

Notice of meeting of

Audit & Governance Committee

To:	Councillors Hyman (Chair), Hill, Holvey, Jones, Moore, Scott and Watson R
Date:	Monday, 26 June 2006
Time:	5.00 pm
Venue:	Guildhall

AGENDA

1. **Declarations of Interest**

At this point Members are asked to declare any personal or prejudicial interests they may have in the business on this agenda.

2. **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 Panel's remit can do so. Anyone who wishes to register or requires further information is requested to contact the Democracy Officer on the contact details listed at the foot of this agenda. The deadline for registering is Friday, 23 June at 10:00 am.

3. **Minutes** (Pages 1 - 10)

To approve and sign the minutes of the Audit and Governance Committee meeting held on 6 June 2006.

4. **2005-06 Statement of Internal Control** (Pages 11 - 24)

This report introduces the draft 2005/06 Statement of Internal Control (SIC) for Members' consideration prior to it being reported

to the Executive for their approval and recommendation to Full Council on the 29th June 2006.

5. Statement of Accounts 2005/06 (Pages 25 - 38)

This report asks Members to review and comment upon the Council's financial accounts for the financial year 2005/06 prior to their approval by Full Council before the end of June. Copies of the draft Statement of Accounts have been circulated separately to Members.

6. Audit Commission Review of Issues Raised By Complainants Relating to Osbaldwick/Derwenthorpe Development Proposals (Pages 39 - 46)

This report informs Members of the findings of the Audit Commission following their review of aspects of the Osbaldwick/Derwenthorpe development and asks them to agree to implement the actions recommended by the Audit Commission.

7. Follow up Review of Implementation of Internal Audit Recommendations (April 05 – Sept 05 Audits) (Pages 47 - 54)

This report sets out progress in implementing the recommendations made in final internal audit reports issued between April and September 2005 and asks Members to approve a process for following up internal audit recommendations.

8. Urgent Business

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

Democracy Officer:

Name: Fiona Young

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

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details are set out above.

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City of York Council

Committee Minutes

MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	6 JUNE 2006
PRESENT	COUNCILLORS HYMAN (CHAIR), HOLVEY, KIRK (SUBSTITUTING FOR CLLR MOORE), SCOTT AND WATSON R
APOLOGIES	COUNCILLORS HILL, JONES AND MOORE

PART A – MATTERS DEALT WITH UNDER DELEGATED POWERS

1. DECLARATIONS OF INTEREST

The Chair invited Members to declare at this point any personal or prejudicial interests they might have in the business on the agenda. Cllr Scott declared a personal, non prejudicial interest in agenda items 8 and 9 (Annual Report of the Chief Internal Auditor and Audit and Fraud Plan for 2006/07), insofar as these items related to education issues, as a governor of Clifton Green Primary School.

2. PUBLIC PARTICIPATION

It was reported that there had been no registrations to speak at the meeting under the Council's Public Participation Scheme.

3. COMMITTEE ROLE, REMIT AND KEY RELATIONSHIPS

(See also under Part B Minutes)

Members considered a report which provided information on the role, remit and key relationships of the new Audit and Governance Committee.

The Committee had been introduced following the recent review of the Council's Constitution and was constituted as a non-executive sub-committee of Full Council. Guidance issued recently by the Chartered Institute of Public Finance Professionals (CIPFA) recommended that authorities formally approve a Statement of Purpose for their audit committees. A suggested Statement of Purpose was set out in paragraph 5 of the report for Members' consideration. CIPFA's definition of the core functions of an audit committee was outlined in paragraph 7. These functions had been reflected in the delegations for the Committee included in the Constitution.

The Committee would play a key role in formally approving the Council's overall audit strategy, reviewing work carried out by the Internal Audit Service and receiving and considering the work of the external auditor. It would report to the Executive on major issues of non-compliance and contravention but must also retain the ability to challenge the Executive if

necessary. It was therefore essential that the Committee not be chaired by a member of the Executive. The Committee shared some common concerns with the Standards Committee, but had a wider scope in that it would deal with the good governance and management of the organisation as a corporate entity, rather than matters relating specifically to elected Members. To be effective, the Committee must have a knowledgeable and experienced Chair and membership. Members' views were sought on the establishment of a training programme to support them in discharging their responsibilities.

The nature of the relationship between the Audit & Governance Committee and the Internal and External audit functions was discussed. It was noted that the development of a privacy/confidentiality protocol for the Committee required further consideration. In response to Members' questions, Officers advised that it was their understanding that the Committee had authority to agree its own Statement of Purpose but could refer this to Council for endorsement if desired. Audit committees must remain independent of the scrutiny process, but this did not mean that cross-membership with scrutiny was prohibited. With regard to training, it was noted that a Member training event on risk management had already been scheduled for 29 June.

RESOLVED: (i) That the contents of the report be noted and that the following Statement of Purpose (as set out in paragraph 5) be adopted and referred to Council for endorsement:

"The purpose of the Audit and Governance Committee is to act as the responsible body charged with governance at the Council. In doing so it will provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and will oversee the financial reporting process."

REASON: To ensure the effective management and operation of the Committee and promote understanding of its purpose and function at the Council.

(ii) That training be provided, for Members and substitute Members of the Committee, on the following topics:

- Risk Management (to include the training already scheduled for 29 June as well as more detailed training for Members of this Committee)
- Finance in the public arena
- Regularity and ethics (Members to be invited to attend any training already scheduled on this topic for the Standards Committee).

REASON: To support Members in the proper discharge of their responsibilities and to support the proper function of the Committee.

4. THE ROLE AND FUNCTION OF THE EXTERNAL AUDIT SERVICE - PRESENTATION

Members received a presentation by officers from the Audit Commission (formerly District Audit) on the role and function of the external audit service.

The presentation explained the legislation under which auditors were appointed and carried out their functions, their main responsibilities under the Code of Audit Practice, key audit reports and outcomes, and how auditors' judgements fed into the CPA process. Copies of the slides used for the presentation were circulated at the meeting.

In response to questions from Members, it was explained that auditors' VFM ('value for money') judgements were based upon key criteria specified by the Audit Commission rather than on comparisons between local authorities. The judgements did not include consideration of policies adopted by individual authorities (such as sustainability) but looked at authorities' arrangements for getting to where they wanted to be.

RESOLVED: That the Audit Commission officers thanked for their presentation and that the information provided be noted.

5. THE ANNUAL AUDIT LETTER 2004/05 AND ACTION PLAN

Members considered a report which presented for approval an action plan prepared in response to the Annual Letter of the District Auditor, covering all the significant issues raised therein for internal monitoring and reporting purposes during 2006/07.

It was noted that, whilst the District Auditor had recognised the overall trend in 2004/05 as one of improvement, there were a number of significant matters requiring action. In particular, more work was needed to:

- Improve the Council's overall governance arrangements
- Improve the use of competition to achieve value for money and service improvement
- Improve planning linkages between key plans and strategies
- Ensure the delivery of a new Constitution.

The Annual Letter was attached as Annex A to the report and the action plan drawn up to address the issues raised was attached as Annex B. The plan would be monitored at an operational level by the Council's Corporate Management Team. Progress would be reported to the Audit and Governance Committee on the basis of a mid-term monitoring report and a final out-turn report.

It was noted that clarification was needed with regard to the due dates indicated in the plan against improvement of waste minimisation (page 50 of the papers) and Equalities (page 51).

RESOLVED: (i) That the content of the report be noted and that the Plan attached as Annex 1 be approved, for information and for on-going monitoring purposes.

REASON: To allow the effective on-going monitoring of progress against the agreed action plan, in order to address those matters identified as areas for improvement by the District Auditor.

(ii) That the reporting arrangements be approved, to be put in place for this Committee to monitor progress against the Plan during 2006/07.

REASON: To ensure the proper reporting of progress against the agreed action plan and effective monitoring by this Committee.

6. THE ANNUAL AUDIT PLAN 2006/07

Members considered a report which introduced the District Auditor's Audit and Inspection Plan for City of York Council for the year 2006-2007.

The Audit Plan, which set out the audit and inspection work to be conducted by the District Auditor in compliance with statutory duties, was attached as Annex A to the report. The Plan had been subject to a wide consultation with responsible Officers and had been approved in draft by the Corporate Management Team.

Members commented on the identification of waste minimisation as a key risk to the Council's financial health (page 70 of the papers) and on actions identified to help the Council reduce its audit fees (page 76). The former followed up on issues raised by an inspection of the waste management service in 2004. It was noted that there had been no change to the audit fees this year, despite an increase in the auditors' responsibilities.

RESOLVED: That the Audit and Inspection Plan be approved.

REASON: It is considered that the Plan sufficiently reflects the audit needs and interests of the Council and will help to ensure the effective deployment of scarce external audit resources to best effect.

7. THE ROLE AND FUNCTION OF THE INTERNAL AUDIT SERVICE - PRESENTATION

Members received a presentation by officers from the Internal Audit Service (IAS) on the role and function of the IAS.

The presentation focused on the key drivers for the existence of an internal audit service (legislation, best practice and the Council's own interests), the types of work undertaken by the service, its planning and performance

management arrangements and its key relationships. A summary of the role of the service, taken from the Financial Regulations, was circulated.

It was confirmed that the move towards reporting to Members was seen by the service as a positive step which enhanced, rather than altered, current reporting arrangements. In response to questions from Members, Officers outlined the relationship between Internal Audit and the courts and agreed to bring a report on privacy and confidentiality to a future meeting of the Committee.

RESOLVED: That officers be thanked for the presentation and that the information provided be noted.

8. ANNUAL REPORT OF THE CHIEF INTERNAL AUDITOR

Members considered a report which detailed the outcome of audit and fraud work undertaken in 2005/06 and provided an opinion on the overall adequacy and effectiveness of the Council's internal control arrangements.

The 2005/06 Audit and Fraud Plan had been agreed by the Executive Member for Resources and Advisory Panel (EMAP) on 21 March 2005. Internal Audit had successfully delivered 91.3% of the Plan, as compared with 90% the previous year. Details of the audits completed and the reports issued were set out in Annex 2 to the report. Details of the Audit Plan variations, agreed by the Section 151 Officer (Director of Resources) and recommendations made to address any control weaknesses reported to Resources EMAP on 20th February, were set out in Annex 3. Annex 4 provided a summary of audit findings for all investigations into suspected financial irregularities completed during the year, together with identified. Annexes 5 and 6 summarised counter fraud work completed in accordance with the Plan, and prosecutions and sanctions achieved during the year.

