

## Notice of meeting of

### **Audit & Governance Committee**

<b>To:</b>	Councillors Hyman (Chair), Hill, Holvey (Vice-Chair), Jones, Moore, Scott and R Watson
<b>Date:</b>	Wednesday, 31 January 2007
<b>Time:</b>	5.30 pm
<b>Venue:</b>	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 **Tuesday, 30 January 2007, at 5:00 pm.**

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

To approve and sign the minutes of the Audit and Governance Committee meetings held on 25 September and 4 October 2006.

**4. Audit Commission Report : Arrangements for the Disposal of the Barbican** (Pages 11 - 22)

This report, which was deferred from the last meeting of the Audit and Governance Committee, on 4 October 2006, sets out the findings of the Audit Commission's review of the Council's arrangements for the disposal of the Barbican.

**5. Deciding and Delivering Council Priorities - Audit Commission Report** (Pages 23 - 48)

This report details the findings and recommendations arising from the Audit Commission's study of the Council's arrangements for deciding and delivering its priorities, together with the actions taken, or planned to be taken, in response to these recommendations.

**6. 2006/07 Statement of Internal Control – Managing the Process** (Pages 49 - 64)

This report advises Members of the process which is planned to enable publication of the 2006/07 Statement of Internal Control (SIC).

**7. Audit and Fraud Mid-Term Monitor** (Pages 65 - 88)

This report provides details of the progress made in delivering the Council's internal audit and fraud work plan for 2006/07.

**8. Privacy and Confidentiality Policy** (Pages 89 - 94)

This report asks Members to consider adopting a privacy and confidentiality policy, which would cover:

- the receipt of reports relating to specific audit matters;
- periodic informal discussions with the external auditor and the Chief Internal Auditor.

**9. 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

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MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	25 SEPTEMBER 2006
PRESENT	COUNCILLORS HYMAN (CHAIR), HOLVEY (VICE-CHAIR), MOORE, R WATSON AND SCOTT
APOLOGIES	COUNCILLORS JONES AND HILL

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**21. DECLARATIONS OF INTEREST**

The Chair invited Members to declare at this point, any personal or prejudicial interests that they might have in the business on the agenda.

No interest were declared.

**22. PUBLIC PARTICIPATION**

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

**23. MINUTES**

RESOLVED: That the minutes of the meeting of the Audit and Governance Committee held on 26 June 2006 be approved and signed as a correct record.

**24. ANNUAL GOVERNANCE REPORT OF THE DISTRICT AUDITOR**

Members considered a report which asked them to:

- Consider the matters set out in the Audit Commission's Annual Governance Report on City of York Council for the year 2005-2006 presented for discussion by the District Auditor;
- Consider the action plan arising from the report to be tabled at the meeting by the District Auditor;
- Approve the letter of representation for signature by the Chair of this Committee, having first considered whether it sufficiently reflects the views and beliefs of the Committee as those charged with governance at the Council.

RESOLVED: That:

- i) The matters set out in the Annual Governance Report presented for discussion by the District Auditor be noted.

Reason: To ensure the proper consideration of the opinion and conclusions of the District Auditor in respect of the annual audit of accounts and review of the Council's arrangements for ensuring VFM.

ii) The action plan arising from the report of the District Auditor, which was tabled at the meeting be noted.

Reason: To ensure appropriate action is being taken by officers to address any matters raised by the District Auditor further to his report.

iii) The letter of representation of the Audit and Governance Committee be signed by the Chair.

Reason: To ensure compliance with International Auditing Standards and relevant legislative requirements

K Hyman, Chair

[The meeting started at 4.00 pm and finished at 4.40 pm].

