



Notice of meeting of a public meeting of

Audit & Governance Committee

| | |
|---------------|---|
| To: | Councillors Ayre (Chair), Brooks (Vice-Chair), Potter, Barnes, D'Agorne, Fraser and Scott and Mr Whiteley (Co-opted Non-Statutory Member) |
| Date: | Wednesday, 25 March 2015 |
| Time: | 5.30 pm |
| Venue: | The Snow Room - Ground Floor, West Offices (G035) |

AGENDA

1. **Declarations of Interest**

Members are asked to declare:

- Any personal interests not included on the Register of Interests
- Any prejudicial interests or
- Any disclosable pecuniary interests

which they may have in respect of business on the agenda.

2. **Minutes** (Pages 1 - 12)

To approve and sign the minutes of the meeting of the Audit and Governance Committee held on 11 February 2015.

3. **Public Participation**

At this point in the meeting members of the public who have registered their wish to speak regarding an item on the agenda or an issue within the Committee's remit can do so. The deadline for registering is **5:00 pm on Tuesday 24 March 2015**.

Filming, Recording or Webcasting Meetings

Please note this meeting will be filmed and webcast and that includes any registered public speakers, who have given their permission. This broadcast can be viewed at <http://www.york.gov.uk/webcasts>.

Residents are welcome to photograph, film or record Councillors and Officers at all meetings open to the press and public. This includes the use of social media reporting, i.e. tweeting. Anyone wishing to film, record or take photos at any public meeting should contact the Democracy Officer (whose contact details are at the foot of this agenda) in advance of the meeting.

The Council's protocol on Webcasting, Filming & Recording of Meetings ensures that these practices are carried out in a manner both respectful to the conduct of the meeting and all those present. It can be viewed at http://www.york.gov.uk/downloads/download/3130/protocol_for_webcasting_filming_and_recording_of_council_meetings

4. Audit and Governance Committee Forward Plan (Pages 13 - 18)

This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to February 2016.

5. Audit Progress Report (Pages 19 - 28)

This report provides an update on the progress made by Mazars in meeting its responsibilities as external auditor. The paper also includes key emerging national issues and developments.

6. Audit Strategy Memorandum (Pages 29 - 50)

Members are asked to consider Mazars' Audit Strategy Memorandum for City of York Council for the year ending 31 March 2015.

7. Internal Audit and Counter Fraud Plan 2015/16 (Pages 51 - 72)

This report seeks the committee's approval for the planned programme of audit, and counter fraud work to be undertaken in 2015/16.

8. Audit and Counter Fraud Monitoring Report (Pages 73 - 98)

This report provides an update on progress made in delivering the internal audit work plan for 2014/15 and on current counter fraud activity.

9. Appointment of Independent Co-opted Members (Pages 99 - 102)

This report seeks approval for the appointment of two independent co-opted members to this committee to be recommended to Full Council.

10. Urgent Business

Any other business which the Chair considers urgent under the Local Government Act 1972.

Democracy Officer:

Name: Jayne Carr

Contact Details:

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Email – jayne.carr@york.gov.uk

For more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports and
- For receiving reports in other formats

Contact details are set out above.

This information can be provided in your own language.

我們也用您們的語言提供這個信息 (Cantonese)

এই তথ্য আপনার নিজের ভাষায় দেয়া যেতে পারে। (Bengali)

Ta informacja może być dostarczona w twoim (Polish)
własnym języku.

Bu bilgiyi kendi dilinizde almanız mümkündür. (Turkish)

یہ معلومات آپ کی اپنی زبان (بولی) میں بھی مہیا کی جاسکتی ہیں۔ (Urdu)

 (01904) 551550

City of York Council

Committee Minutes

| | |
|---------|--|
| Meeting | Audit & Governance Committee |
| Date | 11 February 2015 |
| Present | Councillors Ayre (Chair), Brooks (Vice-Chair), Potter, Barnes, D'Agorne, Fraser, and Scott and Mr Whiteley (Co-opted Non-Statutory Member) |

Part A - Matters Dealt with Under Delegated Powers

56. Declarations of Interest

Members were asked to declare any personal interests not included on the Register of Interests any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda. The following interests were declared:

- Councillor Barnes declared a personal interest in agenda item 6 (Lendal Bridge Trial) as his employer was a sponsor of the Community Stadium which was a project which was referred to in the report. He stated that he would not take part in any discussion in respect of this issue.
- Councillor Brooks declared a personal interest in agenda items 15 and 16 (Mazars Audit Progress Report and Mazars Annual Grants Report) as a member of a teachers' pension fund.
- Councillor Ayre declared a disclosable pecuniary interest in respect of agenda item 9 (LGA Peer Review) by virtue of his employment. He stated that he would withdraw from the meeting for this item.

57. Exclusion of Press and Public

Resolved: That the press and public be excluded from the meeting during consideration of annex 1 to agenda item 20 on the grounds that it contains information relating to prevention, prosecution or investigation of crime. This information is classed as exempt under paragraph 7 of Schedule 12A to Section 100A of the Local Government Act 1972 (as revised by the Local

Government Access to Information (Variation) Order 2006).

58. Minutes

Resolved: That the minutes of the meetings of the Audit and Governance Committee held on 10 December 2014 and 15 January 2015 be approved and signed by the Chair as a correct record.

59. Public Participation

It was reported that there had been no registrations to speak under the Council's Public Participation Scheme but that one member of Council had registered to speak.

Councillor Warters raised the following issues:

- Referring to the committee's Forward Plan, he requested that the report on funding for roads be brought forward and that the Cabinet Member, representatives from Veritau and other officers be requested to attend the meeting at which it was considered.
- Following a response received to a Freedom of Information request, Councillor Warters raised concerns regarding the relationship between officers and developers.
- Referring to paragraph 7 of the report on Internal Audit Plan Consultation and Counter Fraud Risk Assessment, Councillor Warters requested that the community stadium project be considered by Mazars immediately.

60. Audit and Governance Committee Forward Plan to December 2015

Members considered a paper which presented the future plan of reports expected to be presented to the committee during the forthcoming year to December 2015.

Members were asked to identify any further items they wished to see added to the Forward Plan.

Resolved: (i) That the committee's Forward Plan for the period to December 2015 be approved.

Reason: (ii) To ensure the committee receives regular reports in accordance with the functions of an effective audit committee and can seek assurances on any aspect of the Council's internal control environment in accordance with its roles and responsibilities.

It was noted that the next meeting of the committee was scheduled to take place on 15 April 2015, which was within the purdah period. Members were asked to consider whether they would wish to bring forward the date of the meeting

Following a vote is was

Resolved: (ii) That the meeting scheduled for 15 April 2015 be brought forward to ensure that it does not fall within the purdah period.

Reason: (ii) To ensure that discussion on the reports presented is not inhibited by the restrictions of purdah.

61. Lendal Bridge Trial

Members considered a report that covered the actions taken in respect of the governance of major projects, including transport projects, as a result of the review of the trial closure of Lendal Bridge in 2013-14.

Officers gave details as to how the recommendations, where accepted, had been implemented and how the management of large projects continued to be developed to ensure project management was more robust. This work had included separating transport projects from brownfield and infrastructure projects and putting in place more structured reporting arrangements. Members' attention was also drawn to the projects that were currently being progressed and of the need to ensure that project planning was appropriately resourced.

Members questioned officers on the timing of the commissioning of a review to Crown Management Solutions and the brief that had originally been given.

Members queried the accuracy of the information in paragraph 16 of the report in respect of the membership of The Stadium Board.

Clarification was sought as to the measures that had been taken to address the issue of unrealistic expectations by Members in respect of future projects. Officers stated that discussions had taken place with Members regarding expectations and realistic timescales for the implementation of projects. Projects were being appropriately scoped to ascertain the scale of what had been requested and to determine responsibilities in respect of decision making. Members were informed that the recommendation that potential manifesto promises needed to be communicated with officers before they were published had not been accepted, as it had not been thought appropriate for officers to be involved in the manifesto process.

At the request of Members, details were given of the boards that were in place and the mechanisms for reporting back to ensure that they were accountable. Members suggested that, in order to ensure accountability, updates on the work of the boards should be reported back to Scrutiny or Cabinet on a regular basis.

Officers responded to questions in respect of the powers of the Leader and the decisions and functions that he could carry out, including urgency arrangements. Details were also given of the situation in respect of the appeal to the traffic adjudicator.

Officers were asked if the governance and management of the Lendal Bridge project had been typical of projects that were taking place at the time. Members were informed that this did not appear to have been the case and that other projects, for example the Park and Ride project, had been delivered to budget and on time.

Resolved: That the report be noted.

Reason: To inform Members of the actions taken in respect of the governance of major projects.

62. Project Management Update

Members considered a report which provided an update on the approach to the management of programmes and projects.

Details were given of the systems and procedures that were in place and of the consideration that was being given to ways of improving information that was available in respect of the development of projects, including the possibility of making live feeds available on the website.

Members suggested that it would be useful for the member training programme to include a topic on project management.

Resolved: (i) That the progress on embedding programme and project management across service areas be noted.

(ii) That it be noted that, in April 2015, the Transformation programme will run a specific gateway review of Year 1 progress, deliverables and lessons learned and that this will be shared with the committee.

Reason: To ensure Members are updated on the Council's approach to the management of programmes and projects.

63. Update Report on Adult Social Care

Members considered a report which provided an update on progress made by Adult Social Care against the recommendations by the External Auditors to assist the service to respond more effectively and quickly to the challenges posed by continuing demographic growth and financial constraints.

Members noted that there had been a steady improvement in the outturn projection, as detailed in Annex 1 of the report, and questioned officers as to how this had been achieved.

Officers drew Members' attention to the progress that had been made in implementing the Action Plan, as detailed in Annex 2 of the report. Members were informed that officers had worked closely with Mazars and that significant progress had been

made. It was noted that a new date had been set for formal training (P2) but that all other actions had now been completed.

Officers were questioned about the use of temporary staff and were updated on the action that had been taken to address this issue and ensure that appropriate staffing ratios were in place.

- Resolved: (i) That the report be noted.
- (ii) That a further report be presented to the committee at their meeting in June 2015.

Reason: To ensure that Members are satisfied with the progress that is being made in addressing the issues raised.

64. Local Government Association (LGA) Peer Review

*[Councillor Ayre withdrew from the meeting for this item.
Councillor Brooks in the Chair]*

Members considered a report that set out the action that had been taken in response to the LGA Peer Review made at the request of Council on 9 October 2014. The Audit and Governance Committee had discussed the LGA Peer Review findings at its meeting on 10 December 2014 and a request had been made for officers to draft an action plan for the committee and Group Leaders to consider.

Consideration was given to the draft action plan (Annex A of the report) and Members were asked to identify any further work they wished to see commissioned.

Members were informed that, at their meeting on 9 February 2015, the Joint Standards Committee had considered those aspects of the report which related to their work. The committee had indicated that it would be willing to carry out any tasks assigned to it by the Audit and Governance Committee but had agreed that the issues raised in the LGA report would require a change in culture. The Joint Standards Committee was intending to meet with Group Leaders and Whips at the start of the municipal year to look at ways of promoting ethical governance. The Committee had also agreed to draft guidance on the use of social media.

Referring to recommendation 3, Members suggested that as there would be a need for the guidance and briefing sessions to be made available to new Members after May, it may be more appropriate for the briefing sessions to be included as part of the programme of training offered to new and returning Members rather than seeking to complete this action by the end of March 2015.

- Resolved: (i) That the action plan (Annex A of the report) be approved.
- (ii) That, in order to maintain momentum in the implementation of the action plan, an update report be presented at the next meeting and that subsequently updates on Annexes, A, B and C of the report be provided at alternate Audit and Governance Committee meetings during 2015/15.