With regard to external assessment, the Audit Commission's annual review of the work of the audit and fraud teams had reported a significant improvement in the teams' contribution to the Council's system of internal financial control. The self assessment undertaken in 2005 under the revised CPA process introduced by the Benefit Fraud Inspectorate (BFI) had scored 'security' as a 4 (excellent), thus contributing to an improvement in the overall Benefits Service CPA score from 1 to 3.

The opinion of the Chief Internal Auditor, based upon the results of work completed during the year, was set out in Annex 1 to the report. This confirmed that the overall adequacy and effectiveness of the Council's control environment was acceptable but drew attention to significant control weaknesses considered relevant to the preparation of the 2005/06 Statement of Control. These related to:

- Observing EU procurement legislation and Financial Regulations across the Council when tendering for goods and services
- The Council's recruitment and selection policy
- Controls over cash handling in the cashiers section
- Risk management arrangements.

RESOLVED: (i) That the results of audit and fraud work undertaken in 2005/06 be noted.

(ii) That the opinion of the Chief Internal Auditor on the adequacy and effectiveness of the Council's internal control environment be accepted.

(iii) That the significant control weaknesses identified during the year and their inclusion in the 2005/06 Statement of Internal Control, to be reported to the Committee on 26 June along with the Annual Statement of Accounts, be noted.

REASONS: For information and monitoring purposes and to enable the Annual Statement of Internal Control to be prepared.

9. AUDIT AND FRAUD PLAN FOR 2006/07

Members considered a report which sought their approval for a planned programme of audit and fraud work to be undertaken during 2006/07, together with arrangements to report on the results of audit work.

Under the new Constitution, the Audit and Governance Committee had delegated authority to approve the annual Audit Plan. The draft Audit Plan for 2006/07, prepared in consultation with the Council's Chief Executive, Chief Finance Officers and Directors, was attached as Annex 1 to the report and the Strategic Audit Plan was attached as Annex 2. It was noted that current staffing levels did not allow all the auditable areas to be reviewed in accordance with the required frequency. Priority had therefore been given to 'high' and 'medium' risk areas. There was also a shortfall of 90 days between available resources and the total number of days included in the Audit Plan. It was proposed that this initially be accommodated by variations occurring during the year. Any variations to the Audit Plan, resulting from new or changed priorities and / or risks, would be reported to Members.

The 2006/07 Counter Fraud Activity Plan was attached as Annex 3. This was based upon the resources currently available to the Fraud team and included details of planned activities, proactive work and resource allocation. The team's current workload remained well above caseload levels recommended by the BFI. Efforts were ongoing to ensure that resources were concentrated on those cases where the evidence of fraud was strongest, which should allow more time to be spent undertaking planned preventative work. Details of work completed against the Plan, and significant issues identified, would be reported to Members via monitoring and out-turn reports.

RESOLVED: (i) That the 2006/07 Audit and Counter Fraud Activity Plans be approved.

REASON: To enable the annual Audit and Fraud plans to be delivered.

(ii) That the proposed monitoring and reporting arrangements be noted and agreed.

REASON: To enable Members to monitor the work of the Audit and Fraud teams effectively.

10. THE ROLE AND FUNCTION OF THE OFFICER GOVERNANCE GROUP AT THE CITY OF YORK COUNCIL

Members considered a report which advised them of the role, function and forward plan programme of the Officer Governance Group (OGG) and asked them to endorse a proposal for the OGG to report progress against the work plan to the Committee on a bi-annual basis.

The establishment of an officer group to deal with corporate governance issues had been agreed at a meeting between the District Auditor and the Council's Chief Executive and Director of Resources. The OGG had been constituted as a sub-committee of the Corporate Management Team (CMT) and comprised a core membership of senior Officers, supported by a number of associate members. Their remit was to oversee the delivery of an integrated programme of work to support the development of robust corporate governance arrangements and to keep implementation under review.

The OGG's work programme, covering September 2005 to March 2007, was attached as Annex A to the report. It was intended to update and extend this programme as required and to report progress to Members on a bi-annual basis. Officers reported that the OGG would be discussing its forward agenda at a meeting on 8 June and copies of the agreed agenda would be circulated to Members.

RESOLVED: (i) That the content of the report, and the role and function of the Officer Governance Group, be noted.

(ii) That the work programme for the OGG, as set out in Annex A to the report, be noted.

(iii) That the proposal for the OGG to report progress against the work plan, on a bi-annual basis, to the Audit and Governance Committee be endorsed.

REASON: To ensure the effective management of Committee business and the working relationship with the OGG.

11. FORWARD AGENDA PROPOSALS

Members considered a report which set out proposals for the Audit and Governance Committee's forward agenda up to and including April 2008.

The Committee was scheduled to meet on a quarterly basis. However, due to the need to arrange the inaugural meeting in early June (Committee Members having been appointed at Annual Council on 25 May) and a special meeting in late June to take the Statement of Accounts, the timetable for the current year was slightly out of line with key items for approval. In order to achieve a better match in the next municipal year, it

was suggested that Members agree their forward meeting dates for 2007/08 at this, their inaugural meeting. Proposals as to those items which must, as a minimum, be considered at each meeting up to April 2008 were detailed in Annex A to the report.

Officers reported a number of amendments to Annex A, including:

- Revisions to the time periods covered by the cyclical mid point follow-up review reports scheduled between June 06 and April 08
- The potential deferral of the report on the Barbican scheduled for 26 June
- Additional reports to be scheduled for the meeting on 4 October, to also include Privacy/confidentiality Protocol, Audit Commission Mid-term Client Monitoring report, Audit Commission report to those charged with Governance

RESOLVED: (i) That the forward plan proposals set out in Annex A to the report, and the amendments reported by Officers at the meeting, be noted and a revised version of Annex A circulated to Members.

REASON: To ensure the effective management of Committee business.

(ii) That a report on privacy and confidentiality be prepared by Officers, in consultation with the Chair, for consideration as the first item on the agenda for the meeting on 4 October.

REASON: To enable this item to be considered prior to the item on Breaches and Waivers scheduled for the same meeting.

12. TIMES OF FUTURE MEETINGS

With the consent of the Chair, Members discussed the matter of the start time for future meetings of the Audit and Governance Committee.

RESOLVED: That meetings of this Committee begin in future at 5:30 pm, with the exception of the next meeting (26 June), which shall begin at 5:00 pm.

REASON: To ensure that all Members are able to attend at the start of the meetings.

PART B – MATTERS REFERRED TO COUNCIL

13. COMMITTEE ROLE, REMIT AND KEY RELATIONSHIPS

(See also under Part A Minutes)

Members considered a report which provided information on the role, remit and key relationships of the new Audit and Governance Committee.

The Committee had been introduced following the recent review of the Council's Constitution and was constituted as a non-executive sub-committee of Full Council. Guidance issued recently by the Chartered Institute of Public Finance Professionals (CIPFA) recommended that authorities formally approve a Statement of Purpose for their audit committees. A suggested Statement of Purpose was set out in paragraph 5 of the report for Members' consideration. CIPFA's definition of the core functions of an audit committee was outlined in paragraph 7. These functions had been reflected in the delegations for the Committee included in the Constitution.

In response to Members' questions, Officers advised that it was their understanding that the Committee had authority to agree its own Statement of Purpose but may choose to refer this to Council for endorsement if desired. Audit committees must remain independent of the scrutiny process, but this did not mean that cross-membership with scrutiny was prohibited. With regard to training, it was noted that a Member training event on risk management had already been scheduled for 29 June.

RECOMMENDED: That Council endorse the following Statement of Purpose for adoption by the Audit and Governance Committee:

"The purpose of the Audit and Governance Committee is to act as the responsible body charged with governance at the Council. In doing so it will provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and will oversee the financial reporting process."

REASON: To ensure the effective management and operation of the Committee and promote understanding of its purpose and function at the Council.

[The meeting started at 5.00 pm and finished at 8.15 pm].



Audit and Governance Committee

26 June 2006

Report of the Assistant Director of Resources (Audit & Risk Management)

2005/06 Statement of Internal Control

Summary

- 1 This reports introduces the draft 2005/06 Statement of Internal Control (SIC) for Members consideration prior to it being reported to the Executive for their approval and recommendation to Full Council on the 29 June 2006.

Background

- 2 The Accounts and Audit Regulations 2003 imposed a legal requirement on all local authorities to publish a SIC as part of their Statutory Accounts.
- 3 The SIC forms an important part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of the corporate governance arrangements, particularly those in respect of risk management and internal control. Publication of the SIC represents the final stage of the ongoing review of governance arrangements and internal controls. It also enables the Council to formally report on governance related issues relating to the relevant accounting period. The purpose of the SIC is to demonstrate and/or provide;
 - openness and accountability to the public;
 - assurance to stakeholders;
 - a framework for improving the adequacy and effectiveness of corporate governance arrangements;
 - evidence for CPA
- 4 CIPFA has previously issued guidance on the process to follow in the preparation of the SIC (including the need to establish, maintain and review the systems of internal control). The guidance also prescribed the form and content of the SIC. The Council was required to prepare a full SIC for the first time in 2004/05. The process followed to compile the

SIC in 2004/05 was subsequently reviewed by the Audit Commission and described as robust and well documented.

- 5 The 2004/05 SIC process resulted in eleven significant control issues being identified. Details of these issues together with the proposed action to address them, were included in an action plan which formed part of the 2004/05 SIC.

2005/06 Statement of Internal Control

- 6 Preparation of the 2005/06 SIC has been coordinated by the Officer Governance Group. The review process followed to prepare the 2005/06 SIC has generally been the same as that followed for the 2004/05 SIC. Each Directorate has completed a self assessment of the key controls within their respective areas. Directors have also completed and signed Directorate Assurance Statements, using information obtained from the review of key controls and associated evidence. A similar self assessment of Corporate key controls has been undertaken, and the S151 Officer and Monitoring Officer have each completed and signed disclosure statements. The review process also took into account the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, which was reported to this Committee on 6 June 2006. Internal Audit has also gathered and reviewed other documentary evidence to identify possible control weaknesses (for example, internal and external audit reports and other inspection reports).
- 7 Local authorities are required to use judgement in deciding whether control weaknesses are significant and hence require disclosure in the SIC. The Officer Governance Group evaluated the control issues identified through the review process and considered which of these should be disclosed as significant control weaknesses, at a meeting with Departmental representatives on 6 June 2006.

