) for non-financial systems, giving confidence in the effectiveness of internal control arrangements of the Council. The report also consolidates assurance opinions and actions taken by management to address issues raised during internal audit reviews undertaken throughout 2017/18, and is informed by the comments of External Audit and other inspectors where appropriate.
- 5.6. The Council ensures corporate ownership of the Annual Governance Statement through requiring members of the Joint Leadership Team to provide a **Service Assurance Statement** covering the controls in place in their service areas. The statement provides assurance that they have reviewed arrangements for meeting their responsibilities in relation to having:
- Plans that set out how corporate objectives and other legal and regulatory requirements are to be achieved;
 - Adequate arrangements for monitoring performance;
 - Adequate resource in both number and skills to deliver service objectives;
 - Appropriate risk management arrangements in place;
 - Arrangements for ensuring that agreed recommendations resulting from internal audit, external audit or other inspectorate work are implemented;
 - Procedures that ensure timely responses to all types of query and complaint;
 - Processes that ensure compliance with relevant legislation
 - Partnership arrangements that are well founded, clearly defined and adequately;
 - Mechanisms for ensuring staff are aware of the HCC’s Values and Behaviours; its Code of Conduct and related policies e.g. whistleblowing, equalities etc.; and
 - Business continuity plans that are communicated to staff as necessary.
- 5.7. A draft version of the Annual Governance Statement is considered at Strategic Management Board and scrutinised by the Audit Committee at its meeting in May prior to signing by the Chief Executive and Leader of the Council.

6. Activities Involving Group Governance

- 6.1. The Authority has varying stakes in a variety of trading entities; some of which are listed below:
- Herts Living Limited - this company is wholly owned by the Authority. The County Council has appointed a private sector partner to enter a joint venture partnership, with Herts Living Limited, under the name Chalkdene Developments LLP which aims to build new homes as well as community and ancillary buildings in the County over the next 15 years.

- Herts for Learning Limited - is a schools company of which the Council has a 20% stake; it operates to provide support services to education providers.
- Hertfordshire Catering Limited - this company is wholly owned by the Authority and provides catering services to Colleges, Academies and Schools.
- Surecare Supplies Limited - this company is wholly owned by the Authority. It provides care supplies to non-profit making groups such as charities, the NHS, local authorities, childminder groups and care homes.

6.2. The Hertfordshire Local Enterprise Partnership (LEP) brings together representatives from local government, education and the business community. In Hertfordshire, the LEP operates as a voluntary partnership. The Council has a dual role, as the 'Accountable Body' in regards to oversight of public money and also as a key partner directly involved in decision-making.

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7. Update on Significant Governance Issues identified in the 2016/17 Annual Governance Statement

The following table provides an update on the significant governance issues reported in the 2016/17 Statement; as some of the issues remain current this table should be considered alongside the items set out in Section 8 (below)

Item	Directorate	2016/17 Issue	2017/18 Update
7.1	Environment	The County Council is one of the partners in the Croxley Rail Link (now called Metropolitan Line Extension) scheme which is potentially subject to increased funding requirements. The Authority will continue to review its financial position in respect of the scheme as it progresses.	The Mayor of London subsequently issued a new Mayoral Direction. This had two key impacts. Firstly it required others to find a further £70 m to add to the agreed funding package of £284.4 m. Secondly, it reversed Transport for London's (TfL) previous position about accepting cost risk beyond the agreed funding package. Despite the Government agreeing to provide the extra £70 m, TfL would not agree to cover any ongoing cost risk. As a result there is an impasse. Should this lead to the scheme not progressing, funding partners will seek all funding to be returned. Furthermore, investigations in to alternative uses of the corridor are being investigated.
7.2	Adult Care Services	Governance arrangements between the County Council and the NHS Clinical Commissioning Groups (CCGs) particularly in relation to the Section 75 agreement and the Better Care Fund are under review. The Authority will continue with its commitment to these arrangements and ensure clarity and transparency around how these resources are used and their impact upon local performance and delivery.	A renewed Section 75 Agreement was agreed between the County Council and CCG partners, a two-year Better Care Fund Plan received national assurance from NHS England (covering 2017-19) and strengthened reporting arrangements on Better Care Fund were put in place during this year. In addition, Herts Valleys CCG took a report to their Governing Body agreeing 'Care Act Monies' due to HCC from 2019/20 onwards in line with national guidance.