Reason: To ensure arrangements are in place to address the recommendations arising from the review.

65. Proposed Governance Changes by Opposition Groups

Members considered a report that detailed a list of governance changes submitted by the Opposition Groups and Independent Members, and the Leader's response to the proposed changes.

Resolved: That the proposed changes, the advice from officers, and the Leader's response be noted.

Reason: To ensure Members are aware of the proposed changes and the Leader's response.

66. Business Continuity

Members considered a report that set out the council's approach to business continuity and the current position of the council with regards to identifying those service areas which provide critical services and the progress made towards the development of business continuity plans for these critical service areas.

Members noted that, of the 67 service areas identified as needing to complete Business Continuity Plans, 66 of these had

been completed. Officers stated that although there had been a delay in completing the formal Business Continuity Plan for Public Health this did not place the authority at significant risk, as the main responsibilities for a public health emergency rested with Public Health England.

Resolved: That the report be noted.

Reason: To ensure Members are updated on the council's approach to business continuity and the current position.

67. Key Corporate Risk Monitor 3 for 2014/15

Members considered a report that presented an update on the key corporate risks for City of York Council, and the present refreshed Key Corporate Risk Register 2015.

- Resolved:
- (i) That the refreshed corporate risk register set out in Table 2 of the report, and in detail at Annex B of the report, be noted.
 - (ii) That the controls in place and the planned management actions, to be monitored by the committee as part of its Forward Plan of work, be noted.

Reason: To provide assurance that the authority is effectively understanding and managing its key risks.

68. Mazars Audit Progress Report

Members considered a report which updated them on progress made by Mazars in meeting its responsibilities as external auditor. The report also included key emerging national issues and developments.

Members' attention was drawn to the following issues:

- The work that was taking place to certify completion of the audit following the objection that had been raised in relation to the receipts arising from penalty charge notices for Lendal Bridge and Coppergate.
- Planning for the 2014/15 audit was now well under way.
- The Audit Strategy Memorandum would be presented at the next meeting.

- An update was given on the National Fraud Initiative.
- City of York Council's performance in respect of fraud detection activities, as detailed in Appendix 1 of the report.

Resolved: That the report be noted.

Reason: To ensure that Members are kept updated on the work of the external auditors and key emerging national issues and developments.

69. Mazars Annual Grants Report 2013/14

Members considered a report which presented the Mazars Certification of Claims and Returns Annual Report for 2013/2014.

Resolved: That the report be noted.

Reason: To ensure that Members are kept informed of the external auditor's certification work.

70. Update on Implementation of revised Transparency Code

Members considered a report that provided an update on progress on the implementation of the revised Local Government Transparency Code.

Resolved: That the progress made in ensuring compliance with the revised Transparency Code be noted.

Reason: To provide assurance to Members that the Council is meeting the legal requirements of the Transparency Code.

71. Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2015/16 to 2019/20

Members considered a report that presented the Treasury Management Strategy Statement and Prudential Indicators 2015/16 to 2019/20.

Resolved: That the Treasury Management Strategy Statement and Prudential Indicators for 2015/16 to 2019/20 (Annex 1 of the report) be noted.

Reason: So that those responsible for scrutiny and governance arrangements are properly updated and able to fulfil their responsibilities in scrutinising the strategy and policy.

72. Information Security Update Report

Members considered a report that provided an update on the adequacy and effectiveness of the Council's information security arrangements.

Members' attention was drawn to the powers of the Information Commissioner's Office to fine organisations for data breaches or losses. Details were given of the arrangements that the Council had in place to mitigate the risks.

Resolved: That the progress made to maintain and develop the Council's information security arrangements be noted.

Reason: To enable Members to consider the effectiveness of the Council's information security arrangements and the steps being taken to address the issue identified in the last Annual Governance Statement.

73. Internal Audit Plan Consultation and Counter Fraud Risk Assessment

Members considered a report that sought their views on the priorities for internal audit for 2015/16, to inform the preparation of the annual audit plan. The report also informed Members about potential fraud risks that the Council was exposed to, and proposed counter fraud activity to address those risks.

Members' attention was drawn to paragraph 7 of the report which listed the proposed priorities for audit 2015/16. Members made the following suggestions:

- The proposed audit of overtime and additional hours should also consider flexi-time.
- To avoid the possibility of reputational damage to the Council and to provide reassurance on this issue, consideration should be given as to whether the Council was abiding by best practice in respect of the relationship between officers and developers.

- Resolved: (i) That Members supported the proposed approach to internal audit planning for 2015/16.
- (ii) That Members supported the fraud risk assessment and proposed priorities for counter fraud work set out in Annex 1, and paragraph 9 of the report.

Reason: To ensure that scarce audit and counter fraud resources are used effectively.

Part B - Matters referred to Council

74. Contract Procedure Rules

Members considered a report which invited them to make recommendations to Council in relation to constitutional changes regarding the Contract Procedure Rules.

Details were given of the changes to the existing policy, as outlined in the report.

Recommend: That the Contract Procedure Rules, as set out in the annex to the report, be adopted and included within the Council's Constitution.

Reason: So that the Council has controls in place to ensure that procurement activity is effective and lawful.

75. Access to Information Rules

Members considered a report which invited them to make recommendations to Council in relation to constitutional changes regarding access to information rules.

Members welcomed the bringing together of the rules on accessing information and put forward the following suggestions regarding wording:

- para 1.8.1 – check whether the wording in respect of proposed development is required to be listed under each of the conditions

- para 1.15.1 (d) – amend “executive member” to read “Cabinet Member”
- para 1.17 and 1.18 – consider whether the wording could be amended so that all rights of access for Members were listed together
- para 1.8. - correction to numbering of sub-paragraphs
- para 1.18.3 (b) – give consideration as to whether the wording could be amended to give greater emphasis to openness and transparency

Members agreed that it would be useful for training on access to information to be included in the Member training programme for the new municipal year.

- Recommend:
- (i) That the rules in the annex to the report be included in the Constitution.
 - (ii) That the Monitoring Officer make consequential changes to the Constitution.
 - (iii) That the Monitoring Officer bring a report to a future meeting of the Audit and Governance Committee in relation to guidance to officers on recording decisions.

- Reasons:
- (i) To ensure that the Council has effective and accessible rules in place.
 - (ii) To ensure that the Constitution is kept up to date.
 - (iii) To allow Members to comment on the guidance.

Councillor Ayre, Chair
[The meeting started at 5.30 pm and finished at 8.30 pm].



Audit and Governance Committee25th March 2015

Report of the Director of CBSS (Portfolio of the Leader of the Council)

Audit & Governance Committee Forward Plan to February 2016**Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to February 2016.

Background

2. There are to be six fixed meetings of the Committee in a municipal year. To assist members in their work, attached as an Annex is the indicative rolling Forward Plan for meetings to February 2016. This may be subject to change depending on key internal control and governance developments at the time. A rolling Forward Plan of the Committee will be reported at every meeting reflecting any known changes.
3. Two amendments have been made to the Forward plan since the previous version was presented to the Committee in February 2015.
4. The Information Governance report, and the LGA update report have both been deferred from March until the following Committee meeting in June.

Consultation

5. The Forward Plan is subject to discussion by members at each meeting, has been discussed with the Chair of the Committee and key corporate officers.

Options

6. Not relevant for the purpose of the report.

Analysis

7. Not relevant for the purpose of the report.

Council Plan

8. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

Implications

9.
 - (a) **Financial** - There are no implications
 - (b) **Human Resources (HR)** - There are no implications
 - (c) **Equalities** - There are no implications
 - (d) **Legal** - There are no implications
 - (e) **Crime and Disorder** - There are no implications
 - (f) **Information Technology (IT)** - There are no implications
 - (g) **Property** - There are no implications

Risk Management

10. By not complying with the requirements of this report, the council will fail to have in place adequate scrutiny of its internal control environment and governance arrangements, and it will also fail to properly comply with legislative and best practice requirements.

Recommendations

11.
 - (a) The Committee's Forward Plan for the period up to February 2016 be noted.

Reason

To ensure the Committee receives regular reports in accordance with the functions of an effective audit committee.

- (b) Members identify any further items they wish to add to the Forward Plan.

Reason

To ensure the Committee can seek assurances on any aspect of the council's internal control environment in accordance with its roles and responsibilities.

Contact Details

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Chief Officer Responsible for the report:

Ian Floyd
Director of CBSS
Telephone: 01904 551100

**Report
Approved**



Date 25/03/2015

Specialist Implications Officers

Head of Civic, Democratic & Legal Services

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

None

Annex

Audit & Governance Committee Forward Plan to February 2016

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Audit & Governance Committee Draft Forward Plan to February 2016

Training/briefing events will be held at appropriate points in the year to support members in their role on the Committee.

- **Committee June 2015**

LGA Review update report

Draft Annual Governance Statement

Annual Report of the Audit & Governance Committee

Mazars Audit Progress report

Annual Report of the Head of Internal Audit

Information Governance Report

Changes to the Constitution (if any)

- **Committee July 2015**

Draft Statement of Accounts 2014/15

Mazars Audit progress report

Scrutiny of the Treasury Management Annual Report 2014/15 and review of Prudential indicators

Key Corporate Risks Quarter 1 (including directorate risks)

Freedom of Information Update Report

Changes to the Constitution (if any)

- **Committee September 2015**

Final Statement of Accounts 2014/15

Mazars Audit Completion report

Key Corporate Risk Monitor Quarter 2 (including directorate risks)

Follow up of Internal & External Audit recommendations

Internal Audit & Fraud plan progress report

Changes to the Constitution (if any)

- **Committee December 2015**

Mazars Annual Audit Letter 2014/15

Mazars Audit Progress Report

Treasury Management Mid year review report 2015/16 and review of prudential indicators

Information Governance Update Report

Freedom of Information Update Report

Changes to the Constitution (if any)

- **Committee February 2016**

Key Corporate Risk Monitor Quarter 4 (Including directorate risks)

Scrutiny of the Treasury Management strategy statement and Prudential indicators

Counter Fraud: Risk Assessment and review of policies

Audit & Counter Fraud Plan & Consultation

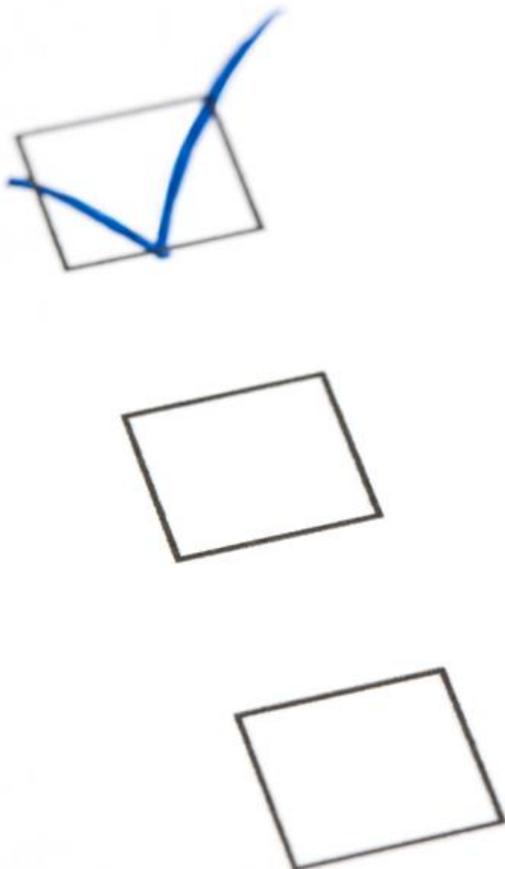
Changes to the Constitution (if any)