At that meeting it was determined that a control weakness would be considered as significant where;

- the issue has seriously prejudiced or prevented achievement of a principal Council aim or objective;
- the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in a significant diversion of resources from another aspect of the Council's services;
- the issue has led to a material impact on the accounts;
- the Audit and Governance Committee has advised that it should be considered significant for this purpose;
- the Chief Internal Auditor has reported on it as significant in the annual opinion on the Council's internal control environment;

- the issue, or its impact, has attracted significant public interest or has seriously damaged the Council's reputation;
 - the issue has resulted in formal action being taken by the S151 Officer and/or the Monitoring Officer.
- 8 A copy of the draft 2005/06 SIC is attached as annex 1. The draft includes ten significant control issues. The SIC is scheduled to be signed by the Leader and the Chief Executive following approval by Council on 29 June. Once approved and signed it will then be published as part of the 2005/06 Statement of Accounts.
- 9 It has been recognised that during the year there were no formal arrangements to monitor delivery of the 2004/05 SIC action plan and/or any control weaknesses identified in the Directorate key control self assessments. The Officer Governance Group will in future monitor delivery of the action plan and the progress made by each Directorate to rectify control weaknesses, through periodic focused reviews. It is also suggested that progress on this is reported to A&G as part of the monitoring reports to be brought to Members from OGG, as scheduled in the forward plan.

Consultation

- 10 Corporate management Team considered the draft 2005/06 SIC on 14 June 2006.

Options

- 11 Not relevant for the purpose of the report.

Analysis

- 12 Not relevant for the purpose of the report.

Corporate Objectives

- 13 This report contributes to the overall effectiveness of the Council's internal management & assurance arrangements in helping to achieve the following corporate objectives;
- Ensure probity, integrity and honesty in everything we do (Objective 8.3).
 - Provide accurate and transparent management information in a timely and effective manner (Objective 8.3).
 - Improve the forward planning, openness, propriety, speed and effectiveness of decision-making (Objective 8.4).
 - Continue to provide sound and timely financial management, and improve medium and long term financial planning. (Objective 8.6).

- Manage the Council's property, IT and other assets on behalf of York residents. (Objective 8.9).
- Implement risk management and business continuity procedures. (Objective 8.10).

Implications

14 The implications are;

- **Financial** – there are no financial implications to this report.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there are no legal implications to this report.
- **Crime and Disorder** - there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.

Risk Management Assessment

15 The Council will fail to comply with the Accounts and Audit Regulations 2003 (as amended) if a SIC is not published with the annual Statement of Accounts. This in turn would adversely impact on the Council's CPA score for the Use of Resources and therefore its overall CPA score when this is re-assessed in 2007.

Recommendations

16 Members are asked to;

- Consider and comment on the contents of the draft 2005/06 SIC prior to its submission to the Executive.

Reason

To enable Members to consider the contents of the draft SIC, in particular the significant control issues identified, and note any points for reference to the Executive.

- Note the monitoring arrangements for the overall SIC action plan and the individual action plans for each Directorate, together with the proposals to update members on progress through OGG monitors.

Reason

To enable Members to comment on the proposed monitoring arrangements.

Contact Details

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Report Approved **Date** 13 June 2006

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

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DRAFT 2005/06 STATEMENT ON INTERNAL CONTROL
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1 SCOPE OF RESPONSIBILITY

The City of York Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

2 THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

Corporate Governance is the system by which local authorities direct and control their functions and relate to their communities. The framework for corporate governance recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) identifies three underlying principles of good governance, namely:

- openness and inclusivity
- integrity
- accountability.

The principles of corporate governance should be embedded into the culture of each local authority. Furthermore each local authority has to be able to demonstrate that they are complying with these principles.

Although the Council has not yet formally adopted a local code of corporate governance, the principles and standards contained in the framework document are recognised as good working practice, and hence are supported and followed. This Statement forms part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of the corporate governance arrangements, particularly those in respect of risk management and internal control.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place within the Council for the year ended 31 March 2006 and up to the date of approval of the Statement of Accounts.

3 THE INTERNAL CONTROL ENVIRONMENT

The requirement to have a sound system of internal control covers all of the Council's activities. The internal control environment within the Council consists of a number of different key elements, which taken together contribute to the overall corporate governance framework. The key elements of internal control within the Council consist of policies and guidance, political and managerial structures and processes, strategic planning processes, management and decision making processes, financial management, compliance arrangements, risk management, internal audit and fraud and performance management. Further information about each of these areas follow.

STATEMENT ON INTERNAL CONTROL

Policies and Guidance

Specific policies and written guidance exist to support the corporate governance arrangements and include:

- The Council's Constitution
- Codes of Conduct for Members and Officers
- Protocol on Officer/Member Relations
- Financial Regulations and Procurement Rules and Procedures
- Member and Officer Schemes of delegation
- Registers of interests, gifts and hospitality
- Corporate policies, for example those relating to Whistleblowing and the Prosecution of Fraud and Corruption
- Asset Management Plan
- Strategic Risk Register
- Council Procurement Strategy
- Guide to Managing Financial Risks
- Register of Breaches and Waivers of Financial Regulations.

A revised Council Constitution, together with updated financial regulations and procurement rules, was formally adopted on 25 May 2006.

Political and Managerial Structures and Processes

The Council is responsible for agreeing overall policies and setting the budget. The Executive is responsible for decision making within the policy and budget framework set by the Council. The Council's Management Team has responsibility for implementing Council policies and decisions, providing advice to Members and for coordinating the use of resources and the work of the Council's Directorates.

The Executive and the Council's Management Team each meet every fortnight. Both the Executive and the Council's Management Team monitor and review Council activity to ensure corporate compliance with governance, legal and financial requirements. The Quality Control Group also reviews reports before they are presented to the Executive to ensure that all legal, financial and other governance issues have been adequately considered.

The Council has scrutiny arrangements which include the review of policies, budget and service delivery to ensure that they remain appropriate. As part of the Council's new Constitution, an Audit and Governance Committee has been introduced. The purpose of the Audit and Governance Committee is to act as the responsible body charged with governance at the Council. In doing so it will provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

Strategic Planning Processes

The Council has developed a strategic planning process that is intended to reflect political and community objectives as expressed in the City Vision and Community Strategy and act as the basis for corporate prioritisation. The Council's Corporate Strategy expresses the Council's three year priorities and annual targets are detailed in the annual Council Plan. Both documents will be refreshed annually. The Council also introduced revised service planning processes across all Directorates so as to improve the integration of planning, resource allocation and performance management.

Management and Decision Making Processes

STATEMENT ON INTERNAL CONTROL

The Council has established an organisational effectiveness programme which incorporates the actions arising from four of the thirteen priorities in the Corporate Strategy. The aim of the programme is to improve management and decision-making processes as well as building capacity. The four priorities the programme will be designed around are:

- Improve our focus on the needs of customers and residents in designing and providing services
- Improve leadership at all levels to provide clear, consistent direction to the organisation
- Improve the way the Council and its partners work together to deliver better services for the people who live in York
- Improve efficiency and reduce waste to free-up more resources

Champions for the whole programme and each of the streams within it have been nominated and will lead on the further development, and ensure delivery of actions within the programme. Each part will be timetabled and delivered over a three year period.

Corporate management and leadership is supported and developed through the Corporate Leadership Group. Management and decision making processes are also being developed through the work of the Corporate Operations Group.

Financial Management

The Director of Resources (as the S151 Officer) has the overall statutory responsibility for the proper administration of the Council's financial affairs, including making arrangements for appropriate systems of financial control. The Council operates a system of delegated financial management within a corporate framework of standards and financial regulations, comprehensive budgetary control systems, regular management information, administrative procedures (including the segregation of duties) and management supervision.

Compliance Arrangements

Ongoing monitoring and review of the Council's activities is undertaken by the following officers to ensure compliance with relevant policies, procedures, laws and regulations:

- The Section 151 Officer
- The Monitoring Officer
- The Chief Internal Auditor
- Finance officers and other relevant service managers.

A report is presented to Members on an annual basis detailing compliance with the Council's financial regulations and procurement rules. In addition, compliance arrangements are subject to ongoing scrutiny by the District Auditor and other external agencies. A formal officer group has also been established with a remit to monitor, review and manage the development of the Council's corporate governance arrangements. The core group comprises the S151 Officer, the Monitoring Officer and the Chief Internal Auditor.

Risk Management

The Council has adopted a formal system of Risk Management. Although responsibility for the identification and management of risks rests with service managers, corporate arrangements are co-ordinated by the Risk Management Service to ensure that:

- the Council's assets are adequately protected
- losses resulting from hazards and claims against the Council are mitigated through the effective use of risk control measures
- service managers are adequately supported in the discharge of their responsibilities in respect of risk management.

The system of Risk Management includes an annual risk evaluation exercise and the maintenance of a corporate strategic risk register. The strategic risk register also includes project and partnership risks, in accordance with best practice in local government. The Council is currently reviewing its

STATEMENT ON INTERNAL CONTROL

methodology for identifying, recording and monitoring risks. Relevant staff within the Council have also received ongoing training, guidance and support in Risk Management principles.

Internal Audit and Fraud

The Council also operates internal audit and fraud investigation functions in accordance with the Accounts and Audit Regulations 2003. The Internal Audit & Fraud Team undertakes an annual programme of review covering financial and operational systems and including systems, regularity, and probity audits designed to give assurance to Members and managers on the effectiveness of the control environment operating within the Council. Through its work the team also provides assurance to the S151 Officer in discharging his statutory review and reporting responsibilities. In addition the team provides:

- advice and assistance to managers in the design, implementation and operation of controls
- support to managers in the prevention and detection of fraud, corruption and other irregularities.