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7.3	Community Protection	At the time of writing, the Authority is aware that the Hertfordshire Police and Crime Commissioner intends to commence a consultation relating to governance changes in respect of responsibility for the County's Fire and Rescue Service. Were such a move agreed, it would require a strategy for the calculation and disaggregation of the related County assets and liabilities.	The Police and Crime Commissioner for Hertfordshire (PCC) has submitted a business case proposing that he take over governance of the Herts Fire and Rescue Service (HFRS). HCC officers have shared all necessary information and sought to ensure that the business case accurately reflects the situation for HFRS and HCC. At the time of writing this business case has undergone independent assessment by CIPFA and the PCC has been requested to provide further information to support their business case by 31 May 2018. HCC officers continue to engage with the PCC and are undertaking planning for all potential outcomes
7.4	Children's Services	Changes in education funding and potential legislative and regulatory reform means that the Authority will face increasing complexities in meeting its statutory duties unless and until these are changed. This includes ensuring the provision of adequate school places in forthcoming years, together with existing responsibilities for maintained schools where provision of funding depends on partners support expressed through decisions of the Schools Forum.	The underlying challenges identified in 2016/17 remain the same. However, we have secured agreement from Maintained Schools to de-delegate funding to the Council to enable it to discharge school improvement and other duties towards maintained schools. This approval is for 2018/19, with an in-principle commitment also to 2019/20. Expansion plans for the years to 2020 have now been agreed.
7.5	Resources - Finance	Service departments continue to work with Members and corporate finance to support the development of savings options to close the gap in resources, estimated to be £40m by 2019/20, in future years. This will include work to identify the impact of future funding changes which will, for 2017/18 and beyond, include the proposals to	The Council has placed particular emphasis on medium term financial sustainability during this years Integrated Planning Process. This has included: <ul style="list-style-type: none"> • Extending the plan from 3 to 4 years • Working with departments and Members to

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		<p>devolve business rates to local authorities. Finance will also monitor the success or otherwise of current proposals to support senior management and Member decision making</p>	<p>develop savings plans that help tackle the medium term, not just the following year.</p> <p>The success of this approach can be seen in the following:</p> <ul style="list-style-type: none"> • A balanced budget for 2018/19 • The gap for 2019/20 reduced from £40m to £7m • A budget gap in 4 years of £28m. <p>The financial position does however remain extremely challenging for Councils, as indicated by the recent National Audit Office report and issues at Northamptonshire County Council. So despite the progress, it is essential this remains an area of focus of the Council.</p>
7.6	Resources - HR	<p>Recruitment of staff in key operational areas; in particular, Legal Services, Property, Children's Services and the Fire and Rescue Service, remains a concern. In addition, shortages in the local care workforce in Hertfordshire is impacting the Authority's ability to meet some statutory adult social care needs e.g. deprivation of liberty safeguards. The Authority continues to look at ways to address vacancies in these harder to fill areas.</p>	<p>Recruitment of staff in key operational areas; in particular: Legal Services; Property; Environment (in particular engineers and planning staff); Children's Services and Adult Social Care continue to be a priority. The Authority continues to look at ways to address vacancies in these harder to fill areas and is using the Apprentice Levy to address key skills shortages.</p>

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8. Significant Governance Issues 2017/18

In addition to the updates on the matters referred to in Section 7 (above) the following issues have been raised as part of the 2017/18 review.

Item	Directorate	Issue	Action
8.1	Environment and Infrastructure	The Highways service needs to contribute to the Authority's new approach to growth	<p>The Service will develop relationships with District Councils so as to establish a new approach with regard to developing and implementing their Local Plans.</p> <p>Review current internal processes to ensure the Service plays a key role in the governance and development of the Authority's major development sites</p>
8.2	Community Protection	<p>The Authority is awaiting a decision on the PCC bid to take over from HCC as the Fire Authority.</p> <p>As a result, replacement of the current Integrated Risk Management Plan (IRMP) for the Hertfordshire Fire and Rescue Service has been delayed.</p> <p>In addition, in the event of Hertfordshire Fire and Rescue Service moving to the Hertfordshire Police and Crime Commissioner, there is uncertainty around governance arrangements for the parts of the Community Protection Directorate remaining within HCC.</p>	<p>Whilst there are robust plans in place to deliver the IRMP as soon as a governance decision is made planning is in hand around the potential need for a 'bridging' document to provide time for a full IRMP to be produced.</p> <p>Governance arrangements for: Trading Standards; Resilience and Emergency Planning; and the County Community Safety Unit will be worked through and agreed by the appropriate officer and Member processes.</p>