City of York Council



Audit Progress Report

March 2015



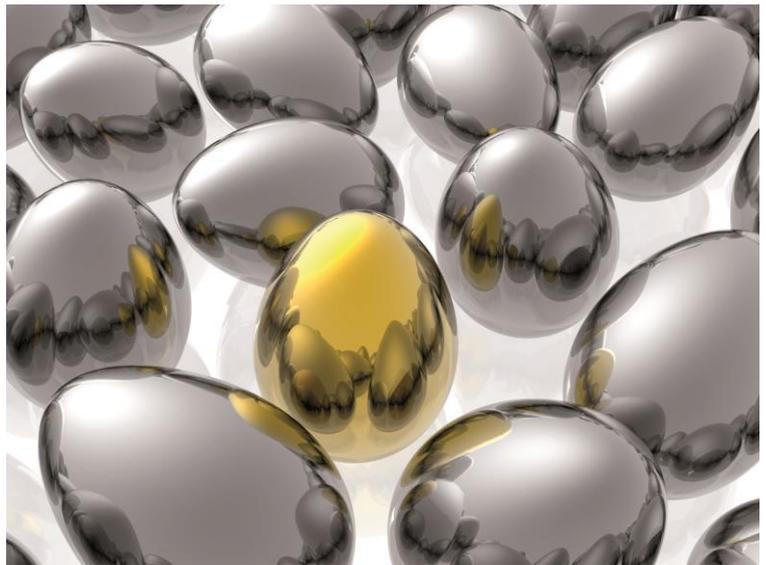
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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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01



Purpose of this paper

The purpose of this paper is to update the Audit and Governance Committee on progress in meeting our responsibilities as your external auditor. We also include in this paper key emerging national issues and developments which may be of interest to members of the Committee.

If you need any additional information please contact Gareth Davies or Gavin Barker using the contact details at the end of this update.

02

Summary of audit progress



Objection to the 2013/14 accounts

There are no further updates since the last meeting of the Audit and Governance Committee.

Follow up of 2013/14 recommendations

Members will recall that in the 2013/14 Audit Completion Report we identified issues in relation to the Council's bank reconciliation. The issues were identified as resulting from an extremely complex bank reconciliation process with historic matching issues within the general ledger.

At the point of giving our audit opinion on the 2013/14 financial statements, we were satisfied that the impact of these issues would not be material, but recommended that officers clear any outstanding issues in 2014/15.

We have continued to follow up these issues with officers, and officers are seeking to resolve them, including the remaining unreconciled differences, ahead of the production of the 2014/15 financial statements.

2014/15 Audit Planning

We have now completed our audit planning and our Audit Strategy Memorandum is also on the agenda for this meeting. This document sets out the risks we have identified for both the opinion on the financial statements and the value for money conclusion, and our overall approach to the audit.

Our detailed work is now underway.

Accounts workshops for officers

In February 2015, Mazars provided a workshop for finance staff on accounting and auditing issues relating to the closedown and preparation of the 2014/15 statement of accounts. The Authority's officers were represented at the workshop.

03

Emerging issues and developments



It is not long since the last Audit and Governance Committee meeting, so there are relatively few developments to refer to.

The Audit Commission closes on 31 March 2015.

Pages 7 to 9 below are an extract from the Audit Commission's website which explains how its current functions will be discharged after it closes from 1 April 2015.

Future of Local Audit

In August 2010, the Department for Communities and Local Government (DCLG) announced plans to put in place new arrangements for auditing England's local public bodies.

Local Audit and Accountability Act 2014

The Act received Royal Assent on 30 January 2014. The Act makes it possible for the Audit Commission to close, in line with Government expectations, on 31 March 2015, 30 years after it was established.

Several of the Commission's functions will continue after its closure.

Management of audit contracts

An independent company created by the Local Government Association (Public Sector Audit Appointments Limited) will be responsible for overseeing the Commission's current external audit contracts with audit firms from 1 April 2015 until December 2017 or up to 2020. It will manage the contracts and exercise statutory powers to appoint auditors, set and determine fees, and to make arrangements for housing benefit subsidy certification.

The professional conduct of auditors will continue to be regulated by the professional accountancy bodies. From 2017 or up to 2020, Recognised Supervisory Bodies will determine the eligibility of local public auditors and register them and, in turn, they will be recognised and supervised by the Financial Reporting Council.

The Financial Reporting Council's Audit Quality Review team will monitor the local public audits carried out by auditors through new regulatory arrangements.

Source: Audit Commission website

Grant certification

The role of making arrangements for housing benefit subsidy certification will transfer to Public Sector Audit Appointments Limited from 1 April 2015. It is intended that this role will continue until housing benefit is rolled into Universal Credit, or until the audit contracts end – whichever happens first. The independent company will not have a role in relation to the certification of other grant claims.

Code of Audit Practice

The National Audit Office will produce and maintain the Code of Audit Practice and provide supporting guidance to auditors from 1 April 2015.

Whistleblowing

The Comptroller and Auditor General will be a prescribed person to whom whistleblowing disclosures can be made in respect of local public bodies under the Public Interest Disclosure Act 1998 from 1 April 2015. Appointed auditors retain their status as a prescribed person under the Act.

National Fraud Initiative

The Audit Commission powers to conduct the National Fraud Initiative will pass to Cabinet Office on the 1st of April 2015, and the NFI will run under Cabinet Office powers from that date onwards. The NFI matches data provided by some 1,300 participating organisations from across the public and private sectors against data provided by other participants, and key data sets provided by government departments and other national agencies, to prevent and detect fraud.

Counter fraud

To preserve the legacy of the Audit Commission's counter-fraud work we will publish relevant counter-fraud tools and outputs online with open access before the Commission closes at the end of March 2015.

Provision of information about audit

The National Audit Office will publish information previously provided by the Audit Commission. The NAO will become the owner of *Council Accounts: A Guide to Your Rights*, often referred to as the guide to the electorate's rights with regard to the audit of their local authority. Public Sector Audit Appointments Limited will continue to publish Auditing the Accounts and quarterly and annual reports on auditor compliance and audit quality.

Analytical tools

Three of the Audit Commission's analytical tools that are primarily maintained to support audit contracts will transfer to Public Sector Audit Appointments Limited and will continue until the end of the current audit contracts: the two Value for Money Profiles Tools (for councils and for fire authorities), and the Audit Fees Comparator Tool. The Financial Ratios Tool is also likely to continue, although arrangements are yet to be finalised.

National value for money studies

Building on its existing work, including in the Health sector, the National Audit Office now also carries out studies which consider the value for money of services delivered by the local government sector.

Best value inspections

The power to carry out Best Value inspections (not exercised by the Audit Commission since 2010) transferred to the Secretary of State for Communities and Local Government on 4 April 2014.

Audit Commission historic reports and information

The National Archives preserves copies of the Audit Commission's website and these are available at http://webarchive.nationalarchives.gov.uk/*/http://audit-commission.gov.uk/pages/default.aspx. For copies of the Commission's past reports you may view these on the National Archives website.

Source: Audit Commission website

04

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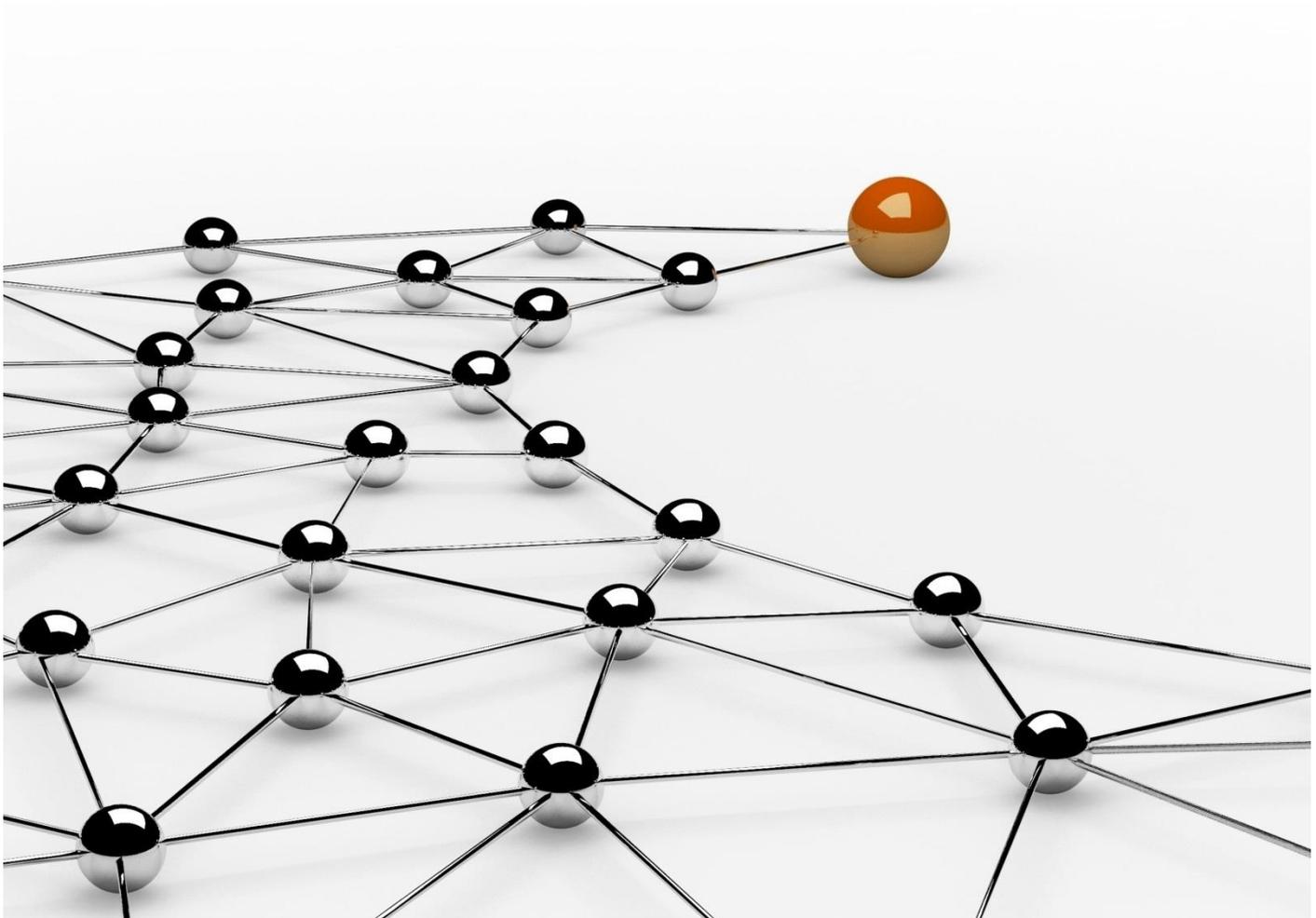
Durham

DH1 5TS

Audit Strategy Memorandum

City of York Council – year ending 31 March 2015

March 2015



Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Audit and Governance Committee
City of York Council
West Offices
Station Rise
York
YO1 6GA

12 March 2015

Dear Members

Audit Strategy Memorandum for the year ending 31 March 2015

We are pleased to present our Audit Strategy Memorandum for City of York Council for the year ending 31 March 2015.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. It is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, and Appendix A summarises our considerations and conclusions on our independence as auditors.

We value two-way communication with you and we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion through which we can also understand your expectations.

This document will be presented at the Audit and Governance Committee meeting on 25 March 2015. If you would like to discuss any matters in more detail please do not hesitate to contact me on 07979 164467.