Performance Management

The Council recognises the importance of effective performance management arrangements and has been working to secure improvements. The service planning process now incorporates full consideration of actual and planned performance. A computerised performance monitoring system has also been implemented to record actual performance and improve the quality of information available to service managers and other key stakeholders.

4 REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its systems of internal control. In preparing this Statement a review of corporate governance arrangements and the effectiveness of the Council's systems of internal control has been undertaken. This review has been co-ordinated by the Officer Governance Group, which comprises the Director of Resources (the S151 Officer) and the Head of Legal, Civic and Democratic Services (the Monitoring Officer) and the Head of Audit and Risk Management (the Chief Internal Auditor). The review included consideration of:

- the adequacy and effectiveness of key controls, both within individual Directorates and across the Council
- any control weaknesses identified and included on the Corporate Governance Assurance Statements signed by each Director
- any control weaknesses or issues identified and included on the Disclosure Statements signed by the S151 Officer and Monitoring Officer
- any control weaknesses or issues identified and included in the annual report of the Chief Internal Auditor, which was presented to the Council's Audit and Governance Committee
- significant issues and recommendations included in reports received from the District Auditor and other inspection agencies
- the results of internal audit and fraud investigation work undertaken during the period
- the views of those Members and officers charged with responsibility for governance, together with managers who have responsibility for decision making, the delivery of services and ownership of risks
- the Council's Strategic and Operational Risk Registers and any other issues highlighted through the Council's risk management arrangements
- the outcomes of service improvement reviews and performance management processes
- those control issues identified in the 2005/06 Statement of Control.

Following the review of the adequacy and effectiveness of key controls within the Council an action plan has been prepared which details the areas where improvements in governance arrangements and the control environment are considered to be necessary. The action plan will be coordinated and monitored on an ongoing basis by the Officer Governance Group.

STATEMENT ON INTERNAL CONTROL

5 SIGNIFICANT INTERNAL CONTROL ISSUES

The corporate governance arrangements in place within the Council have identified a number of significant control issues. Specific actions have been taken or are proposed, to address the control issues identified. These are detailed in the following table, with an * indicating that details have previously been reported to Members .

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Risk Management			
Risk management is an essential part of the overall governance framework by which the Council identifies and manages risks to the achievement of its aims and objectives. In previous years the external auditor has raised concerns about the extent to which risk management is embedded throughout the organisation. The Council has made good progress in developing its risk management policies and procedures. These arrangements, particularly those in respect of operational risks, however still need to be fully embedded. There is also a continuing need to raise awareness and communicate risk management arrangements to staff.	A programme of training and guidance for Members and relevant staff will be delivered during 2006/07. The Officer Governance Group will review the roll-out of this programme during the year. Service Managers will continue to be supported and encouraged to implement effective risk management arrangements including operational risk registers.	March 2007	2004/05 SIC * Annual report of the Chief Internal Auditor * Corporate and Directorate Assurance Statements Audit Commission – CPA 'Use of Resources' assessment
Business Continuity			
Business continuity plans and procedures are required to enable the Council to respond effectively to any major events which may impact on the city and/or the ability of the Council to maintain its services. The 2004/05 SIC identified weaknesses in the Council's existing business continuity arrangements. Since then the Council has approved a Business Continuity Policy and Strategy. However, there is still a need to prepare specific Business Continuity Plans at corporate, Directorate and service levels.	An implementation plan has been developed to monitor delivery of the Business Continuity Policy and Strategy, together with preparation of the Council wide plan. Achievement of the implementation plan is being regularly monitored by the Business Continuity Officer Liaison Group.	November 2006	2004/05 SIC * Corporate and Directorate Assurance Statements Report to the Executive – Oct 2005
Overall Governance Framework			
The 2004/05 SIC identified weaknesses in the Council's governance framework. Similar weaknesses had also been identified by the external auditor. Since then the Council has significantly improved its	The officer governance group will coordinate the ongoing review of the Council's governance arrangements and the implementation of the detailed governance action plan.	March 2007	Corporate and Directorate Assurance Statements Monitoring Officer Disclosure

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Control Issue	Action Taken or Proposed	Due Date	Source(s)
governance monitoring and review arrangements through the creation of an Audit and Governance Committee and an Officer Governance Group. Work is now planned to further strengthen the overall control framework. In particular, there is a need to develop a local code of corporate governance and provide training to Members and relevant staff on the Council's governance framework and the new Protocol for Member/Officer Relations. A number of specific internal controls have also been identified which need to be improved, including the maintenance of registers of staff interests and gifts and hospitality, and awareness of the Council's whistleblowing arrangements.			Statement 2005 Annual Audit and Inspection Letters (External Audit) * Governance Report (External Audit) 2004/05 SIC *
Competition and Procurement			
The Council's competition arrangements and procurement rules and procedures contribute to the efficient and effective use of resources and the delivery of best value. The 2004/05 SIC identified weaknesses in the Council's existing competition and procurement arrangements. A framework corporate procurement strategy was approved by Members in 2003. The Council's procurement arrangements however need to be further developed so as to provide a comprehensive policy and procedural framework, which takes account of competition and adequately demonstrates best value. During the period the procurement of goods and services across the organisation has also not always complied with EU procurement legislation and the Council's procurement rules and procedures.	Awareness of the new Financial Regulations and agreed procurement procedures will be raised during the year through a programme of targeted training. A revised corporate Procurement Strategy is being prepared and will be issued for consultation in summer 2006. Strategic Procurement Plans and practitioner guidance will also be developed. In addition, a competition policy and strategy is currently being drafted.	December 2006	2004/05 SIC * Annual report of the Chief Internal Auditor * Annual Breaches and Waivers report * Corporate and Directorate Assurance Statements 2005 Annual Audit and Inspection Letters (External Audit) * Governance Report (External Audit)

STATEMENT ON INTERNAL CONTROL

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Action Plan Implementation			
The Council has no formalised procedure to monitor and review the implementation of agreed action plans including those arising from internal and external audit reports, inspection reports and other financial and performance reports.	A formalised procedure for tracking the implementation of agreed action plans will be developed by the Officer Governance Group.	March 2007	Corporate and Directorate Assurance Statements
Recruitment and Selection Procedures			
The Council's recruitment and selection policy is not always followed. Guidance to managers is also insufficient to ensure that they comply with all relevant legislation and best practice.	A revised recruitment and selection policy, and associated guidelines, has been drafted. The policy was approved by the Personnel Committee in October 2005. The policy and guidelines will be issued to all relevant staff in summer 2006.	December 2006	Annual report of the Chief Internal Auditor *
Health and Safety			
The Council has a Health and Safety Team within the Human Resources Department which provides professional health and safety advice to all service areas. It is recognised that the Council needs to develop greater consistency in health and safety performance and a more robust corporate framework in order to drive improvement and ensure compliance with legislation and best practice. The Council has also recognised the need to satisfy itself that adequate resources are available to provide professional advice and meet statutory requirements.	The Council's Health and Safety arrangements are continuing to be reviewed with a view to strengthening corporate commitment and ensure best practice. Work has commenced and is ongoing to develop appropriate corporate health and safety policies.	March 2007	2004/05 SIC * H&S Prohibition Notice
Sickness			
The levels of sickness across the Council remain higher than for comparable local authorities. Sickness monitoring and reporting arrangements also need to be improved.	A review of the sickness management arrangements is being undertaken by Internal Audit. An action plan will be developed to address any weaknesses in procedures and reporting arrangements.	September 2006	Corporate and Directorate Assurance Statements Performance and Financial Monitoring Reports *
Project Management, Programme Management and Benefit Realisation			

STATEMENT ON INTERNAL CONTROL

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Although progress has been made to develop in-house management skills and capacity during the year there is still a need to ensure consistency across the Council. As a result major projects do not always realise the anticipated benefits to the Council. The resources to support key projects also remain limited.	Further progress will be made to develop the necessary skills and put in place a standard framework supported by appropriate training and guidance to relevant staff.	March 2007	2004/05 SIC * Corporate risk register *
Budgetary Control			
A number of service areas overspent their budgets during 2005/06. In a limited number of these areas the total budget overspends were greater than had been forecast during the year and reported to Members.	The specific causes of the budget overspends in these service areas are being investigated. Improved budget monitoring arrangements are also being introduced. These improvements include revised forecasting and reporting procedures.	September 2006	Performance and Financial Monitoring Reports *

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Executive, and are assured plans to address known weaknesses and promote continuous improvement is in place.

Signed

D. N. Atkinson
Chief Executive

Dated

Signed

Cllr S. F. Galloway
Leader of the Council

Dated



Audit and Governance Committee**26 June 2006**

Report of the Director of Resources

Statement of Accounts 2005/06**Summary**

- 1 The purpose of this report is to enable the Audit and Governance Committee to undertake an examination of the Council's financial accounts for the financial year 2005/06 prior to their approval by Full Council before the end of June. This earlier reporting provides the Audit and Governance Committee with an ideal opportunity to review and comment on the content and presentation of the Accounts prior to their finalisation.
- 2 Another key benefit of this change is the enhanced role of Audit and Governance Committee for this area under the CPA. The new scoring system for CPA is actively encouraging increased Member involvement in governance issues, and a higher score can be given if the accounts have been given a 'robust' scrutiny by Members prior to being approved. It is therefore important that the accounts are looked at in some detail and that the discussions are minuted as evidence of that discussion. Any follow-up issues required by this Committee will be brought back at a later date. In determining which areas they wish to address Members may wish to refer to the key issues and changes identified throughout the rest of this report.

Background

- 3 The draft accounts are a separate document, but Members attention is drawn to the fact that these are still being finalised, and any changes between these and the ones that will be presented to the Council for approval will be circulated to Members as soon as they are available. The areas still being finalised are:
 - Introduction by the Leader (although this does not comprise part of the accounts that are subject to audit).
- 4 Set out in the following paragraphs are some key areas in the accounts that Members may consider to be worthy of further examination or question; alternatively Members may have other issues they wish to query. To aid an 'in-depth' analysis, Members are requested to bring their set of the draft financial accounts to the meeting.
- 5 A provisional out-turn report will be presented to the Executive on 27 June 2006. That report will concentrate on the performance against the revenue budgets, and will make recommendations for use of the overall underspend for carry forward

items where budgeted work could not be completed by 31 March. As the Accounts need to fully represent the financial position of the Council these recommendations have been incorporated into the foreword. Any changes will have to be approved by Council when the accounts are presented to them for final approval on 29 June 2006.