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8.3	Adult Care Services	Workforce and associated cost pressures, including the unavailability of care workers in some high employment areas of the County remains an area of significant challenge, impacting activities such as delayed transfers of care etc.	Work has already begun around a recruitment campaign for social workers and occupational therapists and proposals around market forces payments.
8.4	Resources - Libraries	Uncertainty around the future delivery model for Library Services with potential for it to be spun out into a Mutual.	A full business plan and transition plan, including: governance model; financial modelling; and risk and control implications are in development.
8.5	Resources - Finance	<p>Ongoing financial risks in relation to:</p> <ul style="list-style-type: none"> • Demand for services, particularly in the area of adult social care; • Significant uncertainty on funding beyond 2019/20, with the end of the current four year settlement; • Proposed changes to business rates retention; and • The impact of the Fair Funding review on the distribution of resources. 	<p>Finance will continue to work with services and members to support the development of savings options to close the gap in resources in future years, which is estimated to be £28m by 2021/22. They will also monitor the delivery of current savings proposals, to support decision making for future years' Integrated Plans.</p> <p>In addition, Finance continues to monitor specific developments and make representations on behalf of the council.</p>
8.6	Resources - Legal	Requirement to ensure transparency of decision making processes relating to the development of Herts Living Limited and the associated joint property development arrangements.	Development of a protocol to ensure that related disposals and transactions are, and can be seen to be, dealt with appropriately. Where required there will be a continuation of training on how to approach potential conflicts of interest issues for those County Council officers who act as directors of companies.

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9. Specific Areas for Improvement and Development 2017/18

The review of effectiveness has identified a number of governance and internal control improvement and development activities planned for the year ahead. These are in addition to the on-going commitment that the Council makes to ensuring actions agreed in response to recommendations made by external and internal assurance providers are implemented. Actions will be progressed by managers as necessary. The more significant of the proposed activities are:

Item	Directorate	Area for Improvement & Development	Proposed Action
9.1	Adult Care Services	Mitigating the risks to the County Council should income be insufficient to cover the costs of the Hertfordshire Home Improvement Agency Shared Service.	A review of the business case and partnership agreement upon which the County Council agreed to host the service.
9.2	Adult Care Services	Implementation of medium and long-term budget, service and capital plans to take into account the challenging financial position and the need to manage a care market on the outskirts of London.	Use of Investment to Transform monies to build capacity to respond quickly to these challenges and commission new models of care; change the way ACS works and use the latest technology to support people to be independent.
9.3	Adult Care Services	Statutory responsibilities to safeguard people from abuse are a primary function of the local authority. Safeguarding concerns reported will exceed 8,000 for 2017/18	Steps have been taken to adjust the staffing establishment in the Adults with Disabilities Teams (within overall budget) and change procedures within Older People's Teams to manage this huge demand for professional intervention.
9.4	Adult Care Services	The current funding arrangements for the NHS CCGs ends in 2020 and will impact the way health and social care monies flow in the system in future years. Whilst a one-off government grant will offset this, the high level medium term financial position remains fluid.	HCC is working well with colleagues from the CCGs to deliver a range of transformative integrated programmes within the realms of the Better Care Fund.

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9.5	Public Health	Actions in response to continuing reduction in public health funding and heightened scrutiny of public health expenditure by Public Health England.	Re-prioritisation of Public Health spend to make sure it continues to achieve its value for money obligations, provide key services and ensure it maintains, as it has done to date high standards of probity and accountability for the ring-fenced grant.
9.6	Resources - Finance	Addressing the financial impact on the Council of schools experiencing financial difficulty due to national funding pressures exacerbated by rising cost prices.	Plans are in place to identify these schools early, with mitigating actions introduced and regular updates provided to senior officers and Members.
9.7	Resources - Finance	Actions to meet the growing regulatory demands around Pensions as well as increasing numbers of members and employers and demands from the national asset pool that Hertfordshire belongs to.	Increased resourcing with appropriate technical skills.
9.8	Community Protection	To address the impact on the Service's training regime of the successful prevention strategies in place within the Directorate that mean that less experience is gained in operational scenarios.	Changes in the related training programmes supported by a significant capital investment project which now forms part of the current IPP for 18/19 and proposes replacement of the current Service HQ along with significant redevelopment of the Longfield Training and Development Centre.
9.9	Community Protection	The recruitment and retention of Retained Duty System Firefighters.	This is the subject of a specific project which is making good progress
9.10	Children's Services	Addressing the demographic pressures impacting budgets for the following activities: <ul style="list-style-type: none"> • Children Looked After Placements • Unaccompanied Asylum Seeking Children 	There are monitoring and projection systems in place to manage these pressures.