Yours faithfully

Gareth Davies
Partner
Mazars LLP

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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

01 Purpose and Background

Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of City of York Council for the year ending 31 March 2015, and forms the basis for discussion at the Audit and Governance Committee meeting on 25 March 2015.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

We see a clear and open communication between ourselves and you as important in:

- Reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- Sharing information to assist each of us to fulfil our respective responsibilities;
- Providing you with constructive observations arising from the audit process; and
- Ensuring as part of the two-way communication process that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing City of York Council which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

Appendix C outlines the form, timing and content of our communication with you during the course of the audit. Appendix D sets out forthcoming accounting and other issues that will be of interest.

Scope of engagement

We are appointed to perform the external audit of City of York Council for the year to 31 March 2015. The scope of our engagement is laid out in the Audit Commission's Code of Audit Practice for Local Government bodies.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out our respective responsibilities as the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and we undertake our audit work to meet these responsibilities.

We comply with the statutory requirements governing audit work, in particular the:

- Audit Commission Act 1998; and
- Code of Audit Practice for Local Government bodies.

We, as auditors to City of York Council, are responsible for forming and expressing an opinion on the financial statements and reaching a conclusion on the arrangements you have put in place to secure economy, efficiency and effectiveness in the use of your resources (the Value for Money conclusion).

We are also required to report on the consistency of your Whole Government Accounts submission with the audited financial statements.

Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK and Ireland) we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

Significant matters considered

As part of our risk based approach to planning we consider a number of key performance and control environment features together with external developments. The following paragraphs set out some of the key aspects for 2014/15.

Performance and control environment

We use the Council's latest financial monitoring reports and medium term financial plan to consider the current financial position.

Ongoing pressure on the public finances presents significant challenges for the Council and the need to plan for further reductions in spending power at a time of increasing demand for services.

In 2014/15 and 2015/16 the Council expects to deliver a total of £22.4m in savings. This is on top of the total of £51m savings already achieved in the period 2010/11 to 2013/14.

The following table summarises in year financial activity to date.

| Area | Budget | Projected year end position | Projected overspend / (underspend) |
|---------------------------------|---------|-----------------------------|------------------------------------|
| 2014/15 Net revenue expenditure | £124.2m | £125.0m | £0.8m |
| 2014/15 Capital expenditure | £72.6m | £66.2m | (£6.4m) |

Based on the third quarter review, the latest budget forecasts for 2014/15 indicate a projected net revenue overspend of £0.8m.

The Council has a range of earmarked reserves for specific plans and projects that will help the Council to deliver its priorities. These reserves provide some flexibility if the Council needs to invest to save, for example, but there is a recognition that reserves cannot be used to sustain services and the underlying budget reductions identified will need to be delivered.

External developments

The Council has to prepare its financial statements in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom. There have been a number of changes to the Code for 2014/15 which include:

- changes to group accounts standards IFRS10 consolidated financial statements, IFRS11 joint arrangements and IFRS12 disclosure of interests in other entities – possible changes to accounting treatment due to changes in definition of control and classification; and
- accounting for schools with continuing debate about the impact of a change in the single entity definition, new CIPFA guidance and the need to disclose critical judgements.

02 Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide you with an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards of Auditing (UK and Ireland) and in accordance with the Code of Audit Practice for Local Government Bodies. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

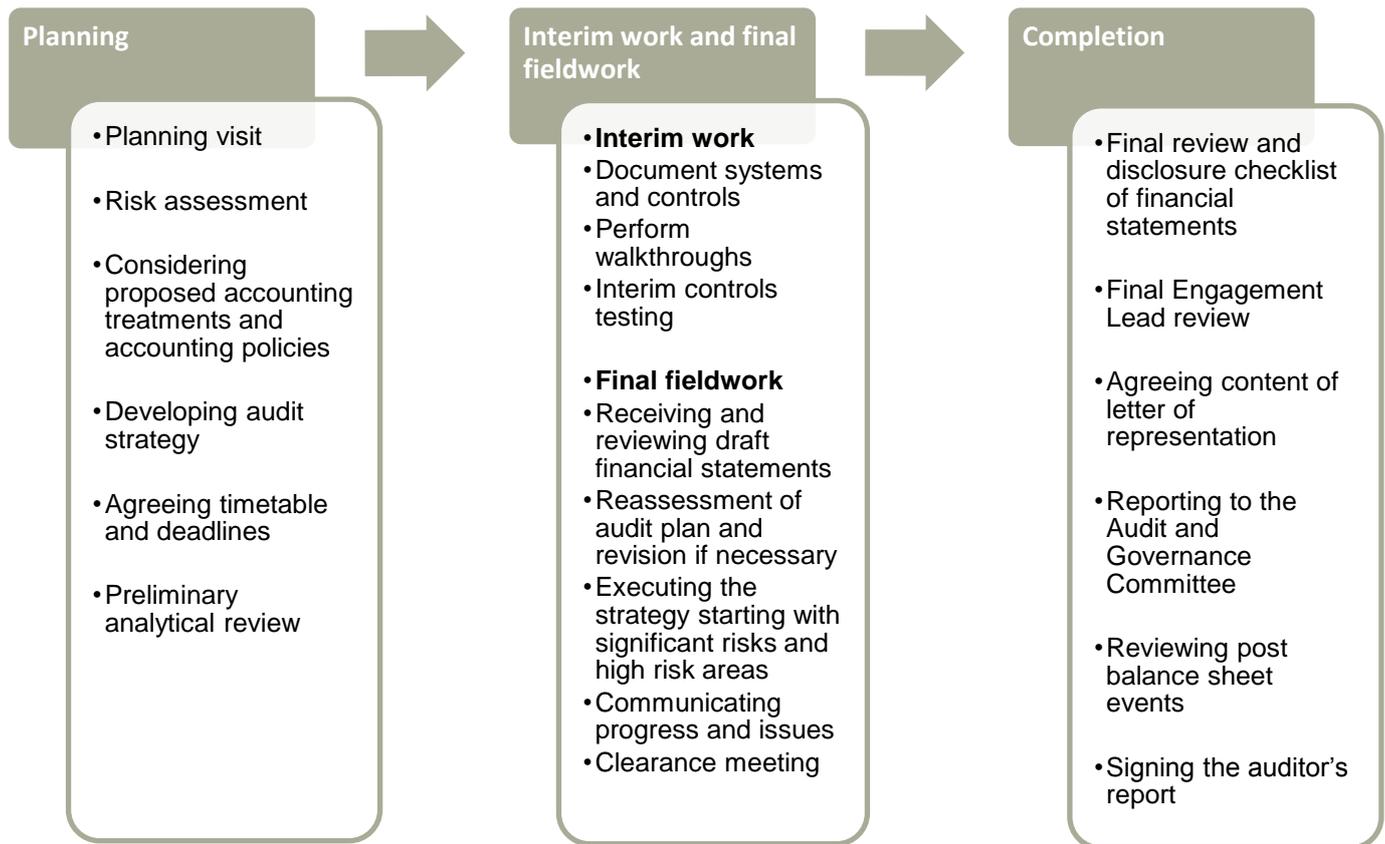
We apply a risk-based audit approach primarily driven by the matters we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work undertaken will include a combination of the following as appropriate:

- Testing of internal controls;
- Substantive analytical procedures; and
- Detailed substantive testing.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Materiality and misstatements are explained in more detail in Appendix B.

The diagram overleaf outlines the procedures we perform at the different stages of the audit.



Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Reliance on other auditors

There are material entries in your financial statements where we will seek to place reliance on the work of other auditors, having performed our own audit procedures to determine its adequacy for our audit.

| Item of account | Other auditor | Nature of assurance to obtain from the auditor |
|---|---|---|
| Defined benefit liability and associated IAS 19 entries and disclosures | North Yorkshire Local Government Pension Fund Auditor (Deloitte) | Accuracy of data supplied to the pension fund actuary by the pension fund |

Service organisations

We have not identified any material entries in your financial statements where the Council is dependent on an external organisation.

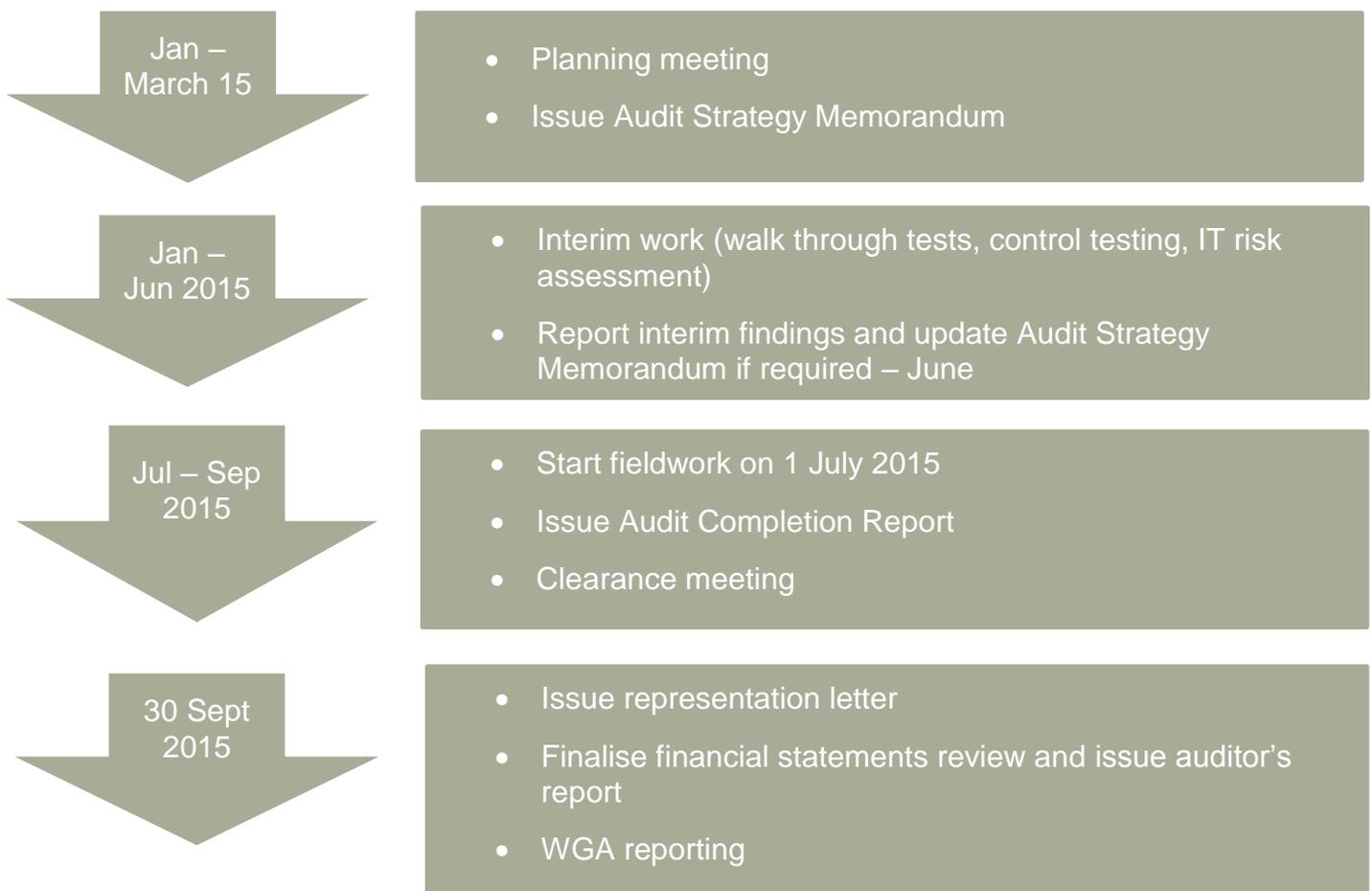
The work of experts

We plan to rely on the work of the following experts:

| Items of account | Management's expert | Our expert |
|---|----------------------|---|
| Defined benefit liability and associated IAS 19 entries and disclosures | Actuary (Mercer) | Audit Commission's consulting actuary (PWC) |
| Property, plant and equipment valuations | Your internal valuer | Audit Commission's consulting valuer (Gerald Eve) |

Timeline

The diagram below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process and will ensure significant issues identified are communicated to those charged with governance on a timely basis.