- 6 The Accounts have to be approved and audited earlier this year, and the dates for the accounts to be 'on deposit' and for the District Auditor to be available for interrogation by any member of the public have been agreed. The District Auditor will be available on Monday 7 August, and the accounts will be 'on deposit' between Monday 10 July and Friday 4 August 2006. The deposit period will be advertised in the York Press. It is a statutory requirement that this year Members approve the Statement of Accounts before 30 June.
- 7 Members should note that the District Auditor has not yet started the audit of the Statement of Accounts. If the District Auditor does insist on any significant changes to the accounts, they will be reported to the Executive following completion of the audit.

Statement of Accounts

- 8 The following sections set out information on the constituent parts of the Accounts to enable Members to more fully understand them. Each of the sections has been compiled in accordance with professional best practice. Key points to note on each section of the accounts are discussed in the following paragraphs. The references shown are to the page numbers in the Statement of Accounts. The Accounts incorporate the requirements of the Accounting Code of Practice, which provides the basis on which all local authority accounts are presented, and the Accounts and Audit Regulations 2004.

Foreword (pages v to xv)

- 9 This is designed to help give readers an understanding of the accounts. It sets out a description of all the individual sections, gives an overview of the revenue and capital position in the year, identifies the position on the Council's borrowing powers and reserves and future issues that may influence how the Council is run.
- 10 The Foreword also provides the opportunity to explain any changes in accounting policies that have been used in the preparation of the Accounts. In this respect the only major change that has necessitated restating prior year figures has been the requirement to separate fixed assets into 'intangible' fixed assets and 'tangible' fixed assets. Intangible Fixed assets are defined as non-financial fixed assets, i.e. assets that do not have a physical substance, but are identifiable and are controlled by the Council through custody or legal rights. A prime example of such an asset is an IT software licence.

- 11 Other changes highlighted are the introduction of transactions relating to the Landfill Allowances Trading Scheme and the Private Finance Initiative.
- 12 The Landfill Allowances Trading Scheme (LATS) is new in 2005/06 and is related to the maximum amount of biodegradable municipal waste the government has determined each waste disposal authority can deposit in landfill sites. In the year there has been a slight under-use of the allocation issued to the Council, and this is being carried forward to be used in future years.
- 13 With regard to the transactions relating to the PFI scheme for the schools, technically, all such transactions are designated as 'off balance sheet', however there are many transactions that impact of the Council's accounts.
- 14 PFI transactions are treated in the Council's accounts in accordance with the latest recommended practice. The Council has one PFI contract for the provision of 4 primary schools with Sewell Education (York) Ltd. Under the terms of the contract the Council has granted Sewell a licence for use of the land for 30 years, with legal ownership of the land and buildings reverting to the Council in 2036. The nature of the contract means that sufficient risk has been transferred from the Council to Sewell so that the fixed asset does not appear on the Council's balance sheet. However, there are number of accounting entries that are required to reflect the substance of the transaction over the life of the contract. These are:
- A prepayment of £4.032m was made prior to service commencement; this has the effect of reducing the annual unitary charge and as a result needs to be written off to the revenue account over the life of the contract.
 - The 4 schools revert back into the Council, for nil consideration, at the end of the contract. As a result it is necessary to build up a residual interest in the asset over the life of the contract to reflect the transfer of the ownership of that asset.
 - The nature of the contract and the way that government support is received means that in the early years of the contract a surplus balance is generated. This surplus is retained as an earmarked reserve and used to generate further interest receipts. The earmarked reserve will be used to finance anticipated deficits in the later years of the contract.
 - The Council has not yet paid a full unitary charge as the new schools have become operational at different times during the year. The Council will therefore not build up a residual interest in the asset or amortise the prepayment until the full year effect is felt in 2006/07.
- 15 Full details of the accounting transactions for 2005/06 are shown as notes to the Consolidated Revenue Account and Balance Sheet

Statement of Responsibilities (page 5)

- 16 This is a simple statement that sets out the different legal responsibilities of the Council and the 'Section 151 Officer' (Director of Resources). It is also where the certificate has to be signed by the Director of Resources that the accounts represent fairly the position of the Council, and the Lord Mayor (or Chair of Council on the day that the accounts are approved) must sign to demonstrate that the accounts have been approved by Members.

Statement of Internal Control (pages 6 to 13)

- 17 The Accounts and Audit Regulations Act 2004 imposes a legal requirement to prepare a Statement of Internal Control (SIC). This requirement represents a specific development in corporate governance arrangements within local authorities. The SIC has to be published with the Statement of Accounts and represents an important part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of the corporate governance arrangements, particularly those in respect of risk management and internal control. The format and wording of the SIC included in the draft accounts closely follows CIPFA guidance.
- 18 It is a requirement this year that the SIC is considered separately to the Statement of Accounts, and for that reason there is a separate report on this agenda. If there are any changes to the SIC they will be substituted for the version that is in these draft accounts as necessary when the Accounts are placed on deposit.

Statement of Accounting Policies (pages 14 to 23)

- 19 This statement sets out all the policies that have been followed in preparation of the accounts. It also intended to demonstrate where, if at all, the policies followed by Council differ from either the best practice or the CIPFA guidelines.
- 20 The main changes in accounting policies were set out in detail in paragraphs 10 to 14.

Main Revenue Accounts

- 21 The main revenue accounts are the Consolidated Revenue Account (General Fund), the Housing Revenue Account and the Collection Fund. The information that was formerly reported on the Direct Service Organisations (DSOs) Revenue and Appropriations Account is no longer required separately and as such is now included in note 5 to the Consolidated Revenue Account. Each of the main accounts is explained in more depth below. The financial performance on all of these accounts is included in the Statement of Accounts.

Consolidated Revenue Account (CRA) (pages 24 to 36)

- 22 As explained in the Foreword this account pulls together all the income and expenditure for providing the Council's services, and compares the cost of service provision with the income raised by fees and charges, the revenue support grant, the Council's share of the redistribution from the NNDR Pool and the sums demanded from the Collection Fund. It also shows the movement on the General Fund Reserve. The final balance held in General Fund reserve as reported in the Accounts is £5.347m. An analysis of this balance is shown in Annex 1, which shows the movement throughout the financial year, including those items specifically approved by Members as requiring funding from Reserves. However, Members should note that there are some significant items both approved and recommended for approval for utilising the General Fund Reserve. These total £2.237m, and are also set out in Annex 1. This reduces the balance available on

the General Fund to £3.110m, although it is expected that a further £75k may be delivered through business rate refunds during 2006/07.

- 23 It can be seen by looking at the account that the net cost of services has increased by £10.943m (5.9%) between 2004/05 and 2005/06. For the service areas this is a lower net expenditure than had been budgeted for. The presentation of out-turns in the Consolidated Revenue Account differs to that in the revenue out-turn report as the former has to be set out to meet statutory requirements, but Members will note that the both presentations result in the same year-end general fund balance (£5.347m). Details of what is included in exceptional items is explained in note 4 on page 26, and includes both the net income the Council has received from backdated downward rateable valuations (£1.518m in 2004/05 and £0.493m in 2005/06 reflecting that most of the claims have now been settled) and the second instalment of the reimbursement of the cost of land purchase at Harewood Whin which will be received over four years. It also includes the government determined Revenue Support Grant adjustment for 2003/04.
- 24 In the appropriations section Members attention is drawn to the lines: contributions to provisions, and contributions to reserves. The former includes both the transfer from provisions to reserves of the sum set aside last year for equal pay claims offset by the need to increase the level of provision for bad and doubtful debts. This is particularly in relation to housing benefits arrears and overpayments, which officers continue to carefully monitor. There are two particularly large items in the increased contribution to reserves, namely the transfer of money from provisions to reserves as detailed above offset by the utilisation of the Venture Fund to finance year-end capital transactions that will be funded from capital receipts in 2006/07. This latter transaction can also be seen in note 13 to the CRA where it forms part of the £3.465m. The latter figure also includes the transfer of the Harewood Whin repayment. The position on schools balances is set out in Table 1 below. Members will note despite reducing slightly during 2005/06 they are still higher than they were at 31 March 2004. This is at a time when other reserves of the Council are decreasing.

Table 1

School Balances	2003/04 £(000)	2004/05 £(000)	2005/06 £(000)
Opening Balance	(5,067)	(4,812)	(5,242)
Movement in Year	255	(430)	178
Closing Balance	(4,812)	(5,242)	(5,064)

- 25 The Consolidated Revenue Account is supported by some 11 pages of notes which are there to support some of the transactions on the account and give other information required by the Code of Practice. Note 9 draws the reader's attention to the transactions relating to the cost of providing pensions to the Council's employees. It should be noted that while the cost included in 'net cost of services' for the North Yorkshire Pension Fund has reduced by over £2.6m, the total cost to the Council has only increased by £1.0m (8.7%). There are several reasons behind this presentational change, but principally it is because of the estimation techniques the actuaries have to use to comply with the Financial Reporting

Standard 17 (FRS17) rules and regulations, and their estimate of the value of the Council's share of the liability on the fund at 31 March. The Council is still meeting an aggregate 17.6% of employee pay, with the increase of 8.7% reflecting the effect of the national pay awards and increments, a shift in the proportion of employees who contribute 5% of their pay (principally former so-called blue collar workers) to those who contribute 6% and the increased membership levels within Council staff.

- 26 Members will also note that there are new disclosure notes (2 and 3) on the affect on the revenue accounts of the new Landfill Allowances Trading Account and the PFI scheme. Both of these have implications on both the Consolidated Revenue Account and on the Consolidated Balance Sheet.