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		<ul style="list-style-type: none"> • SEN transport • No Recourse to Public Funds. 	
9.11	Children's Services	<p>Addressing the Council's extended statutory duties in relation to amendments to:</p> <ul style="list-style-type: none"> • The Children & Families Act relating to Special Education Needs and Disabilities; and • The Children & Social Work Act 2017 that extend both: the services for care leavers up to 25 years of age; and the Virtual School remit to adopted children and those under Special Guardianship Orders and accreditation for social workers. 	<p>Programmes are being developed to ensure the Council addresses extended duties however additional time limited funding from central government is unlikely to fund extra resources required for SEND and care leavers' duties.</p>
9.12	Environment and Infrastructure	<p>To address the corporate implications of the new Growth and Infrastructure Team being established within the Environment and Infrastructure Department.</p>	<p>A review to establish appropriate internal controls / decision making processes during the summer 2018.</p>

10. Statement of the Leader of the Council and the Chief Executive

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by senior management and the Audit Committee. The arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined above.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed on behalf of Hertfordshire County Council:

David Williams – Leader of the Council

XX May 2018

John Wood – Chief Executive

XX May 2018

HERTFORDSHIRE COUNTY COUNCIL CODE OF CORPORATE GOVERNANCE

INTRODUCTION

Hertfordshire County Council is committed to demonstrating the highest standards of Corporate Governance. Good governance leads to good management, good performance, effective use of resources, good public involvement and ultimately good outcomes.

The Council's Code of Corporate Governance ("the Code") comprises a range of documents, policies, procedures, cultures and values and is the system through which the business of the Council is directed and controlled. The Code underpins the aim of achieving good governance.

CORPORATE GOVERNANCE FRAMEWORK

The corporate governance framework of Hertfordshire County Council is consistent with the principles of the CIPFA/SOLACE best practice framework *Delivering Good Governance in Local Government 2016*. The following **seven core governance principles** ensure that we have high standards of good governance.

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

This document describes how the Council demonstrates its commitment to these core principles and indicates where more information can be obtained. The Code is reviewed annually to ensure that the Council is complying with the Code and to identify any areas where the governance arrangements can be improved

CODE OF GOVERNANCE PRINCIPLE A

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

This core principle is supported by three supporting principles:

- Behaving with integrity
- Demonstrating strong commitment to ethical values
- Respecting the rule of the law

What The Council Does	How it Demonstrates This
Ensures that the Council's leadership sets and reinforces the tone of the organisation by creating a climate of openness, support and respect;	<ul style="list-style-type: none"> • Protocol for Relationships between Members and Officers – Annex 16 to the Constitution • Member Code of Conduct • Code of Conduct for Officers
Defines the personal behaviour expected of elected Members and Officers;	<ul style="list-style-type: none"> • Member Code of Conduct • Code of Conduct for Officers • Anti-bribery policy
Puts in place arrangements to ensure that conflicts of interest are declared and if necessary the Member / Officer does not participate in decision-making;	<ul style="list-style-type: none"> • Member Code of Conduct • Code of Conduct for Officers • Register of Members' Disclosable Pecuniary Interests and personal interests as set out in the Code of Conduct for Members – Available on each Member's contact page. • Register of officer interests in contracts
Develops and maintain shared values including values for both the organisation and Officers and communicate these with Members, Officers, the community and partners;	<ul style="list-style-type: none"> • Values and Behaviours • Corporate Plan 2017-2021
Use the Council's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority;	<ul style="list-style-type: none"> • Values and Behaviours
Maintains an effective Standards Committee;	<ul style="list-style-type: none"> • Standards Committee Terms of Reference – Annex 3 of the Constitution
Has in place effective systems to enable staff and others to identify any potential wrong doing and to protect staff should they raise areas of concern;	<ul style="list-style-type: none"> • Whistleblowing policy • Mechanisms for reporting fraud and corruption

<p>Ensure that professional advice on matters that have legal or financial implications is available in advance of decision making;</p>	<ul style="list-style-type: none"> • Senior lawyers and senior finance officers review reports going to member decision making meetings • Lead officers for projects have responsibility to engage with legal services and finance to ensure that legal and finance advice is secured for their projects
<p>Ensure that all officers are appropriately trained on specific legislative and other requirements for their service areas and also on the key principles of administrative law;</p>	<ul style="list-style-type: none"> • Performance Management and Development Scheme and the related training and development programme

CODE OF GOVERNANCE PRINCIPLE B

Ensuring openness and comprehensive stakeholder engagement

This core principle is supported by three supporting principles:

- Openness
- Engaging comprehensively with institutional stakeholders
- Engaging with individual citizens and service users effectively