03 Significant risks

We have performed our planning procedures, including risk assessment, as detailed in section 2. In addition, we met with management as part of the audit planning process to discuss the risks that, in management's opinion, the Authority faces and have considered the impact on our audit risk. The risks that we identify as significant for the purpose of our audit are the risks of material misstatement that in our judgement require special audit consideration.

We set out below the significant audit risks and the areas of management judgement identified as a result of these meetings and planning procedures which we will pay particular attention to during our audit in order to reduce the risk of material misstatement in the financial statements.

Audit risks

Management override of controls

Description of the risk

International Standards on Auditing (ISA) 240 – *The auditor's responsibility to consider fraud in an audit of financial statements* requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we will address this risk

We will address this risk through performing audit work on:

- consideration and review of accounting estimates impacting amounts included in the financial statements;
- consideration and review of any unusual or significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Revenue recognition

Description of the risk

In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2014/15. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.

How we will address this risk

We will evaluate the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. We will also undertake a range of substantive procedures including:

- testing receipts in March and April 2015 to ensure they have been recognised in the right year;
- testing adjustment journals;
- obtaining direct verification of material grant income amounts; and
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

Pension Estimates (IAS 19)

Description of the risk

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we will address this risk

We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we will:

- evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and
- consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the Audit Commission.

Property, plant and equipment – accounting for depreciation, revaluations and impairments

Description of the risk

Accounting standards and CIPFA's Code of Practice on Local Authority Accounting require that all property, plant and equipment are depreciated, unless there is a specific exception. There are also requirements to regularly revalue assets carried at fair value on the Council's balance sheet and to carry out impairment reviews. The accounting entries to reflect property, plant and equipment are complex and a material error was identified and corrected in the 2013/14 financial statements.

How we will address this risk

We will specifically review the accounting entries to ensure that depreciation, revaluations and impairments are properly reflected in the financial statements.

Follow up of 2013/14 audit issues

We will follow up the work undertaken by officers to address issues raised in our 2013/14 Audit Completion Report:

- resolving the outstanding issues with the bank reconciliation;
- reviewing assets under construction and ensuring the accounts are updated appropriately; and
- reviewing leases to ensure they are correctly reflected in the financial statements.

04 Value for Money Conclusion

We are required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of your resources.

Our conclusion on your arrangements is based on two criteria, specified by the Audit Commission:

- securing financial resilience – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- challenging how you secure economy, efficiency and effectiveness – focusing on whether you are prioritising your resources within tighter budgets and the need to improve productivity and efficiency.

We set out below the significant risks that we will address through our work.

Responding to the financial pressures

Description of the risk

The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.

There have been some high profile examples of problems with project delivery. Most recently, the Council is considering whether to continue its long-running housing for older people procurement and has begun to consider a new strategy.

How we will address this risk

We will review:

- the budget process and the Medium-Term Financial Strategy;
- the progress made in identifying savings required;
- progress of the Council's Transformation Programme;
- budget monitoring reports and other finance updates;
- delivery of improved outcomes; and
- whether project management practices are robust and lessons are being learned from difficult experiences.

Risks in relation to adult social care services**Description of the risk**

We identified weaknesses in budgetary control and financial management in adult social care services in the 2013/14 audit and this led to an 'except for' qualification of the VFM conclusion. The risk is that the measures taken by the Council to address the issues raised last year are not effective.

How we will address this risk

We will follow up on the work undertaken in adult social care to ensure that previously agreed actions have been implemented. We will consider how well the service is responding to a large number of challenges, such as preparing for Care Act implementation, increasing demand (ageing population and high proportion of over 85s in York), reducing resources, and the extent to which it has taken the opportunity to improve overall outcomes through working with partners, such as Vale of York CCG through the Better Care Fund.

05 Your audit team

Below are your audit team and their contact details.

Engagement lead /
Partner

- Gareth Davies
- gareth.davies@mazars.co.uk
- 07979 164 467

Engagement senior
manager

- Gavin Barker
- gavin.barker@mazars.co.uk
- 0191 561 1917 or 07896 684 771

Team leader

- David Hurworth
- david.hurworth@mazars.co.uk
- 0191 383 6300

06 Fees for audit and other services

Our audit fees for the audit of the financial statements and for any assurance or other services are outlined in the tables below.

| Area of work | 2014/15 Proposed fee | 2014/15 Scale Fee | 2013/14 Actual fee |
|--------------------|----------------------|-------------------|--------------------|
| Code audit work | £135,476 | £135,476 | £148,546 |
| Certification work | £15,220 | £15,220 | £18,304 |
| Total fee | £150,696 | £150,696 | £166,850 |

All fees exclude VAT

Non-audit work

We have already completed the following non-audit service as part of the 2014/15 audit:

- Review of teachers' pensions return, £2,750 (excluding VAT)

We do not currently plan any further non-audit services, and no other audit or non-audit services are provided to the Authority by Mazars LLP associated entities. If additional non-audit work is identified we will report this to the Audit and Governance Committee in our regular audit progress reports.

In 2013/14, non-audit work amounted to £21,000 (excluding VAT).

Appendices

Appendix A - Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement:

- there are no relationships between us and any of our related or subsidiary entities, and
- you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement lead.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gareth Davies.

Prior to the provision of any non-audit services Gareth Davies will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified. As in previous years we undertake certification work on grants for the Council and we are satisfied that we have appropriate safeguards in place and this does not compromise our independence.

Appendix B – Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

We have set materiality at the planning stage at £7.06m with a clearly trivial threshold of £212k below which identified errors will not usually be reported. We have set lower materiality levels for the disclosure of officer remuneration and emoluments and members' allowances as we consider these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

Appendix C – Key communication points

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present to the Audit and Governance Committee the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Annual Audit Letter

These documents will be discussed with management prior to being presented to the Audit and Governance Committee and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks;
- Our independence;
- Responsibilities for preventing and detecting errors;
- Materiality; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks;
- Unadjusted misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Key communication points at the completion stage to be included in our Annual Audit Letter

The purpose of this document is to summarise the outcome of the audit of the 2014/15 annual accounts, our work on the value for money conclusion and to consider some of the key challenges for the future.

Appendix D – Forthcoming accounting and other issues

The 2014/15 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes, of which you should be aware. We provided workshops explaining these changes and invited officers from the Council responsible for preparing the financial statements. The workshops provided full details of the changes in the 2014/15 Code as well as a forward look to potential future accounting changes that may be of relevance to the Authority. If you require detailed information on any of these changes or any other emerging issues, please contact any member of the engagement team.

Forthcoming accounting issues

| Accounting for schools | How this may affect the Council |
|--|--|
| The 2014/15 Code has changed the way in which local authorities must account for maintained schools. The income, expenditure, assets, liabilities, reserves and cash flows of all local authority maintained schools must now be included in the Council's own single entity accounts for the first time. Where the impacts of this are material, the previous year's statements must be restated to take account of the change. | Members may be aware that CIPFA has been looking into the accounting treatment for schools assets (principally school buildings) as a result of a continuing qualification on the Whole of Government Accounts arising from the inconsistent recognition of these assets on local authority balance sheets. CIPFA has issued guidance to Councils for 2014/15 in relation to the assessment and subsequent accounting for schools assets. We have discussed this guidance with officers to identify the Council's intentions in relation to the recognition of maintained schools assets |
| Transport infrastructure assets | How this may affect the Council |
| It is anticipated that the measurement basis for the Council's Transport Infrastructure Assets will change from depreciated historic cost to depreciated replacement cost in 2016/17, with prior period restatement required. It is likely that the impact of this change will be significant and that the value of these assets on the Council's balance sheet will significantly increase. | We are aware that the Council has been doing work to meet the significant challenges that it faces in introducing this change in measurement basis and we have engaged with them at an early stage to provide advice and assistance where required. |
| Early deadlines | How this may affect the Council |
| The Government had signalled its intention to bring forward the deadlines for local authorities to produce their unaudited statements of account to 31 May from the 2017/18 financial year. The deadline for the completion of the audit will also move forward to 31 July. | The impact of this change on local authorities and their auditors are significant and we have begun to discuss how we will meet the challenges the new dates place on us all with Council officers. |

| Group Accounts | How this may affect the Council |
|--|--|
| Module 9 of the 2014/15 Code Guidance Notes has been updated to reflect changes in group accounting standards. | The Council does not currently prepare Group Accounts, but this may change as more joint working arrangements are introduced. |
| Property, Plant and Equipment (PPE) | How this may affect the Council |
| The 2014/15 Code Guidance Notes have clarified requirements for regular valuations of property, plant and equipment set out in IAS 15. | Whilst the Code allows 5-yearly valuations it makes it clear that the requirement to ensure that carrying values are materially correct takes precedence. This means that the valuer needs to provide evidence that the value of PPE at 31 March 2015 is not materially different from the date of the last physical valuation. This could include reference to appropriate indices, sample valuations and impairment reviews. |
| Fair Value accounting from 2015/16 | How this may affect the Council |
| IFRS 13 sets a new framework for determining fair values from 1 April 2015. | No impact on 2014/15. However, if any assets are held as surplus assets from 2015/16 onwards (e.g. vacated premises) they will need valuing at market value rather than existing use value. |



Audit and Governance Committee**25 March 2015**Report of the Head of Internal Audit

Internal audit & counter fraud plan 2015/16

Summary

- 1 This report seeks the committee's approval for the planned programme of audit and counter fraud work to be undertaken in 2015/16.

Background

- 2 The council's internal audit service has to comply with the Public Sector Internal Audit Standards, and the council's own Internal Audit Charter. The standards and charter require that the Head of Internal Audit gives an annual opinion on the adequacy and effectiveness of the council's framework of governance, risk management, and control. The basis for the opinion is the programme of work that internal audit carries out. An indicative risk based audit plan is drawn up at the start of each year, setting out what work will be done. The plan is required to be approved by this committee as part of its responsibility for overseeing the work of internal audit.

2015/16 Plan

- 3 Annex 1 sets out the proposed internal audit and counter fraud work for 2015/16. The planned audit work is based on a risk assessment undertaken by Veritau. The plan is also informed by discussions with chief officers and members, risk management arrangements, and by plans for development and change within the council. A separate analysis of requirements for counter fraud work is also undertaken.
- 4 Total planned days for 2015/16 are 2,522. This is 131 days less than 2014/15, which reflects a reduced requirement by the council. The reduction of 131 days affects information

governance services which were previously undertaken by Veritau. There is no reduction this year in planned levels of internal audit or counter fraud work.

- 5 The 2015/16 plan is similar in focus to previous years. It recognises the continuing change taking place within the council. Veritau will continue to provide support, advice and challenge in relation to major projects in addition to overall plans to meet current needs (eg to achieve savings targets). In addition, the plan reflects the continued need to look at key corporate systems, and to undertake regularity work in areas such as the main financial systems.

Consultation

- 6 In preparing the audit and counter fraud plan consultation has taken place with the Audit and Governance Committee and key officers across the council.