Housing Revenue Account (pages 37 to 44)

- 27 The Housing Revenue Account (HRA) shows a balance at 31 March 2006 of £5.139m compared to £4.855m at 31 March 2005.
- 28 Members should note that the HRA remains in a position of negative subsidy, i.e. that the Council has to pay the surplus on the notional account to the government. In addition to this note 16 to the account shows that the receipts the Council earned from selling council housing and land raised £2.928m, but as can be seen on the Consolidated Revenue Account and its notes (page 24) the Council is obliged to pay a large proportion (£2.026m) of this to the new 'housing pooled capital receipts'. This is the result of the Council only being able to retain 25% of council house sales and mortgage repayments and 50% of land sales. However, where the land is sold for affordable housing the Council can retain 100%.
- 29 Members are reminded that the provisional out-turn report advised them that £1.510m of the surplus would be used in 2006/07 to meet the necessary revenue contribution to capital outlay that was delayed due to capital programme slippage, and £20k for the carry forward requests. The balance will be kept under review during 2006/07.

Collection Fund (pages 45 to 47)

- 30 The surplus at 31 March 2006 is £0.166m, a reduction of £0.242m on the surplus at 31 March 2005. This surplus, excluding the proportion due to the North Yorkshire Police Authority and the North Yorkshire Fire and Rescue Authority, estimated at £0.033m, as adjusted for any predicted surplus or deficit occurring in 2006/07 will be used in setting the Council Tax for 2007/08. CYC's share of the surplus (£0.133m) is equivalent to approximately £2.05 on a band D property.
- 31 This account is a statutory account and includes the total transactions on the national domestic rate element, where the Council acts as agents for the government. There have been problems on debt recovery in this area following the introduction of a new computer system, but the performance indicators for in-year recovery of in-year debt have shown an increase in 2005/06 from that in 2004/05, and the recovery levels are continuing to increase into 2006/07. It can be seen on the account that there has been an increased allowance made for the cost

of uncollectable accounts and appeals. This reflects the problems that the service has encountered.

Consolidated Balance Sheet (pages 48 to 67)

- 32 The opening balance sheet has been restated for the reasons set out in paragraph 10, and the effect of this change is shown in note 1 to the balance sheet. There are several areas on the balance sheet where there have been material changes between the revised opening and closing balances and information on these is given in the following paragraphs.
- 33 Tangible Fixed Assets increased by £93.901m and the reasons for this are set out in note 3. The two main reasons for the increase are the capital expenditure in the year of £32.903m and the effect of the in-year revaluations of the Council's property. Of the expenditure in the year only £22.499m results in additional assets to be shown in the balance sheet, the remainder is not expected to increase the value of the assets held in the asset register. The Council is obliged to revalue its holding of fixed assets annually for council housing and on a rolling five-year programme for all other assets. This exercise, which is undertaken in-house, has increased the value of the assets by £70.362m. It should be noted, however, that this change only affects the paper value of assets shown in the Balance Sheet, and does not, unfortunately, release additional funds for the Council to use.
- 34 Members will note that the value of temporary investments has increased by £5.450m, but equally there has been a reduction in long term loans due within twelve months, and a new current asset is shown for the transactions relating to the Landfill Usages Allowances which were set out in paragraph 12. The former has arisen due to additional borrowing being taken in 2005/06 in advance of the 2006/07 capital programme. The 2004/05 balance was lower than normal due to the decision in that year to fund the majority of the capital programme from cash balances rather than borrowing. The increase in investments therefore reflects this additional borrowing.
- 35 Members will also notice that there has been a decrease of approximately £1.7m in the level of debtors (people/organisations who owe money to the Council). There has been a change in three main areas - government departments, the NNDR pool and general debtors. There is a reduction in government departments of £3.6m, but this is more than offset by an increase in general debtors of around £4.5m. There are small general increases in debtors across all departments, but there was one particular large debtor over the year-end of £580k. This has now been settled. Recovery action is being taken to pursue long-standing debtors. There have continued to be increases in the number of downward rateable notifications received from the District Valuer towards the end of the financial year. This has resulted in large refunds being paid on behalf of the government pool, and these costs are recoverable as part of the agreement. The amount owed is, however, £2m less than last year.
- 36 At the same time there has been an increase of £2.5m in the value of creditors (people/organisations who the Council owes money to) at 31 March. Of this increase £1.3m relates to the Landfill Allowances Trading Scheme (see paragraph 26).

- 37 During the year the Council took out long-term loans of £7m, which increases the loans outstanding to £93.365m. This represents £7m of loans to replace maturing loans during the year plus a £10m loan taken at 3.7% in advance of the 2006/07 capital programme. This was done to take advantage of the historically low interest rates prevailing at the time.
- 38 When the accounts for 2004/05 were prepared a provision was established to meet any potential costs for equal pay claims. At the time this approach was in accordance with the Code of Practice. However, over the last twelve months the possibility of a liability existing has become much more certain and so the money set-aside has been transferred from being shown as a provision to being included within earmarked reserves.
- 39 Government Grants Deferred and Developers' Contributions Deferred have both increased in value, in total by £7.6m. These represent grant and contribution income for capital expenditure where the balance must be set aside to write down to revenue in line with the expected life of the capital asset that they were funding.
- 40 The other major change of the face of the balance sheet is the increase in both the Pensions Liability and Pensions Reserve by £5.051m to £108.834m. The liabilities show the underlying commitments that the Council has to pay retirement benefits in the long-term. The total liability of £108.834m has a substantial impact on the net worth of the Council as recorded in the Consolidated Balance Sheet, resulting in a reduced overall balance. However, statutory arrangements for funding the deficit, in that the deficit will be made good by increasing the contributions over the remaining working life of employees as assessed by the Fund actuary, mean that the financial position of the Council remains healthy. It is worth noting that the level of the liability provided by the actuary will always be subject to variations due to fluctuations in the stock market.
- 41 Members should note that within note 24 to the Balance Sheet the level of developers contributions unapplied held has risen from £2.8m to £3.7m. The vast majority of this money has been received under Section 106 of the Town and Country Planning Act 1990 for planning development gain. Section 106 money can be a commuted sum to fund the annual maintenance of an open space or money to enable a capital project (e.g. a new road infrastructure or park and ride site) to be undertaken.
- 42 The benchmark recommended by the CPA was that there should be a minimum level of revenue reserves equivalent to 5% of the net non-schools budget. For 2005/06, this equated to approximately £5.25m. The CPA now recommends that a risk assessment is undertaken of the level of reserves and any potential calls on them. However, we are still developing this analysis and Table 2 sets out the year-end position for comparison purposes, and also a projection of what the position will be at the end of 2006/07, when the CPA recommended level is £4.95m.

Table 2

	31 Mar 2006 £m	31 Mar 2007 £m
General Fund (see Annex 1)	5.347	3.185

Venture Fund	0.852	1.479
Commercial Services Reserves	0.300	0.300
TOTAL	6.499	4.964

Cash Flow Statement (pages 68 to 72)

- 43 This statement shows the transactions in monetary terms that have occurred between the Council and third parties. It excludes all internal trading transfers that are included in other statements in the Accounts. It restates the expenditure and income on both revenue and capital in cash terms, i.e. excluding accrual transactions. It also expands the classification of transactions into more than just revenue or capital, identifying in addition dividends, returns on investments and servicing of finance, management of liquid resources, financing and finally movement in cash balances.

Statement of Total Movements in Reserves (pages 73 to 76)

- 44 This account, as stated in the Foreword, brings together all the recognised gains and losses of the Council during the financial year. It shows the total movement in reserves (or equity of the Council) during the year, and is separated into revenue elements and capital elements. It pulls together revenue and capital transactions and shows how the balance sheet 'worth' of the Council has changed due to surpluses/deficits on balances and due to the sale and acquisition of assets.

Consultation

- 45 This report is presented for scrutiny purposes. In particular it is presented to enable Members to request further information on any matters included within the Accounts, or to request further information to be presented to them at a later date.

Options

- 46 There are no alternative options applicable to this paper.

Analysis

- 47 Analysis of the Statement of Accounts is included above.

Corporate Objectives

- 48 When determining the CPA score to issue for the Council consideration is given to whether or not the Statement of Accounts has undergone a full scrutiny by Members prior to being approved by Council.

Implications

- 49 The implications are
- Financial - there are no financial implications to this report
 - Human Resources - there are no human resource implications to this report

- Equalities - there are no equality implications to this report
- Legal - there are no legal implications to this report
- Crime and Disorder - there are no crime and disorder implications to this report
- Information Technology - there are no information technology implications to this report
- Property - there are no property implications to this report
- Other - there are no other implications to this report

Risk Management

- 50 This report is for Members to review and comment on the Statement of Accounts. Failure to adequately review the Accounts can impact negatively upon the Council's CPA assessment and reportage of financial issues.

Conclusion

- 51 The production and publication of the Statement of Accounts is a statutory requirement that provides Members and interested parties with the chance to see the full financial position of the Council. Once the Accounts are audited, a set will be distributed to all Members and Chief Officers.
- 52 In bringing the Statement of Accounts to Audit and Governance Committee prior to their presentation to the Executive and adoption at full Council maximises the opportunity for Member led debate and compliance with defined best practice.
- 53 In previous years some of the issues that have been identified in examining the accounts have led to reviews of:
- The level of general fund and school fund balances
 - Section 106 funds (developers' contributions)
 - Provisions, reserves and trust funds.
- 54 The Director of Resources, in his role as Section 151 Officer of the Council, advises Members that in his opinion the main issues for concern in the 2005/06 accounts on which Members should satisfy themselves that appropriate plans and actions are in place are:
- the Council's level of reserves having dipped to just above the CPA minimum (paragraph 42);
 - that an exercise be commenced to ensure that in future a risk assessment can be made on the level of the Council's reserves (paragraph 42);
 - the ongoing level of Schools balances (paragraph 24);

- the size of the pension fund deficit in comparison to the Council's overall budget and the Council's inability to date to make any reduction in the deficit (paragraph 40);
- the records and clarity of the Council's overall Section 106 funds and the planned use for these funds, in particular that where they are received for ongoing maintenance appropriate steps are taken to increase departmental revenue budgets and the resource is taken into the general fund balances (paragraph 41).

Recommendations

55 Members are requested to ask questions or raise issues in relation to the 2005/06 financial accounts

Reason: It is an important part of Member involvement in corporate governance that a full scrutiny is undertaken of the Council's Accounts.