What The Council Does	How it Demonstrates This
Encourage all sections of the community and other stakeholders to participate in our work through public consultation;	<ul style="list-style-type: none"> • Constitution • Herts Horizons • The Council's website • Petitions Scheme • Citizens Panel
Produce an annual report on the activities of scrutiny committees;	<ul style="list-style-type: none"> • Overview and Scrutiny Annual Report
Hold meetings in public unless there is to be discussion of matters of a confidential nature;	<ul style="list-style-type: none"> • Council, Cabinet, Cabinet Panel, Committee and Scrutiny meetings are all held in public unless considering exempt information as certified by the Monitoring Officer.
Make all information publicly available unless it is exempt by law;	<ul style="list-style-type: none"> • Open Public Data • Constitution • The Council's website • Freedom of Information (FOI) • Environmental Information Regulations (EIR)
Ensure that clear channels of communication are in place with all sections of the community and other stakeholders and put in place monitoring arrangements to ensure these operate effectively	<ul style="list-style-type: none"> • Herts Horizons • Forward Plan of Key Decisions • Consultation on major policy developments • Annual Report • Residents' Tracker Survey (Citizens' Panel) • Petitions Scheme • Public questions at Council meetings • Annual Report • Freedom of Information (FOI) • Environmental Information Regulations (EIR) • Whistleblowing policy
Ensure that Officers are regularly consulted and invite comments from Officers on a wide range of issues.	<ul style="list-style-type: none"> • Annual Staff Survey • Consultation with Recognised Trade Unions

CODE OF GOVERNANCE PRINCIPLE C

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

This core principle is supported by two supporting principles:

- Defining outcomes
- Sustainable economic, social and environmental benefits

What The Council Does	How it Demonstrates This
Define and promote its purpose and vision;	<ul style="list-style-type: none"> • Hertfordshire Corporate Plan 2017-2021
Review annually its purpose and vision to reflect its financial position and other major policy changes;	<ul style="list-style-type: none"> • Integrated Planning Process • Annual review of Corporate Plan
Work with its partners on an agreed common vision for all its partners;	<ul style="list-style-type: none"> • Herts Forward • Local Enterprise Partnership • Health and Well Being Board
Communicate on a regular basis the Council's key performance data, achievements and financial position;	<ul style="list-style-type: none"> • Annual Report • Quarterly Finance and Performance Reports • Resources, Property and the Economy Cabinet Panel and Cabinet • Public Health, Prevention and Performance Cabinet Panel • Annual Audit Letter • Council Tax Information Sheet and on-line Council Tax Leaflet
Ensure that each service area reviews on a regular basis its objectives and priorities;	<ul style="list-style-type: none"> • Departmental Service Plans – link to objectives in the Corporate Plan • Integrated Planning Process
Put in place effective arrangements to identify and deal with failure in service delivery	<ul style="list-style-type: none"> • Complaints procedures • Overview and Scrutiny Committee / Topic Groups • Whistle blowing policy/ Reporting Fraud and Corruption
Use national benchmarking of value for money and needs based evidence to regularly review and shape corporate priorities and supporting financial plans effectively; and	<ul style="list-style-type: none"> • Integrated Planning Process
Address the environmental impact of its policies, plans and decisions.	<ul style="list-style-type: none"> • Energy reduction targets for the authority

CODE OF GOVERNANCE PRINCIPLE D

Determining the interventions necessary to optimise the achievement of the intended outcomes

This core principle is supported by three supporting principles:

- Determining interventions
- Planning interventions
- Optimising achievements of intended outcomes

What The Council Does	How it Demonstrates This
Define and promote its purpose and vision;	<ul style="list-style-type: none"> • Hertfordshire Corporate Plan 2017-2021
Review annually its purpose and vision to reflect its financial position and other major policy changes;	<ul style="list-style-type: none"> • Integrated Planning Process • Annual review of Corporate Plan
Communicate on a regular basis the Council's key performance data, achievements and financial position;	<ul style="list-style-type: none"> • Annual Report • Quarterly Finance and Performance Reports • Resources, Property and the Economy Cabinet Panel and Cabinet • Public Health, Prevention and Performance Cabinet Panel • Annual Audit Letter • Council Tax Information Sheet and on-line Council Tax Leaflet
Ensure risk management process is integrated into all levels of the organisation;	<ul style="list-style-type: none"> • Risk Management Guide • Annual Risk Management report to Audit Committee • Corporate and Departmental risk registers
Ensure that each service area reviews on a regular basis its objectives and priorities;	<ul style="list-style-type: none"> • Departmental Service Plans – link to objectives in the Corporate Plan
Put in place effective arrangements to identify and deal with failure in service delivery	<ul style="list-style-type: none"> • Complaints procedures • Overview and Scrutiny Committee / Topic Groups • Whistleblowing Policy • Mechanisms for reporting fraud and corruption
Ensure resilience with regard to continuity of service in the event of unforeseen events.	<ul style="list-style-type: none"> • Corporate and departmental business continuity and disaster recovery plans and arrangements