Options

- 7 Not relevant for the purpose of the report.

Analysis

- 8 Not relevant for the purpose of the report.

Council Plan

- 9 The work of internal audit and counter fraud supports overall aims and priorities by promoting probity, integrity and accountability and by helping to make the council a more effective organisation.

Implications

- 10 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**

- **Information Technology (IT)**
- **Property**

Risk Management Assessment

11 The council will be non-compliant with the Public Sector Internal Audit Standards if the plan is not approved by the committee, and it may be subject to increased scrutiny and challenge.

Recommendation

12 Members are asked to

- approve the 2015/16 internal audit and counter fraud plan.

Reason

In accordance with the committee's responsibility for overseeing the work of internal audit.

Contact Details

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Veritau Ltd
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Chief Officer Responsible for the report:

Ian Floyd
Director of Customer and Business
Support Services
Telephone: 01904 551100

**Report
Approved**



Date 16 March
2015

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers

Annexes

Annex 1 – 2015/16 Internal Audit and Counter Fraud Plan

**CITY OF YORK COUNCIL
INTERNAL AUDIT AND COUNTER FRAUD PLAN 2015/16**





City of York Council's Audit and Counter Fraud Service

Annual Plan 2015/16

CONTENTS

- 1 Introduction
- 2 2015/16 Audit Plan
- 3 Corporate & Cross Cutting Audits
- 4 Main Financial Systems
- 5 Directorate Audits
- 6 Counter Fraud & Corruption
- 7 Other Chargeable Audit Work



City of York Council's Audit and Counter Fraud Service

Annual Plan 2015/16

1. INTRODUCTION

- 1.1 This plan sets out the proposed 2015/16 programme of work for the internal audit, counter fraud, and information governance services provided by Veritau for the City of York Council.
- 1.2 In accordance with proper practice¹, internal audit is required to prepare an indicative annual audit plan. The plan is based on a risk assessment model that is maintained by internal audit. The council's own risk management systems are also considered in forming a view on what audits to undertake. The audit plan is a working document, and changes are made throughout the year to reflect changes in risk and any issues that arise.
- 1.3 The content of the audit plan is subject to consultation with directors and other senior council officers, and is formally approved by the Audit and Governance Committee. The committee is responsible for monitoring progress against the plan. Changes to the plan are agreed through the council's client management arrangements and are notified to the committee. Proposed audit work is also discussed with the council's external auditors, to ensure that there is no duplication of effort. Further details about the approach to audit planning can be found in the Audit Charter (latest version approved by the Audit and Governance Committee in December 2014).

2. 2015/16 AUDIT PLAN

- 2.1 The ongoing financial pressures faced by the council and the consequent need to review and adapt services are major factors affecting systems and controls. Veritau's priority for the immediate future continues to be to help support the council maintain an effective control environment in these challenging times. The approach to audit planning for 2015/16 follows that adopted over the last few years by providing a balance between regularity audits in areas such as the main financial systems where the volume and value of transactions processed are significant and regular audit is essential; and other

¹ Proper practice is set out in the Public Sector Internal Audit Standards and specific guidance on these standards for local government, issued by CIPFA. This includes a requirement for engagement with senior managers and members in the audit planning process.



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reviews targeted towards areas of increased risk due to change. This includes:

- direct support to change projects - to provide advice and challenge on controls being implemented or changed, and project governance
- emphasis in other audit work on the appropriateness of control systems in the current climate, and key objectives to meet current needs (e.g. progress with savings plans).

2.2 Details of the 2015/16 plan are set out in sections 3 – 7 below.



City of York Council's Audit and Counter Fraud Service

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3. CORPORATE & CROSS CUTTING AUDITS

Days

Annual Governance Statement & Governance Support

10

Advice and support on corporate governance matters and support in preparing the council's annual governance statement.

Asset Management

20

A review of the arrangements for managing the council's fixed assets and systems for accounting for assets.

Budget Savings

25

The audit will consider the controls in place related to the planning, monitoring and achievement of agreed budget savings, and the effectiveness of arrangements to manage risks relating to the budget.

Car Parking

20

An audit of systems for collecting car parking income, enforcement and issuing of permits.

Committee Reports

10

A review of the use of private papers in committee reports.

Data Quality & Performance Management

25

A review of the council's performance management framework along with the systems for capturing key performance data.

Freedom of Information

20

A review of the arrangements in place to respond to requests made under the Freedom of Information Act.



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| | |
|--|----|
| Health & Safety | 25 |
| <p>A review of council arrangements for managing health and safety. The specific areas to be covered will be determined in consultation with officers.</p> | |
| Information Security | 45 |
| <p>An allocation of time for a series of unannounced audit visits to council offices to ascertain the extent to which staff are recognising the need to protect sensitive and personal data and information assets. In addition, there is provision for an audit to assess understanding and compliance with Information Governance policies and procedures.</p> | |
| Members' Allowances | 20 |
| <p>A review of allowances payable to elected members including travel and subsistence.</p> | |
| New HR System | 10 |
| <p>Assurance work and support and advice in relation to the continuing roll-out of new iTrent modules.</p> | |
| Overtime | 20 |
| <p>A review of procedures across the council for the allocation, authorisation and record keeping relating to additional hours and overtime. This will follow-up the findings from the 2014/15 audit and also verify the council's compliance with the European Working Time Directive.</p> | |
| Partnership Arrangements | 20 |
| <p>A review of partnership risk management and governance arrangements.</p> | |



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Performance Management of New Service Delivery Models 20

Building on the work carried out in 2014/15, a review of the performance management arrangements in place for the new council social enterprises – Be Independent, Explore and Make it York.

Project Management 30

A review of overall council project management arrangements as well as an allocation for support on individual projects.

Procurement and Contract Management 60

A review of the arrangements within the council for procuring goods and services. This will encompass a number of separate audits including corporate procurement arrangements and individual reviews of specific procurement exercises and contract related issues. Priorities for audit will be determined in consultation with council officers during the year.

Recruitment Checks 10

A review of checks carried out when employing staff at the council. This will include the robustness of counter fraud checks undertaken.



City of York Council's Audit and Counter Fraud Service

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| | |
|---|------------|
| Register of Interests | 10 |
| <p>An audit of the council's arrangements for maintaining a register of interests.</p> | |
| Risk Management | 20 |
| <p>A review of overall council risk management arrangements.</p> | |
| Transformation Programme | 40 |
| <p>An allocation of time to provide support and advice in relation to the council's Transformation Project. This may include consideration of overall monitoring and governance arrangements or specific pieces of work supporting particular aspects of the programme. This will build on the work carried out in 2014/15.</p> | |
| Use of Interims, Specialists and Consultants | 20 |
| <p>An audit of the new policies and procedures applied across the council for engaging interims, specialists and consultants which are due to be implemented in 2015.</p> | |
| TOTAL – Corporate & Cross Cutting Audits | 480 |



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4. MAIN FINANCIAL SYSTEMS

Days

Cashiers and Income Management

20

A review of overall income management arrangements and the administrative processes for processing payments (including cash handling controls and security).

Council Tax & NNDR

25

A review of the systems for calculating Council Tax and NNDR liabilities, and the collection, recording and processing of payments.

Council Tax Support and Housing Benefits

25

A review of the arrangements for paying Housing Benefits and for administering the council tax support scheme.

Debtors

20

A review of the systems for raising debtor invoices and collecting income, credit control, and debt recovery arrangements.

Housing Rents

20

Reviews of the systems to collect, record, reconcile and monitor housing rents. The audit will also examine the arrangements for debt recovery.



City of York Council's Audit and Counter Fraud Service

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| | |
|--|------------|
| Main Accounting System | 25 |
| <p>A review of the arrangements for managing and maintaining the financial ledger. The audit will include a review of:</p> <ul style="list-style-type: none"> • access and back up arrangements • the integrity and timeliness of data • the processing of journals and virements • reconciling control and suspense accounts • the creation and maintenance of the coding structure • feeder systems and year end processes | |
| Ordering and Creditor Payments | 25 |
| <p>A review of the systems for ordering goods and services and processing creditor invoices.</p> | |
| Payroll | 25 |
| <p>A review of payroll controls and processing.</p> | |
| Treasury Management & Prudential Code | 8 |
| <p>A review of treasury management key controls.</p> | |
| VAT Accounting | 8 |
| <p>A review of key controls to ensure compliance with VAT accounting requirements.</p> | |
| York Financial Assistance Scheme | 10 |
| <p>A review of the arrangements in place for making awards under the revised York Financial Assistance Scheme (YFAS).</p> | |
| TOTAL – Main Financial Systems | 211 |



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5. DIRECTORATE AUDITS

Days

Adult Social Services (ASS)

Better Care Fund

20

Provision to provide support in relation to the newly established Better Care Fund. This may include a review of governance arrangements, risk management and performance management.

Deprivation of Liberty Assessments

10

A review of the arrangements in place to carry out Deprivation of Liberty Assessments. The council has seen a sharp increase in these in the past 12 months and plans to implement an element of automation into the process.

Direct Payments and Individual Budgets

25

An audit of the arrangements in place to provide direct payments to individuals who need to enable them to buy their own care or support services. This will include a follow-up of findings from previous audits.



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Implementation of the Care Act 20

Provision to provide support in relation to the implementation of the Care Act, building on work done in relation to Adult Safeguarding in 2014/15.

City and Environmental Services (CES)

Development Management 25

An audit of the planning services offered by the council.

Section 106 Agreements 15

An audit of the arrangements in place to monitor and administer section 106 agreements.

Children's Services, Education and Skills (CSES)

Children's Direct Payments 25

A review of the arrangements in place by the council to provide direct payments to children and young people.

Children's Social Care Records 10

Continued provision to provide support in relation to replacement of the RAISE system. This will build on work carried out in 2014/15.

Free Early Education Funding 25

A review of payments to private nursery providers. This includes the audit of registration records at a sample of nursery establishments, to ensure claims for funding are correct.



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High Needs SEN 20

A review of the system in place for the allocation of funding and the provision of High Needs SEN following changes in the funding system.

Implementation of Schools Finance System 15

A review of the implementation of the new Schools Finance System.

Schools 120

A programme of visits to schools as well as a number of themed audits. The audits are undertaken in accordance with a detailed risk assessment.

Communities and Neighbourhoods (CANS)

Gas Servicing and Housing Repairs 25

A review of systems in place to provide gas servicing and housing repairs.

Public Health 25

An review of controls in place to manage key Public Health risks including giving assurance over capacity to deliver the five statutory public health functions that the council is required to deliver. This will build on work carried out in previous years and assess how well Public Health has been embedded within the council.

Customer and Business Support Services (CBSS)



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| | |
|--|------------|
| IT audit | 20 |
| The specific areas to be covered will be determined in consultation with officers. | |
| PCI DSS Compliance | 5 |
| A review of compliance with the Payment Card Industry Data Security Standard. | |
| TOTAL – Directorate Audits | 405 |



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6. COUNTER FRAUD & CORRUPTION

Days

Data Matching

176

Provision to coordinate data submission, check data validity, assess referrals, and investigate potential frauds in relation to:

- the National Fraud Initiative (NFI)
- Housing Benefit Matching Service (HBMS) referrals
- local data matching exercises.

Fraud Awareness

60

Provision to deliver an overall programme of work to raise awareness of fraud issues amongst staff and the public. Activities include targeted fraud awareness training and organising counter fraud publicity (both internal and external).