Contact Details

Author:

Janet Lornie
Principal Accountant (Corporate Services)
01904 551170

Chief Officer responsible for the report:

Simon Wiles
Director of Resources

Report approved	√	Date	15 June 2006
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Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all* **All** √

For further information please contact the author of this report

Background Working Papers

Statement of Accounts 2005/06
Closure of Accounts files held in the City Finance Centre

Annexes

Annex 1 - Movement on General Fund Balance 2005/06

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Movement on General Fund Balance 2005/06

Item	£000	£000
Opening Balance at 1 April 2005		6,405
Approved Use of Balances in 2005/06		
Funding of one off growth items in General Fund budget	(880)	
Funding of carried forward expenditure from 2003/04	(1,872)	
Other identified use of 2004/05 underspend	(55)	
Administration accommodation review	(200)	
Staffing issue	(30)	
Children's Service set up costs	(50)	
Out of authority placements	(50)	
Independent foster agency	(50)	
Barbican running costs	(30)	
Toilet cleaning contract	(50)	
		(3,267)
Repayment to General Fund Balances		
NNDR Rebates	493	
Repaid advance for licensing	98	591
		3,729
Executive ?? June 2006		
General Fund Revenue Underspend		1,548
Advance from allocation made in 2006/07 for public inquiries		(21)
Transfer from Commercial Services reserve		91
Closing Balance at 31 March 2005		5,347
Items agreed for Release after 31 March 2006:		
Funding of one-off growth items in the 2006/07 Budget	(1,100)	
Less: used in 2005/06	21	
Funding of carry forward expenditure from 2005/06	(1,158)	(2,237)
Expected Repayment to General Fund Balances		
NNDR Rebates	75	75
Balance remaining on General Fund reserve		3,185

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AUDIT AND GOVERNANCE COMMITTEE**26TH JUNE 2006**Report of the **DIRECTOR OF RESOURCES****Audit Commission Review of Issues Raised By Complainants Relating to Osbaldwick/Derwenthorpe Development Proposals****Summary**

1. This report informs members of the findings of the Audit Commission following their review of aspects of the Osbaldwick/Derwenthorpe development. This review was carried out following issues raised with the Audit Commission by John Greenway MP and two residents.

Background

- 2.1 The Council entered into an arrangement with the Joseph Rowntree Foundation in the late 1990's to develop a part of Osbaldwick, later renamed as Derwenthorpe, as a model village. There have been a wide range of issues raised relating to this development and there is currently a planning enquiry in process. This report on the agenda sets out the issues raised by the complainants as defined by the Audit Commission, their conclusions, their recommendations and any resulting actions agreed with the City of York Council.
- 2.2 The issues raised relate to:
 - a) The nature of the partnership between the Joseph Rowntree Foundation (JRF) and the City of York Council.
 - b) The selection of JRF as a partner.
 - c) The lawfulness of that selection process.
 - d) The achievement of 'Best Consideration' for the land.
 - e) The value of the legal charge payable to J.R.F under various circumstances.
 - f) The profit share agreement.
 - g) Consultation and the feeding of community views into the design process.
 - h) The model village approach.

Consultation

- 3.1 This report has not been subject to any consultation other than with the Audit Commission and with the Director of City Strategy.

Options

4. The Audit and Governance Committee is asked to consider each of the actions that are set out in the Annex and decide whether the Council agrees to them. On the whole the actions recommended are relatively limited and relate to issues of process and documentation. The main issue relates to the selection of partner organisations in the future.

Analysis

5. There is no analysis available of the advantages and disadvantages of each course of action in Annex 1. However a failure to agree an action plan with the Audit Commission would be very likely lead to further action by them.

Corporate Priorities

6. This report is a compliance report in line with the Council's commitment to proper Governance. The Derwenthorpe project itself does of course have the potential to make a wider contribution to the Council's objectives on Housing, Crime, Sustainability and Open Spaces.

Implications

7. There are no financial, HR, Equalities, Legal, Crime and Disorder, Information Technology, Property or other implications directly associated with this report.

Risk Management

8. CYC will need to ensure that it implements the actions identified in Annex 1, which have been provisionally agreed with the Audit Commission. If it did not then the Council may expose itself to unnecessary risks in future projects and to further Audit Commission action. The Annex is slightly out of date as it was provisionally agreed in early 2006, but has awaited the establishment of the Audit and Governance Committee in order to be brought before members.

Recommendations

- 9.1 Members are asked to approve the actions listed in Annex 1.

Contact Details

Author: Simon Wiles
Title: Director
Dept Name: Resources
Tel No. 01904 551100

Chief Officer responsible for the report
Title: Simon Wiles

Report Approved *tick* **Date** 15.th June 2006

Report Approved *tick* **Date** *Insert Date*

Wards Affected: Osbaldwick

All *tick*

For further information please contact the author of the report

Background Papers:

None

Annexes

Audit Commission report on Osbaldwick issues - attached

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Issue	Conclusion	Recommendation	CYC Action
Nature of the partnership	The Council did not clarify the nature of the partnership as it was established, which exposed it to legal and financial risks. Fundamental changes in the nature of the relationship, and how the land was to be disposed of were not overtly approved by Members in a timely manner.	The Council should ensure that arrangements are in place to establish formal agreements for all material partnerships clarifying expected outcomes, financial commitment, required governance arrangements and legal implications.	This work is being taken forward by PIT and Finance in the form of a Partnership register. Guidance will be produced as a further development of this work
Selection of JRF as partner	There was no competitive process to select JRF. The Council did not set objectives for the partnership which could be translated into assessment criteria. The Council did not therefore demonstrate that Best Value or sound governance was achieved through the selection of JRF. Although the Council cannot demonstrate that JRF was the sole provider it has set out a strong case based on qualitative issues: - links with the City - international reputation - unique skills re generating cohesive societies.	The Council should ensure that current arrangements for the selection of a preferred partner are satisfactory and operate effectively throughout the Council.	This will be covered by the work referred to in the action above. The requirement to select partners properly will be included in the Council's Procurement Strategy
Lawfulness of selection	The Council has demonstrated that it has not acted unlawfully by not advertising the works in OJEC. The costs of the partnership form part of the costs of the disposal. Regulation 6 of the Public Services Contracts Regulations 1993 provides that the regulations shall not apply to the seeking of offers for the acquisition of land. However, this was not done at the time of entering into the transaction.	The Council should ensure that it has adequate arrangements to inform Members of the legal framework within which they are making a decision.	The revised report writing protocol being developed alongside the New Constitution, will clarify requirements
Best consideration	Audit work has not identified evidence of unlawful activity by the Council (it has not yet sold the land). Again the requirement of s123 of the 1972 Local government to achieve best consideration for the sale of an asset has not been set out to	See above	The Council will be seeking Secretary of State consent once the scheme has got past public enquiry stage in summer 2006

	Members as they made the decision to engage with F		
Value of the legal charge	The Council signed a Legal agreement with JRF in September 2002. This sets out the expected outcomes from the partnership, and what costs are allowable. The use of open book accounting allows the Council to review the costs charged to the project by JRF. The Legal agreement includes a Legal Charge payable to JRF if the Council reneges on the agreement to sell the land. If the Legal Charge has to be invoked the costs incurred will have supported an alternative disposal. Audit work has not found evidence that the Council has acted unlawfully or unreasonably by entering into this agreement.		
Profit share agreement	The Council has agreed to sell the land to JRF for £8.5m. Any profits in excess of this achieved by JRF from the sale are to be shared equally with the Council. However there is currently no agreement as to what costs can be charged against this profit.	The Council should ensure that if the sale to JRF proceeds the costs charged against the profit are agreed.	Bill Woolley will ensure that a basis for which costs can be charged against the receipt, is put in place by April 06
Consultation	A formal selection process for the design of the future development was undertaken. This process was undertaken by a working group of 12 people, 4 Councillors, 4 JRF staff and 4 from the Community Panel. Therefore community views were effectively fed into this process.		
Model village approach	The Council has been overt since the inception of this sale that it was repared to accept a substantially reduced receipt to facilitate a "model village" development. However it has not quantified how this achieves the Council's objectives	The Council should ensure that it has arrangements to demonstrate how key policy decisions support the achievement of its objectives e	Clear links to some council policies such as affordable housing, sustainability, safe homes and open space were demonstrated in the reports that were presented to members, but it is accepted that these were too vague and that clearer links to policy objectives need to be included in reports. Again the report writing protocol will provide guidance to address this issue in the future



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Audit and Governance Committee

26 June 2006

Report of the Assistant Director (Audit and Risk Management)

Follow up review of implementation of internal audit recommendations (April 05 – Sept 05 audits)

Summary

- 1 This report sets out the progress made by departments in implementing recommendations made in final internal audit reports issued between April and September 2005. It also sets out the proposed process for following up internal audit recommendations for Member approval.

Background

- 2 Currently, a follow up review is carried out every six months by internal audit, to assess progress made by departments in implementing agreed audit recommendations. Details of progress are reported to the Chief Internal Auditor and to the Director of Resources (the s151 officer). Details are also reported to the directors of the relevant services to inform them of progress and to enable them to address any areas of non-compliance. There is now a need to set out the process for reporting to Audit and Governance Committee to support its role in providing independent assurance on the control environment by enabling it to review and challenge any non-compliance with audit recommendations.
- 3 There is scope to improve the current arrangements. Historically the management information systems available to internal audit prevented individual recommendations from being tracked. Follow up work was instead based on the dates of the original audits. As a result follow up was not always timely because the target implementation dates for recommendations can vary significantly. The introduction of the new audit system (Galileo) late in 2005/06 has improved the ability to track individual recommendations.

Consultation

- 4 Details of the findings of follow up work set out in paragraphs 9 - 13 have been discussed with relevant service managers. The new follow up arrangements have been consulted on with the Chief Internal Auditor and s151 Officer.