CODE OF GOVERNANCE PRINCIPLE E

Developing the County Council's capacity, including the capability of its leadership and the individuals within it

This core principle is supported by two supporting principles:

- Developing the County Council's capacity
- Developing the capability of the County Council's leadership and other individuals

What The Council Does	How it Demonstrates This
Set out in clear terms how the respective roles and responsibilities of the Executive and of the Executive Members are allocated between the Leader, Cabinet and Council Officers;	<ul style="list-style-type: none"> • The Constitution • Protocol for Relationships between Members and Officers – Annex 16 to the Constitution • Scheme of Delegation to Officers– Part 3 of Annex 3 to the Constitution
Set out in clear terms the general responsibilities of elected Members and senior Officers and how they perform non-executive functions such as development control;	<ul style="list-style-type: none"> • Constitution • Code of Practice for Councillors and Officers Involved in the Planning Process– Annex 21 to the Constitution • Forward Plan of Key Decisions
Set out how decisions are made and which decisions are reserved to the Full Council. Determine a scheme of delegation to Chief Officers, including those decisions which are not included in their delegated powers and are reserved to Council or Cabinet;	<ul style="list-style-type: none"> • Constitution • Scheme of Delegation to Officers – Part 4 of Annex 3 to the Constitution
Make the Chief Executive responsible and accountable for all aspects of operational management;	<ul style="list-style-type: none"> • Head of Paid Service – Section 9 of the Constitution • Fortnightly meetings of the Chief Executive with the Leader or Deputy Leader
Make the -Director of Resources (as section 151 officer) responsible for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control;	<ul style="list-style-type: none"> • Section 151 Officer responsibilities – Section 9 of the Constitution
Adopt a protocol for relationships between Members and Officers which ensures proper and effective relationships;	<ul style="list-style-type: none"> • Protocol for Relationships between Members and Officers – Annex 16 to the Constitution • Staff induction • Member Code of Conduct • Code of Conduct for Officers • Political awareness training programme

Make the Chief Legal Officer (as Monitoring Officer) responsible for the Council Constitution and for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with	<ul style="list-style-type: none"> Monitoring Officer responsibilities – Section 9 of the Constitution
Set out the terms and conditions for the remuneration of Members and Officers;	<ul style="list-style-type: none"> Constitution Members' allowances scheme Pay Policy Statement
Ensure that service delivery is effectively monitored;	<ul style="list-style-type: none"> Regular reports to Resources, Property and the Economy Cabinet Panel, Public Health, Prevention and Performance Cabinet Panel and Service Cabinet Panels
Consult widely on its vision, strategic plans and priorities and take into account the views of the local community and key stakeholders;	<ul style="list-style-type: none"> Budget consultation Consultation on major policy developments Citizens' Panel
Ensure that when working in partnership that elected Members are clear about their legal responsibilities and liabilities;	<ul style="list-style-type: none"> Advice given to Members
Ensure that where the Council enters into a partnership there is a written agreement between the parties clearly setting out the roles and responsibilities, including responsibilities for staffing and funding.	<ul style="list-style-type: none"> Chief Officer / Chief Legal Officer support to partnership arrangements
Provide induction programmes for Members and Officers;	<ul style="list-style-type: none"> Members' Development Programme Members' Online Learning Staff induction
Ensure statutory officers have the resources and support to effectively perform their roles;	<ul style="list-style-type: none"> Section 151 Officer – Section 9 of the Constitution Monitoring Officer – Section 9 of the Constitution
Assess the learning and development needs of Officers and Members and make a commitment to meet those needs and develop required skills;	<ul style="list-style-type: none"> Performance Management and Development Scheme Members' Development Programme Members' Online Learning
Identify leaders of the future;	<ul style="list-style-type: none"> Leadership and Management Development Deputy Executive Members
Provide support for Members and Officers who are Directors of Council companies;	<ul style="list-style-type: none"> Training and advice given as required/necessary

CODE OF GOVERNANCE PRINCIPLE F

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

This core principle is supported by five supporting principles:

- Managing risk
- Managing performance
- Robust internal control
- Managing data
- Strong public financial management