Fraud Detection and Investigation

945

Provision to undertake investigations into suspected fraud, corruption or other wrongdoing. Examples of the types of investigation work that may be undertaken include internal fraud, social services related fraud, benefit fraud and housing tenancy fraud. Activities include:

- recording and risk assessing all referrals
- investigation
- application of sanctions, and progressing cases to prosecution where appropriate
- liaison with the police, DWP and other agencies
- proactive, targeted, counter fraud exercises



City of York Council's Audit and Counter Fraud Service

Annual Plan 2015/16**Other Counter Fraud Related Work** 70

Provision to provide other counter fraud and corruption work including:

- review of council counter fraud arrangements and policies
- the provision of support and advice to directorates in relation to fraud issues
- reporting on outcomes from counter fraud work.

TOTAL – Counter Fraud & Corruption**1,251**



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7. OTHER CHARGEABLE AUDIT WORK

Days

Audit and Governance Committee

20

Provision to prepare reports for the Audit and Governance Committee and attend meetings.

Contingency Assignments

60

Provision to undertake additional work in response to:

- specific requests from the Director of Customer and Business Support Services (the S151 Officer), Audit and Governance Committee, or the Assistant Director - Finance, Asset Management and Procurement
- new or previously unidentified risks which impact on Strategic Audit Plan priorities
- significant changes in legislation, systems or service delivery arrangements
- requests from customers to audit specific services, systems or activities usually as a result of weaknesses in controls or processes being identified by management
- urgent or otherwise unplanned work arising from fraud investigations which identify potential control risks.

External Audit Liaison

5

Provision for regular liaison and information sharing with Mazars.

Follow Up Audits

45

Provision to follow up previously agreed audit recommendations.

Audit Planning

10

Preparation and monitoring of audit plans.



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Support, Advice & Liaison

35

Provision to provide ongoing advice and support on the design, implementation and operation of appropriate controls and for the overall management of audit work in each department.

TOTAL – Other Chargeable Audit Work

175

TOTAL CHARGEABLE DAYS 2015/16

2,522



Audit and Governance Committee

25 March 2015

Report of the Head of Internal Audit

Audit & Counter Fraud Monitoring Report

Summary

- 1 This report provides an update on progress made in delivering the internal audit workplan for 2014/15 and on current counter fraud activity.

Background

- 2 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2011 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the standards, periodic reports detailing the outcomes of internal audit work are presented to this committee.

Internal Audit

- 3 To date, internal audit has delivered 74% of the 2014/15 audit plan based on reports issued. This is broadly comparable to the same point last year (78%). The figures do not reflect audits in progress or recently completed. As at 11 March 2015, 97% of work was either completed or in progress.
- 4 It is anticipated that the 93% target for the year will be exceeded by the end of April 2015 (the cut off point for 2014/15 audits).
- 5 Details of the audits completed and reports issued since the last report to this committee in December 2014 are given in annex 1.

Counter Fraud

- 6 Counter fraud work has been undertaken in accordance with the approved plan. Annex 2 provides a summary of the work undertaken.
- 7 In addition, the council participated in a successful regional bid for fraud funding from DCLG in partnership with North Yorkshire County Council, Hambleton District Council, Richmondshire District Council, Ryedale District Council and Selby District Council. The initiative will use cross border data matching exercises to identify fraud.

Breaches of Financial Regulations

- 8 A number of breaches of the council's financial regulations have been identified during the course of recent audit work. Details of these breaches are summarised in annex 3. None of the breaches represent significant issues.

Follow Up of Agreed Actions

- 9 Annex 4 includes details of follow up of internal audit agreed actions. Previously, these have been brought as a separate report to the committee. The intention going forward is to include details of follow up work as part of this monitoring report, twice a year. There are no specific issues that need to be brought to the committee's attention as a result of the latest follow up work.

Consultation

- 10 Not relevant for the purpose of the report.

Options

- 11 Not relevant for the purpose of the report.

Analysis

- 12 Not relevant for the purpose of the report.

Council Plan

- 13 The work of internal audit and counter fraud helps to support overall aims and priorities by promoting probity, integrity and

accountability and by helping to make the council a more effective organisation.

Implications

14 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

15 The council will be non-compliant with the PSIAS if the results of audit work are not reported to the committee and could therefore be exposed to increased levels of scrutiny and challenge.

Recommendation

16 Members are asked to:

- (a) Note the progress made in delivering the 2014/15 internal audit work programme, and current counter fraud activity.

Reason

To enable members to consider the implications of audit and fraud findings.

Contact Details

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Ian Floyd
Director of CBSS
Telephone: 01904 551100

**Report
Approved**



Date 16 March
2015

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers

- 2014/15 Internal Audit, Counter Fraud, and Information Governance Plan
- The final internal audit reports referred to in annex 1 are available as background papers with the online agenda papers for this meeting

Annexes

Annex 1 – 2014/15 Audits Completed and Reports Issued
Annex 2 – Counter Fraud Activity
Annex 3 – Breaches of Financial Regulations
Annex 4 – Follow Up of Agreed Actions

AUDITS COMPLETED AND REPORTS ISSUED

The following categories of opinion are used for audit reports.

| Opinion | Level of Assurance |
|-------------------------|---|
| High Assurance | Overall, very good management of risk. An effective control environment appears to be in operation. |
| Substantial | Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified. |
| Reasonable ¹ | Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made. |
| Limited | Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation. |
| No Assurance | Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse. |

¹ This was previously moderate assurance – some reports below were issued prior to the change

Actions to address issues are agreed with managers where weaknesses in control are identified. The following categories are used to classify agreed actions.

Priority

Long Definition

Short Definition – for use in Audit Reports

1 (High)

Action considered both critical and mandatory to protect the organisation from exposure to high or catastrophic risks. For example, death or injury of staff or customers, significant financial loss or major disruption to service continuity.

These are fundamental matters relating to factors critical to the success of the area under review or which may impact upon the organisation as a whole. Failure to implement such recommendations may result in material loss or error or have an adverse impact upon the organisation's reputation.

Such issues may require the input at Corporate Director/Assistant Director level and may result in significant and immediate action to address the issues raised.

A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.

Priority

Long Definition

Short Definition – for use in Audit Reports

2

Action considered necessary to improve or implement system controls so as to ensure an effective control environment exists to minimise exposure to significant risks such as financial or other loss.

A significant system weakness, whose impact or frequency presents risks to the system objectives, and which needs to be addressed by management.

Such issues may require the input at Head of Service or senior management level and may result in significantly revised or new controls.

3

Action considered prudent to improve existing system controls to provide an effective control environment in order to minimise exposure to significant risks such as financial or other loss.

The system objectives are not exposed to significant risk, but the issue merits attention by management.

Such issues are usually matters that can be implemented through line management action and may result in efficiencies.

Draft Reports Issued

14 internal audit reports are currently in draft. These reports are with management for consideration and comments. Once the reports have been finalised, details of the key findings and issues will be reported to this committee. The draft reports are categorised as follows.

| Opinion | Number | Reports |
|-----------------------|---------------|--|
| High Assurance | 5 | Clifton with Rawcliffe Primary School, Copmanthorpe Primary School, Fulford Secondary School, Osbaldwick Primary School, Treasury Management |
| Substantial Assurance | 5 | Fishergate Primary School, IT audit - Internet and Email Misuse, Safeguarding Adults, St Wilfrid's RC Primary School, Tang Hall Primary School |
| Reasonable Assurance | 0 | |
| Limited Assurance | 2 | CANS and CES Charging for Private Works, Overtime |
| No Assurance | 0 | |
| Not given | 2 | Children's Social Care Records, Freedom of Information |

Final Reports Issued

The table below shows audit reports finalised since the last report to this committee in December 2014. In all cases the recommendations made have been accepted by management, and will be followed up by internal audit.

| Audit | Opinion | Number of Agreed Actions | | Work done / significant weaknesses / issues identified |
|---|-----------------------|--------------------------|------------|---|
| | | Total | Priority 1 | |
| Badger Hill Primary School | High Assurance | 3 | 0 | A schools audit. No significant weaknesses were found. |
| Carr Infant School | High Assurance | 4 | 0 | A schools audit. No significant weaknesses were found. |
| Knavesmire Primary School | High Assurance | 2 | 0 | A schools audit. No significant weaknesses were found. |
| Contract Management for new Service Delivery Models | Substantial Assurance | 3 | 0 | <p>Explore, Be Independent and Make it York were reviewed.</p> <p>While no significant weaknesses were identified, actions were required with respect to reporting arrangements in both Explore and Be Independent.</p> <p>It was acknowledged that all of the services</p> |

| Audit | Opinion | Number of Agreed Actions | | Work done / significant weaknesses / issues identified |
|--------------------------------|-----------------------|--------------------------|------------|--|
| | | Total | Priority 1 | |
| | | | | reviewed were not fully mature at the time of the audit and therefore the opinions given relate to the services at the stage of development at the current time. |
| CYC Encryption and User Access | Substantial Assurance | 2 | 0 | <p>Effective processes to grant new users access to the council network were found to be in place. The council has defined which devices should be encrypted, and uses suitable proprietary encryption methods to secure its data on its equipment.</p> <p>However, users are currently able to save data from a Citrix session to their own machines. The council has no control over the security of these machines, or over how users may further process the data. Devices are unlikely to be encrypted, and the council cannot ensure that they are disposed of securely when no longer required.</p> <p>Several laptops have been authorised to be</p> |

| Audit | Opinion | Number of Agreed Actions | | Work done / significant weaknesses / issues identified |
|-------------------------|-----------------------|--------------------------|------------|---|
| | | Total | Priority 1 | |
| | | | | exempt from encryption, despite the business cases not complying with the conditions for exemption. |
| Joseph Rowntree School | Substantial Assurance | 9 | 0 | A schools audit. The control environment was generally effective although a number of areas requiring improvement were identified. |
| Lakeside Primary School | Substantial Assurance | 6 | 0 | A schools audit. The control environment was generally effective although a number of areas requiring improvement were identified. |
| Milthorpe School | Substantial Assurance | 7 | 0 | A schools audit. The control environment was generally effective although a number of areas requiring improvement were identified. |
| Right to Buy | Substantial Assurance | 3 | 0 | It was found that effective controls are in place to address potential risks, with applications correctly recorded, checked for validity and processed. Issues were raised in relation to applying |

| Audit | Opinion | Number of Agreed Actions | | Work done / significant weaknesses / issues identified |
|---|-----------------------|--------------------------|------------|---|
| | | Total | Priority 1 | |
| | | | | incorrect discounts, fraud prevention measures and scheme timescales. |
| Westfield Community Primary School | Substantial Assurance | 6 | 0 | A schools audit. The control environment was generally effective although a number of areas requiring improvement were identified. |
| Information Security Sweeps 1 | Moderate Assurance | n/a | n/a | A number of issues were identified which were raised with individual departments. |
| School Funding and Central Services for Schools | Moderate Assurance | 4 | 0 | <p>It was found that the arrangements for calculating and allocating school funding are well-controlled.</p> <p>In respect of Services to Schools, it was recognised that there were improvements to be made in this area. Whilst some improvements have already been made, there remain a number of weaknesses.</p> <p>It was apparent that no corporate guidance has been issued in respect of how charges should</p> |

| Audit | Opinion | Number of Agreed Actions | | Work done / significant weaknesses / issues identified |
|-------------------------------|----------------------|--------------------------|------------|---|
| | | Total | Priority 1 | |
| | | | | be calculated for the provision of additional services and as a result there was no consistency in the charging information supplied. |
| Information Security Sweeps 2 | Reasonable Assurance | n/a | n/a | Overall, the council is well protected against accidental disclosure of information. The vast majority of information was found to be stored securely. However, the council could more effectively protect itself against deliberate unauthorised access, whether opportunistic or targeted. |
| Partnership Arrangements | Reasonable Assurance | 3 | 0 | <p>The reviews of individual partnerships showed that satisfactory arrangements are in place regarding the governance of most of these partnerships but a number of weaknesses were identified.</p> <p>In addition, it was identified during the audit that there are no action plans in place to strengthen risk management.</p> |

