2006/07 STATEMENT ON INTERNAL CONTROL

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1. **Scope of Responsibility**

   The 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 2007 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, counter fraud activities and performance management.

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
- Guide to Managing Financial Risks
- Register of Breaches and Waivers of Financial Regulations.

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.

Both the Executive and the Council's Management Team meet every fortnight. 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. Since the approval of the new Constitution in May 2006, the Council has had an 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 provides independent assurance on 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 it oversees the financial reporting process.

Strategic Planning Processes

The Council has developed a strategic planning process that is intended to reflect political and community objectives and act as the basis for corporate prioritisation. The Council's Corporate Strategy expresses the Council's thirteen priorities for the next three years. Champions have been appointed for each of the priorities, and they are responsible for overseeing progress. The Council has also developed a standard service planning process which is intended to improve the integration of planning, resource allocation and performance management.

Management and Decision Making Processes

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 programme and associated actions are being developed around the following four priorities;

- 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

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 Section 151 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. In addition, compliance arrangements are subject to ongoing scrutiny by the District Auditor and other external agencies. The Officer Governance Group also monitors, reviews and manages the development of the Council's corporate governance arrangements. The group comprises the Section 151 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 the maintenance of a risk register, to which all directorates have access. The risk register includes corporate, operational, project and partnership risks, in accordance with best practice in local government. The risk register is used to monitor risks and identify appropriate action plans to mitigate risks. Relevant staff within the Council have also received 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 (as amended). 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 Section 151 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. Each directorate reports performance to Members on a regular basis.

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 Section 151 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 Section 151 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 risk register 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 co-ordinated and monitored on an ongoing basis by the Officer Governance Group.

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)
Sickness			
The levels of sickness across the Council remain higher than for comparable local authorities. The 2005/06 SIC identified continuing weaknesses in the Council's procedures for monitoring and reporting sickness absence. Although good progress has been made to address the underlying control weaknesses, there is still insufficient evidence that the improved arrangements have been fully embedded.	A corporate Attendance Management Policy was implemented in October 2006. Work has also been undertaken to improve the Council's management information on sickness. The following actions are planned; a) Revised procedures and guidelines to support the implementation of the Policy will be issued to staff. b) Revised corporate management reporting arrangements will commence in October 2007. c) A strategic review of the Council's Occupational Health arrangements will be undertaken. This will include consideration of the benefits of proactive health promotion and early interventions designed to minimise the occurrence of unavoidable sickness absence. Any changes will be closely aligned with the Council's well-being agenda and participation in the Health & Safety Executive's Strategic Intervention Programme. **Responsibility – Director of People and Improvement**	October 2007	2005/06 SIC* Performance and Financial Monitoring Reports * Annual report of the Chief Internal Auditor *

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Control Issue	Action Taken or Proposed	Due Date	Source(s)
Recruitment and Selection Procedures			
As identified in the 2005/06 SIC, the Council's Recruitment and Selection Policy is not always followed. Although good progress has been made to address the underlying control weaknesses, there is still insufficient evidence that the improved arrangements have been fully embedded.	Directorate Management Teams have been briefed on the revised Recruitment and Selection Policy and processes. Staff have also been made aware of the new requirements. A further follow up audit to examine compliance with the revised policy and procedures, will be undertaken in 2007/08. **Responsibility – Director of People and Improvement**	September 2007	2005/06 SIC *
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. The 2005/06 SIC identified the need 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. It was also recognised that the Council needed to satisfy itself that adequate resources were available to provide professional advice and meet statutory requirements. Although some progress has been made there is still insufficient evidence that the required processes are fully embedded across the Council.	During 2006/07 progress was made to develop appropriate Corporate health and safety policies. In January 2007, the new post of Director for People and Improvement was created with a specific role of Council Health and Safety Champion. In March 2007, an additional Health and Safety Advisor post was created to increase the capacity within the team to provide professional advice. Council Officers met with the Health and Safety Executive (HSE) to discuss a proposed management model and associated work plan. The proposals were positively received by the HSE. The associated documents will be presented to Directorate Management Teams before the end of July 2007 for their formal acceptance. **Responsibility – Director of People and Improvement**	September 2007	2005/06 SIC * H&S Prohibition Notices