What The Council Does	How it Demonstrates This
Maintain an effective scrutiny function which is aimed at improvement and service delivery;	<ul style="list-style-type: none"> • Constitution • Overview and Scrutiny Committee, Health Scrutiny Committee and Topic Groups
Maintain effective arrangements for recording decisions;	<ul style="list-style-type: none"> • Forward Plan of Key Decisions • Record of Key Decisions • Minutes of Council, Cabinet, Cabinet Panel and Committee meetings • Scheme of Delegation to Officers – Part 3 & 4 of Annex 3 to the Constitution • Training of Officers
Put in place arrangements to ensure that decisions are not affected by conflict of interest;	<ul style="list-style-type: none"> • Member and Officer Codes of Conduct
Maintain an effective Audit Committee that is independent of executive and scrutiny functions	<ul style="list-style-type: none"> • Audit Committee Terms of Reference – Paragraph 2.5 of Annex 3 to the Constitution
Ensure that an effective and accessible complaints procedure is in place;	<ul style="list-style-type: none"> • Complaints procedures • Management of Unreasonable Complainant Behaviour Policy • Whistleblowing Policy / Reporting fraud and corruption
Ensure that those involved in making decisions are provided with all relevant advice and implications	<ul style="list-style-type: none"> • Section 151 Officer advice – Section 9 of the Constitution • Monitoring Officer advice – Section 9 of the Constitution
Ensure risk management process into all levels of the organisation;	<ul style="list-style-type: none"> • Risk Management Guide • Annual Report to Audit Committee • Corporate and Departmental risk registers

<p>Ensure that whistle blowing arrangements are in place for all employees and those contracting with the authority; and</p>	<ul style="list-style-type: none"> • Whistleblowing Policy • Mechanisms for reporting fraud and corruption
<p>Maintain an effective process for reviewing the requirements of the law, the legality of transaction, decisions and the impact of new laws.</p>	<ul style="list-style-type: none"> • Constitution • Monitoring Officer's responsibilities – Section 9 of the Constitution

CODE OF GOVERNANCE PRINCIPLE G

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

This core principle is supported by three supporting principles:

- Implementing good practice in transparency
- Implementing good practices in reporting
- Assurance and effective accountability

What The Council Does	How it Demonstrates This
Maintain an effective scrutiny function which is aimed at improvement and service delivery;	<ul style="list-style-type: none"> • Constitution • Overview and Scrutiny Committee, Health Scrutiny Committee and Topic Groups
Maintain an effective Audit Committee that is independent of executive and scrutiny functions	<ul style="list-style-type: none"> • Audit Committee Terms of Reference – Paragraph 2.5 of Annex 3 to the Constitution
Has a robust approach to the provision of Internal and External Audit;	<ul style="list-style-type: none"> • Has a dedicated Audit Committee that approves the Authority's Internal and External Audit Plans • Progress on Audit Recommendations are presented to the Audit Committee • The work of the Internal Audit Service is independently assessed as complying with the Public Sector Internal Audit Standards
Make all information publicly available unless it is exempt by law;	<ul style="list-style-type: none"> • Open Public Data • Constitution • The Council's website • Freedom of Information (FOI) • Environmental Information Regulations (EIR)
Ensure that Officers are regularly consulted and invite comments from Officers on a wide range of issues;	<ul style="list-style-type: none"> • Staff Survey • Employee Representatives • Consultation with Recognised Trade Unions
Hold meetings in public unless there is to be discussion of matters of a confidential nature;	<ul style="list-style-type: none"> • Council, Cabinet, Cabinet Panel, Committee and Scrutiny meetings are all held in public unless considering exempt information as certified by the Monitoring Officer.

<p>Ensure that clear channels of communication are in place with all sections of the community and other stakeholders and put in place monitoring arrangements to ensure these operate effectively;</p>	<ul style="list-style-type: none"> • Herts Horizons • Freedom of Information (FOI) • Environmental Information Regulations (EIR) • Whistleblowing policy • Forward Plan of Key Decisions • Consultation on major policy developments • Annual Report • Residents' Tracker Survey (Citizens' Panel) • Petitions Scheme • Public questions at Council and Panel meetings • Mechanisms for reporting fraud and corruption
<p>Communicate on a regular basis the Council's key performance data, achievements and financial position;</p>	<ul style="list-style-type: none"> • Annual Report • Quarterly Finance and Performance Reports • Resources, Property and the Economy Cabinet Panel and Cabinet • Public Health, Prevention and Performance Cabinet Panel • Annual Audit Letter • Council Tax Information Sheet and on-line Council Tax Leaflet
<p>Set out how decisions are made and which decisions are reserved to the Full Council. Determine a scheme of delegation to Chief Officers, including those decisions which are not included in their delegated powers and are reserved to Council or Cabinet;</p>	<ul style="list-style-type: none"> • Constitution • Scheme of Delegation to Officers – Part 3 of Annex 3 to the Constitution • Forward Plan of Key Decisions
<p>Make the Director of Resources (as section 151 officer) responsible for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control;</p>	<ul style="list-style-type: none"> • Section 151 Officer responsibilities – Section 9 of the Constitution

RISK FOCUS REPORT – PREVENT – Radicalisation

Report of the Director of Community Protection and Chief Fire Officer

Author: Guy Pratt, Deputy Director Community Protection
(Tel: 01992 507501)

Executive Member: Terry Hone – Community Safety and Waste Management

1. Purpose of Report

- 1.1 To provide information on the statistics for completed PREVENT training at 31 March 2018 from each service area.