| Audit | Opinion | Number of Agreed Actions | | Work done / significant weaknesses / issues identified |
|-----------------------------------|-------------------|--------------------------|------------|--|
| | | Total | Priority 1 | |
| Amenity Funds | Limited Assurance | 4 | 0 | <p>All individual items of expenditure tested were found to be reasonable and in line with the expected purposes of the funds.</p> <p>However, in both establishments visited, the management of the fund was inconsistent with previously issued guidance and displayed weaknesses which may lead to incorrect record keeping or loss of funds.</p> |
| Allocation of Highways Funding | No opinion given | n/a | n/a | The report highlights a number of weaknesses in procedures for deciding which highway maintenance schemes should be undertaken within the overall budget. The work was undertaken following an investigation in this area. |
| Democratic Governance (follow-up) | No opinion given | n/a | n/a | A report on Democratic Governance was issued on 16 December 2013. Actions were agreed to address weaknesses identified – for some of these detailed re-testing was undertaken to confirm whether these were effective. |

| Audit | Opinion | Number of Agreed Actions | | Work done / significant weaknesses / issues identified |
|--|------------------|--------------------------|------------|---|
| | | Total | Priority 1 | |
| | | | | The re-testing showed that some improvements can be seen in the categorisation and recording of decisions, but there remain further improvements that can be made. |
| Subsidy to Greenwich Leisure Limited (GLL) for the Waterworld Leisure Centre | No opinion given | n/a | n/a | <p>The purpose of the audit was to confirm the council is paying the correct amount of money to GLL, who ran the Waterworld leisure centre on behalf of the council.</p> <p>The work identified a number of issues to be queried, which are currently being followed up by the service.</p> |
| Transformation Programme – Community Hubs | No opinion given | n/a | n/a | <p>A memo was issued detailing the progress made to date and any recommendations.</p> <p>No major issues were noted, however it was recommended that individual project briefs need to be developed for each hub which should identify the associated risks. In addition, they</p> |

| Audit | Opinion | Number of Agreed Actions | | Work done / significant weaknesses / issues identified |
|---------------------------------------|------------------|--------------------------|------------|--|
| | | Total | Priority 1 | |
| | | | | should set down the timescales and costs for developing and maintaining each hub. |
| Transformation Programme - Governance | No opinion given | n/a | n/a | <p>A memo was issued following a review of the overall governance arrangements.</p> <p>The overall conclusion was that the governance arrangements in place at the time of the memo (October 2014) were robust and suitable.</p> <p>Whilst it was recognised that arrangements are effective at the time of the audit, there will be a need to review and adjust these as the transformation programme progresses.</p> |

COUNTER FRAUD ACTIVITY 2014/15

The table below shows the total numbers of fraud referrals received and summarises the outcomes of investigations completed to date. The indicators include the full range of counter fraud work undertaken.

| | 2014/15 (as at 28/02/14) | 2014/15 (Target: Full Yr) | 2013/14 (Actual: Full Yr) |
|---|-------------------------------------|--------------------------------------|--------------------------------------|
| % of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked, management action taken). | 43% | 30% | 55% |
| Amount of actual savings (quantifiable savings - e.g. CTS) identified through fraud investigation. | £124,000 | £100,000 | £97,947 |
| Amount of notional savings (estimated savings - e.g. housing tenancy fraud) identified through fraud investigation. | £577,000 | £600,000 | £810,000 |

Caseload figures for the period are:

| | As at 1/4/14 | As at 28/02/15 |
|---------------------|---------------------|-----------------------|
| Awaiting allocation | 40 | 59 |
| Under investigation | 184 | 163 |

Summary of counter fraud activity:

| Activity | Work completed or in progress |
|-----------------------------------|--|
| Data matching | <p>Matches from the National Fraud Initiative have been returned. They show 2,200 recommended data matches relating to a number of council teams and services as well as 3,500 matches relating specifically to Single Person Discounts. These matches will be investigated by the team and specific council departments in the next few months.</p> <p>Housing Benefit Matching Service (HBMS) referrals continue to be investigated - the counter fraud team has received 500 HBMS referrals this year. HBMS referrals have resulted in 1 benefit fraud prosecution and 2 sanctions to date in 2014/15.</p> |
| Fraud detection and investigation | <p>The service continues to promote the use of criminal investigation techniques and standards to robustly respond to any fraud perpetrated against the council. Activity to date includes the following:</p> <ul style="list-style-type: none"> • Housing fraud – working in conjunction with housing officers, 24 properties have been recovered since April. In addition, 13 properties were prevented from being let where the prospective tenants had provided false information in their housing applications. One person has been cautioned for illegal subletting. There are 57 current investigations in this area. |

| Activity | Work completed or in progress |
|----------|--|
| | <ul style="list-style-type: none"> • Internal fraud - the team has received 14 referrals for internal frauds between 1st April and 28th February. 6 cases are still under investigation. • Benefit fraud - 4 people have been prosecuted for benefit fraud offences and a further 13 have received formal sanctions (cautions and administrative penalties). Benefits have been corrected in 14 cases. • Social Care fraud – There are currently 11 ongoing investigations in this area. The fraud team is working closely with a number of departments to identify, detect and deter fraud in this area. • Parking fraud – 23 cases of blue badge misuse have been referred to the team since April. 4 people were cautioned and 6 people have received warnings for disabled badge fraud so far this year. • Council Tax fraud – there are 20 ongoing investigations in this area. |

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ANNEX 3

**SUMMARY OF BREACHES OF FINANCIAL REGULATIONS
IDENTIFIED DURING INTERNAL AUDIT WORK COMPLETED
IN THE PERIOD**

| Description of Breach | Instances |
|--|------------------|
| Charges for services not determined by a standard policy | 1 |
| Inappropriate invoicing and recharge frequency | 2 |
| Incorrect treatment of VAT | 2 |
| Income not banked intact | 1 |
| Reconciliations not being carried out | 1 |
| Payments being made without dual authorisation | 1 |

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INTERNAL AUDIT FOLLO UP

Background

1. Where weaknesses in systems are found by internal audit, the auditors discuss and agree a set of actions to address the problem with the responsible manager. The agreed actions include target dates for issues to be dealt with. The auditors then carry out follow up work to check that the issue has been resolved once these target dates are reached. The follow up work is carried out through a combination of questionnaires completed by responsible managers, risk assessment, and by further detailed review by the auditors where necessary. Where managers have not taken the action they agreed to, issues are escalated to more senior managers, and ultimately may be referred to the Audit and Governance Committee.

Follow up of internal audit agreed actions

2. A total of 102 actions have been followed up since the last report to the Audit and Governance committee in September 2014. A summary of the priority of these actions is included in figure 1, below.

Figure 1: actions followed up as part of the current review

| Priority of actions* | Number of actions followed up |
|----------------------|-------------------------------|
| 1 | 0 |
| 2 | 27 |
| 3 | 75 |
| Total | 102 |

* The priorities run from 1 (high risk issue) to 3 (lower risk)

3. Figure 2 below provides an analysis of the actions which have been followed up, by directorate.

Figure 2: actions followed up by directorate

| Priority of actions | Number of actions followed up by directorate | | | | | |
|---------------------|--|----------|-----------|-----------|----------|-----------|
| | OCE | CES | CANS | CSES | ASS | CBSS |
| 1 (High) | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 (Medium) | 0 | 3 | 9 | 5 | 0 | 8 |
| 3 (Low) | 0 | 0 | 9 | 52 | 7 | 9 |
| Total | 0 | 3 | 18 | 57 | 7 | 17 |

4. Of the 102 agreed actions 86 (84.3%) had been satisfactorily implemented and 4 (3.9%) were no longer needed¹.
5. In a further 12 cases (11.8%) the action had not been implemented by the target date, but a revised date was agreed. This is done where the delay in addressing an issue will not lead to unacceptable exposure to risk and where, for example, the delays are unavoidable (eg due to unexpected difficulties or where actions are dependent on new systems being implemented). These actions will be followed up after the revised target date and if necessary they will be raised with senior managers in accordance with the escalation procedure. Figure 3 below shows the priority of these actions.

Figure 3: priorities of actions with revised implementation dates

| Priority of actions | Number of actions with a revised implementation date |
|---------------------|--|
| 1 (High) | 0 |
| 2 (Medium) | 3 |
| 3 (Low) | 9 |
| Total | 12 |

Conclusions

6. The follow up testing undertaken confirms that in general good progress has been made by council departments to rectify weaknesses in control identified through internal audit work. This is an ongoing process and progress in implementing agreed actions will continue to be monitored and reported as required through the

¹ For example because of other changes to procedures or because the service has ended or changed significantly.

escalation procedure. There are no specific issues that need to be brought to the attention of the Audit and Governance Committee at this time.

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**Audit and Governance Committee**

25 March 2015

Report of the Chair of the Committee

Appointment of Independent Co-opted Members

Summary

- 1 This report seeks approval for the appointment of two independent co-opted members to this committee to be recommended to full council.

Background

- 2 The committee's effectiveness action plan identified the need to appoint two non-voting independent co-opted members. Following a recruitment exercise undertaken in May 2013, Mr Martin Whiteley was subsequently appointed to the position for a term of two years. However, it was not possible to appoint a second member at that time.
- 3 The committee agreed to undertake a further recruitment exercise in 2014 to appoint a second co-opted member. An advert and person specification was therefore prepared and the position was advertised jointly with North Yorkshire County Council as it was also seeking to recruit to its audit committee. There was no intention to share a co-opted independent member rather that each would make its own appointment. Unfortunately only one application was received by the closing date of 26 September 2014 although a further two applications were received after the closing date.
- 4 Given the poor response, it was decided to re-advertise the position in January 2015. On this occasion, seven applications were received by the closing date of 23 January.
- 5 Mr Martin Whiteley has recently indicated that he intends to resign his existing position as independent member and not

seek re-appointment. Given this, I feel it is appropriate that the committee appoints two new independent members to serve from June 2015.

Interviews

- 6 All seven applicants were interviewed by a panel comprising the vice-chair, an officer and myself. The panel recommends that the following (listed in alphabetical order by surname) be considered for appointment as non-voting independent members of the committee, subject to approval by full council:

Mr Chris Bateman
Mr Andrew Mendus

- 7 The two people nominated offer a good mix of skills and experience. It is also recommended that the appointments be for a period of 4 years to ensure sufficient continuity.
- 8 It is further recommended that a third candidate, Mr Dave Mann be appointed as a reserve in the event that either nomination is declined or the people appointed resign before the end of their term.

Consultation

- 9 Not relevant for the purpose of the report.

Options

- 10 Not relevant for the purpose of the report.

Analysis

- 11 Not relevant for the purpose of the report.

Council Plan

- 12 The committee supports the council's overall aims and priorities by promoting probity, integrity and honesty and by helping to make the council a more effective organisation.

Implications

- 13 There are no implications to this report in relation to:

- **Finance**

- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 14 The committee may fail to discharge its responsibilities if it is not fully effective.

Recommendation

- 15 Members are asked to:
- a) note the process followed to select candidates for the role of independent co-opted member and recommend to full council the appointment of Mr Chris Bateman and Mr Andrew Mendus for a period of 4 years, with Mr Dave Mann as a reserve.

Reason

To ensure that the committee continues to operate effectively and in accordance with recommended best practice.

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**Report
Approved**



Date 9/03/15

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers

None

Annexes

None