Follow Up Process

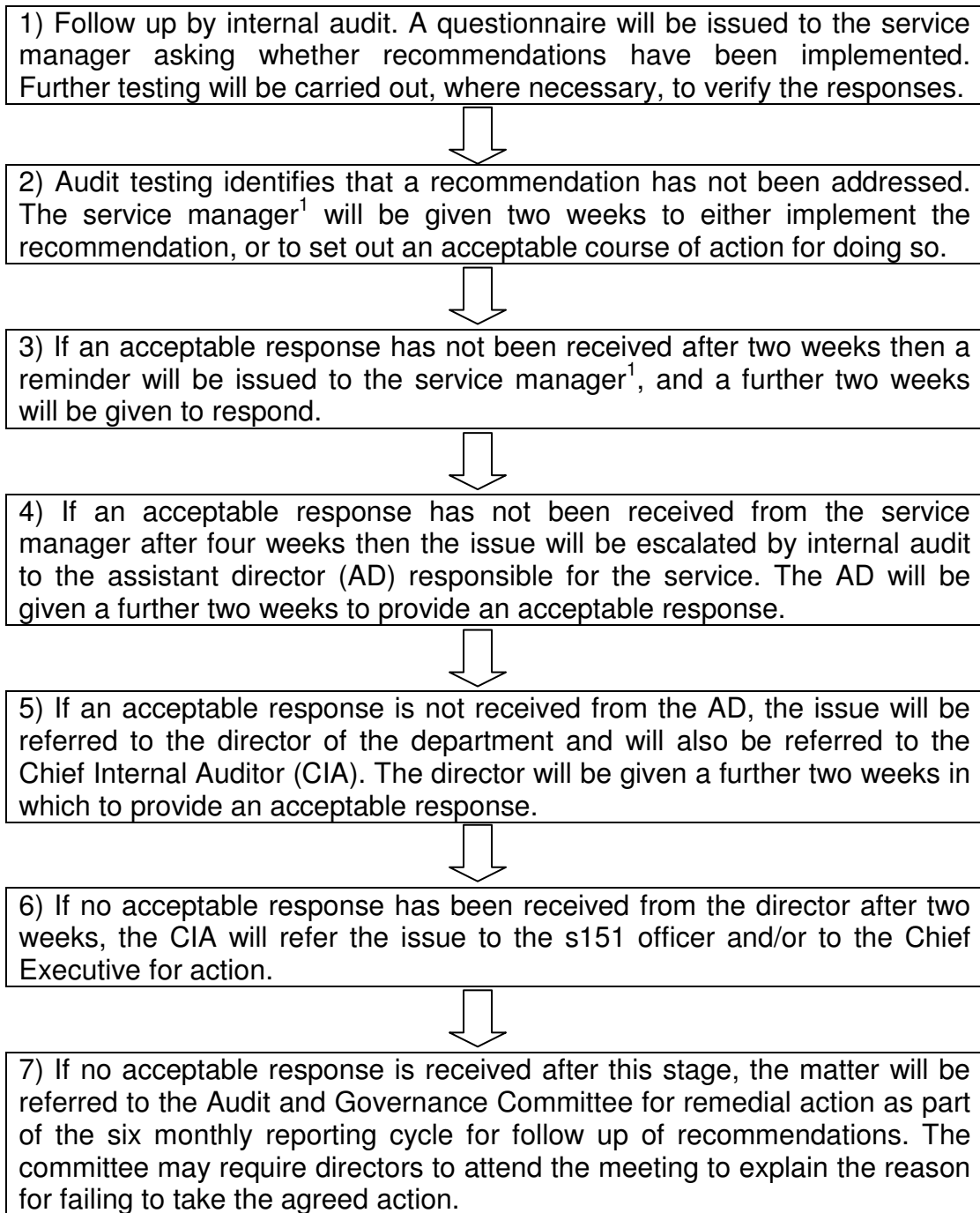
- 5 Internal audit findings and recommendations are made on the basis of audit fieldwork carried out. A report is issued to the department that has been audited. The report includes an overall opinion on the effectiveness of the controls for the area reviewed. Recommendations are made for any weakness in control identified. The recommendations are prioritised using the following categories:

High	Necessary to reduce or prevent the risk of significant financial loss, damage to reputation, disruption to a service or continuity of operations, or necessary due to legislative requirements.
Medium	Necessary to improve controls so as to reduce the risk of financial or other preventable losses.
Low	Helpful to the operation of the system or considered to be 'best practice'.

- 6 Findings and recommendations are initially discussed with service managers as issues arise during the course of an audit. A more formal closing meeting is held with the service manager at the end of the audit, to agree the findings and recommendations that will be included in the audit report. Where appropriate, issues are also discussed with assistant directors and other relevant officers. An action plan is agreed with the service setting out the action to be taken in response to each recommendation, the date by which it will be implemented, and the officer responsible.

- 7 It is essential that these recommendations are formally followed up to ensure that they have been implemented. This ensures that risks to the organisation are addressed by service departments, or that outstanding issues are raised at an appropriate level to ensure remedial action is taken. The proposed process for following up and reporting on progress against agreed audit recommendations is as follows.
 - All recommendations which are due to have been implemented will be followed up by internal audit on a monthly basis. Where no action has been taken by the service to address an agreed recommendation, the issue will be escalated in accordance with process set out in figure 1 below.
 - Overall progress made by departments in addressing recommendations due to have been implemented in the relevant period will be reported to the Audit and Governance Committee on a six monthly basis. The reports will detail any areas of non-compliance for reporting and remedial action by Members.

Figure 1 – Escalation Process for Unaddressed Recommendations



¹ Where an audit report has been issued directly to an assistant director, rather than a service manager, then the assistant director will be asked for a response in the first instance (stages 2 & 3). If escalation is necessary, this will be with the director (ie stage 4 is omitted).

Follow up review of implementation of internal audit recommendations (April 05 – Sept 05 audits)

- 8 Paragraphs 9 to 13 below set out the progress made by departments in implementing recommendations made in the period April to September 2005. It should be noted that this report is based on the current procedure for follow up and has not been through the formal system of escalation outlined above. It is anticipated that the next two follow up reports to the committee will follow this format, until the new procedures can be implemented using audit work recorded on the new Galileo system.
- 9 A total of 176 recommendations were followed up, although 16 of these (9%) had been superseded (for example by other audit recommendations or because of cessation of service). Of the remaining recommendations it was found that 149 (84%) had been satisfactorily implemented, were in the process of being implemented, or there were firm plans in place to address the issues. However, there were 11 recommendations that had not been addressed at all and five of these were of a high priority. These related to audits of commercial waste, family support, and Edmund Wilson and Yearsley swimming pools. The details are shown in paragraphs 10 to 13 below.
- 10 Commercial Waste 2004/05: one high priority recommendation had not been addressed. The outstanding recommendation relates to the need to introduce procedures to help ensure that all relevant customer records are updated when there are changes to the service provided. This will ensure that customers are billed correctly, and that appropriate contracts are in place. The department reports that this issue should be resolved by 31 March 2007, following the introduction of a new IT system to manage commercial waste administration. Funding for the new system has been approved and a supplier will be selected by Autumn 2006. However, in the interim, there is still a risk that some customers may not be correctly charged for commercial waste collections and the department should put in place any possible mitigating controls.
- 11 Family Support 2004/05: two high priority recommendations had not been addressed. The first recommendation relates to the need to review management information systems to ensure that managers have sufficient information to enable them to make decisions about section 17 payments. The department reports that this has been delayed due to other pressures during the integration of services as part of the recent restructure and formation of the Learning, Culture, and Children's Services directorate. However, it is still intended to review management information requirements, and this work should be completed by October 2006. The second recommendation relates to the need to update procedure notes. The department reports that a major revision to procedure notes is required, following the recent change to an electronic case file system. The new procedure notes will be completed by January 2007. There are still risks to the Council that inappropriate payments may be made, or that budgets may overspend. However, the auditors conclude that the proposed deadlines for implementation are reasonable, and a realistic reflection of the resources available.

- 12 Edmund Wilson Pool and Yearsley Pool 2004/05: one high priority recommendation had not been addressed at each site. The same recommendation was made at each pool - that manual pool tests (to ensure the water is safe for bathing) are carried out in accordance with set procedures, and that records of the tests are maintained. The department reports that there have been issues in ensuring that staff carry out and record these tests. Work is ongoing to address this. Further action may include centralised checking of pool test records by a senior manager, and the introduction of handheld computers which have inbuilt alarms that can only be disabled by carrying out the relevant tests. There is currently a risk that if an accident occurs and a claim is made, the Council may be unable to demonstrate that it has taken all reasonable steps to protect the health and safety of staff and customers. The current state of record keeping for pool tests is not satisfactory, and this issue should be addressed as soon as possible.
- 13 In general, the progress made in implementing recommendations has been good but there are still some areas where further work is required to address outstanding issues. Although there are five outstanding high priority recommendations these do not represent fundamental weaknesses in control and the action proposed by departments to resolve them appears to be reasonable. There is considered to be no requirement for directors to attend Audit and Governance Committee to provide further explanation, on this occasion.

Options

- 14 Not relevant for the purpose of the report.

Analysis

- 15 Not relevant for the purpose of the report.

Corporate Objectives

- 16 This report contributes to the overall effectiveness of the Council's internal management & assurance arrangements in helping to achieve the following corporate objectives.
- Ensure probity, integrity and honesty in everything we do (Objective 8.3).
 - Provide accurate and transparent management information in a timely and effective manner (Objective 8.3).
 - Improve the forward planning, openness, propriety, speed and effectiveness of decision-making (Objective 8.4).
 - Continue to provide sound and timely financial management, and improve medium and long term financial planning. (Objective 8.6).

- Manage the Council's property, IT and other assets on behalf of York residents. (Objective 8.9).
- Implement risk management and business continuity procedures. (Objective 8.10).

Implications

17 The implications are:

- **Financial** – there are no financial implications to this report.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there are no legal implications to this report.
- **Crime and Disorder** - there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.

Risk Management

18 The Council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if it fails to follow up on audit recommendations and report progress to the appropriate officers and Members. This in turn would adversely impact on the Council's CPA score for the Use of Resources and therefore its overall CPA score when this is re-assessed in 2007.

Recommendations

19 Members are asked to;

- consider the progress made in implementing audit recommendations made during the period April to September 2005 and what further action is required, if any.

Reason

To enable Members to fulfil their role in providing independent assurance on the Council's control environment

- note and agree the proposed follow up reporting arrangements.

Reason

To enable Members to monitor the work of the Audit and Fraud team effectively, and ensure that outstanding audit recommendations are addressed to reduce unacceptable risks to the Council.

Contact Details

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Report Approved

Date 13 June 2006

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

Annexes:

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