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Control Issue	Action Taken or Proposed	Due Date	Source(s)
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 2005/06 SIC identified continuing weaknesses in the Council's competition and procurement arrangements. New Financial Regulations, encompassing comprehensive procurement rules were adopted by Full Council in May 2006, and a training programme to raise awareness was undertaken across directorates. The Corporate Procurement Strategy has however been delayed. 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.	The Corporate Procurement Strategy will be adopted in June 2007. The Strategy will include a Competition Policy and a strategic plan for developing the use of procurement by the Council. It will also cover the function of procurement as a whole at the Council over the next three years. In addition, the overall competition and procurement framework will be strengthened by the adoption of a; a) Strategic Procurement Programme - this is a programme of strategic procurements that will take place across the Council over the next five years. b) Thin-client methodology. c) Procurement practitioner guidance manual. **Responsibility – Director of Resources**	December 2007	2005/06 SIC * Annual Breaches and Waivers report * Annual report of the Chief Internal Auditor * Corporate and Directorate Assurance Statements
Accounting Misstatement			
The 2005/06 Statement of Accounts included a material misstatement. The misstatement was caused by a change in government guidance on the valuation of social housing, with the change not being reflected in the annual valuation exercise. Although this was a technical accounting issue, controls should have existed to identify the error before the final valuation figures were included in the approved Statement of Accounts.	For the closing of the 2006/07 accounts, the Head of Finance has carried out a case file review for each department/finance manager. In addition, the Director of Resources has met with the Head of Finance and the accountancy manager to review the draft accounts and question key elements, in particular those related to the balance sheet. In future, steps will be taken to concentrate this work around the identification and review of key changes to the accounts compared to previous years. **Responsibility – Director of Resources**	June 2006	Annual Governance Report 2006 (External Audit) * 2006 Annual Audit and Inspection Letter (External Audit) * Annual report of the Chief Internal Auditor *

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Equalities			
Although the Council has an equalities strategy there is insufficient evidence that the Council's policies and procedures are fully embedded within each directorate. Equalities monitoring arrangements need to be strengthened. Staff awareness also needs to be improved so as to ensure compliance with equalities legislation.	The Council's Equality Strategy and action plan is currently being reviewed and updated. The Corporate Equalities Leadership Group has also recently been established to promote the equalities agenda. Four key areas for improvement have been identified; a) Monitoring in respect of employment procedures and service users. b) Training for staff. c) Community engagement. d) Awareness of the equalities agenda and Equalities Unit's work programme. **Responsibility – Director of People and Improvement**	March 2008	Corporate and Directorate Assurance Statements
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 2005/06 SIC identified continuing weaknesses in the Council's business continuity arrangements. Although the Council has approved a Business Continuity Policy and Strategy and each directorate has appointed a business continuity champion, the quality of individual directorate plans is still not at the required standard.	A review has been undertaken of the progress made to complete business continuity plans throughout the Council. As a result of the review, the format of the plans has been significantly amended to meet new national guidance. An exemplar document has been prepared together with a template for use by all groups and directorates. This exemplar and template is currently being implemented across the Council with a view to completing group plans by mid autumn. Further work on business continuity has included the preparation of an information document, which has been distributed to businesses in the city. **Responsibility – Director of City Strategy**	April 2008	2005/06 SIC * Corporate and Directorate Assurance Statements

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Control Issue	Action Taken or Proposed	Due Date	Source(s)
Partnership Governance Arrangements			
The Council currently has a database of the partnerships it has an interest in, and a partnership support and development programme. All of these are designed to improve the effectiveness of partnerships and ensure good management arrangements are in place. However, there is still a need to further develop the Council's monitoring and support arrangements to ensure that all partnerships have suitable governance and performance management arrangements in place.	The Council has recently increased its investment in partnership working by creating a Strategic Partnerships Team, that has responsibility for consolidating and improving the Council's approach to partnership working. The governance arrangements of the Local Strategic Partnership were reviewed in late 2006, to reflect the new requirements of the Local Area Agreement and proposals in the Local Government White Paper. An Executive Delivery Board was created to focus on delivery of the Local Area Agreement. These new governance arrangements will be implemented during 2007/08. It is anticipated that the processes of revising the Community Strategy and reviewing the Council's corporate priorities during 2007/08 will further identify links between partners, and promote the need for high standards of governance and performance management. **Responsibility – Director of City Strategy**	March 2008	Delivery of Corporate Objectives through the LSP - report (External Audit) * 2006 Annual Audit and Inspection Letter (External Audit) *

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Control Issue	Action Taken or Proposed	Due Date	Source(s)
Project Management, Programme Management and Benefit Realisation			
As identified in the 2005/06 SIC, some progress has been made to develop in-house management skills and capacity. However, there was 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. Only limited progress has been made to address these issues during 2006/07.	Improving project and programme management is a key action within the Organisational Effectiveness Programme (OEP). Specific improvement work in conjunction with the Audit Commission and the OEP Board has been started. Initially this work is using the OEP as a pilot area, and will continue, building on learning from other key projects (for example, easy@york) during the first part of 2007/08. Once this phase of work is completed (September 2007), it is proposed that the approach and key principles will be applied to other projects during the second half of the year. **Responsibility – Director of People and Improvement**	March 2008	2005/06 SIC * Corporate risk register * Review of Project Management and Programme Management Arrangements – report (External Audit)

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 are in place.

Signed …………………………………… Dated …………………………
D. N. Atkinson
Chief Executive

Signed …………………………………… Dated …………………………
Cllr S. F. Galloway
Leader of the Council