2. Summary

- 2.1 The information in the Appendix provides statistics as of 31 March 2018, of the PREVENT training undertaken by County Council staff.
- 2.2 Increased focus has been given by all Service Boards to reach the target of all County Council staff undertaking PREVENT training by 31 March 2018.

3. Recommendation:

- 3.1 The Audit Committee is invited to note and provide comment on the information provided within this report and the PREVENT training figures as of 31 March 2018.

4. Background

- 4.1 The learning and development PREVENT strategy for staff is delivered in 2 ways:

- 'Wrap' (Workshop to raise awareness of PREVENT) training, which includes face to face and non iLearn training and/or
- iLearn PREVENT training

with each Directorate and Service assessing the training delivery need for their individual staff.

- 4.2 Chief Officers in all Directorates committed to ensure that either iLearn or 'Wrap' training was undertaken by all staff, as appropriate, within their Directorate.
- 4.3 This is the fourth report that the Committee has received in relation to Prevent training within Hertfordshire County Council.

5. Supporting Information

- 5.1 The corporate risk is owned within the Community Protection Directorate (CPD) by the Deputy Director of Community Protection with elements of the wider risk spanned across the organisation.
- 5.2 Controls are co-ordinated by staff within the Resilience team within CPD Department, who support the PREVENT Board's work.
- 5.3 The statistics for Prevent training are reported using the iLearn system and SAP. This process involves extracting and exporting information electronically from iLearn, and then comparing this information with the staff information on SAP followed by manual processes to produce the final report. Manual processes are necessary to ensure the veracity of the information.
- 5.3 The statistics for Prevent training for 31 March 2018 are found in Appendix 1 to this report:

APPENDIX 1

PREVENT Awareness progress

Directorate	Average Headcount	Completed as of 31 st January 2018	Completed as of 31 st March 2018	Staff remaining to be trained at 31 Mar 2018	Percentage completed at last report*	Percentage completed 31st Mar 18*
Adult Care Services	2125	1537	1745	380	72%	82%
Children's Services	2948	2189	2934	14	74%	99%
Community Protection	946	813	1144	5	86%	99%
Environment	449 (464)	339	446	3	73%	99%
Public Health	68	52	61	7	76%	90%
Resources	1484	915	1438	46	62%	97%

This table shows the completion to date by Directorate of the percentage of staff in relation to the headcount that have undertaken PREVENT training

PREVENT eLearning and 'WRAP' Statistics as of 31 March 2018

WRAP training

Directorate	Average Headcount	Staff Identified to undertake training by 31 March 2018	Completions as of 31st Jan 18	Completions as of 31st Mar 18	Staff remaining to be trained at 31 Mar 2018	Percentage completed at last report*	Percentage completed 31st Mar 18*
Adult Care Services	2125	526 (250)**	206	303	223	82%	74%
Children's Services	2948	290	370	382	0	100%	100%
Community Protection	946	321	321	321	0	100%	100%
Environment	449 (464)	166 (151)**	151	166	0	100%	100%
Public Health	68	0					
Resources	1484	1	16	16	0	100%	100%

*The percentage completed is in relation to the staff identified to undertake the Training

** Change in the number of Identified staff since last report – previous number in brackets

eLearning

Directorate	Average Headcount	Staff Identified to undertake training	Completions as of 31 Jan 2018	Completions as of 31 Mar 2018	Staff remaining to be trained at 31 Mar 2018	Percentage completed as of 31 Jan 2018*	Percentage completed as of 31 Mar 2018*
Adult Care Services	2125	1599** (1875)	1331	1442	157	71%	90%
Children's Services	2948	2578** (2948)	1819	2564	14	71%	99%
Community Protection	946	828 (946)**	695	823	5	84%	99%
Environment	449 (464)	283 (313)**	188	280	3	60%	99%
Public Health	68	68	52	61	7	76%	90%
Resources	1484	1468	899	1422	46	61%	97%

*The percentage completed is in relation to the staff identified to undertake the training

** Change in the number of Identified staff since last report – previous number in brackets