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MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	4 OCTOBER 2006
PRESENT	COUNCILLORS HYMAN (in the Chair for Agenda items 1-5 and 11), HOLVEY (in the Chair for Agenda items 6-10), HILL, MOORE, SCOTT, B WATSON (substituting for Councillor Jones) and R WATSON
APOLOGIES	COUNCILLOR JONES

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## **PART A - MATTERS DEALT WITH UNDER DELEGATED POWERS**

### **25. DECLARATIONS OF INTEREST**

Members were invited to declare at this point any personal or prejudicial interests they might have in the business on the agenda. Councillors R Watson and Scott each declared a personal, non prejudicial interest in Agenda item 11 (Annual Monitoring Report: Breaches and Waivers of Financial Regulations 2005/06), as members of the legal profession.

### **26. PUBLIC PARTICIPATION**

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

### **27. EXCLUSION OF PRESS AND PUBLIC**

RESOLVED: That the press and public be excluded from the meeting during consideration of annexes 1,2 and 3 to agenda item 11 (Annual Monitoring Report: Breaches and Waivers of Financial Regulations 2005/2006), on the grounds that they contain information relating to financial and business affairs, which is classed as exempt under paragraph 3 of Schedule 12A to Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006.

### **28. FOLLOW UP REVIEW OF IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (OCTOBER 2005 - MARCH 2006)**

Members considered a report which set out progress made by departments in implementing the recommendations made in final internal audit reports issued between October 2005 and March 2006.

A total of 246 recommendations had been followed up, of which 10 had been superseded and 211 (86%) had been satisfactorily implemented. Additional recommendations had been raised to address ongoing weaknesses in two of these cases and these would be followed up in a later review. In 25 cases, the recommendations had not been fully

implemented. These had been referred back to the service manager or assistant director, in accordance with the escalation policy. Overall, good progress had been made and there were no specific issues to bring to the Committee's attention.

It was proposed that those outstanding recommendations for which a revised deadline had been agreed should be escalated immediately to the next level in the process if they had still not been completed by the revised deadline. Approval was sought to amend the escalation process agreed in June to reflect this approach. A copy of that process was circulated to Members for information. It was noted that the S151 Officer and Chief Executive now had powers to take action should an issue be referred to them under Stage 6 of the process.

RESOLVED: (i) That the progress made in implementing the audit recommendations, as reported in paragraphs 5-10, be noted.

REASON: In accordance with Members' role in providing independent assurance on the Council's control environment.

(ii) That the proposed amendment to the escalation process, set out in paragraph 12 of the report, be noted and agreed.

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.

## **29. MONEY LAUNDERING**

Members considered a report which summarised legislative requirements and interim guidance for the prevention and detection of money laundering and proposed arrangements to minimise the risk to the Council of money laundering.

The relevant legislation comprised the Proceeds of Crime Act (POCA), section 18 of the Terrorism Act 2000 and the Money Laundering Regulations 2003 (the Regulations). The POCA defined money laundering and set out the obligations on organisations and individuals to report known or suspected money laundering activities. The Terrorism Act set out similar obligations in relation to activities associated with terrorism. The Regulations covered the measures which must be put in place to restrict the opportunities for money laundering in organisations which conducted "relevant business". Interim guidance had been issued by the Chartered Institute for Public Finance and Accountancy (CIPFA) in 2005. This confirmed that the general provisions and offences in the POCA applied to all public service organisations and recommended that all public bodies put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities.

In the light of the guidance, it was proposed that a detailed Action Plan be developed, to strengthen the Council's existing counter fraud



arrangements, and brought to the Committee on 31 January 2007. The Plan would include an update of existing policies and strategies, training and guidance for staff likely to be exposed to money laundering activities and nomination of a Money Laundering Reporting Officer responsible for reporting concerns to the Serious Organised Crime Agency.

RESOLVED: (i) That the legislative requirements necessary to prevent and detect money laundering and the associated guidance issued by CIPFA be noted.

REASON: To ensure that the Council complies with relevant legislation.

(ii) That an anti money laundering Action Plan be brought to the January 2007 meeting of the Committee.

REASON: To ensure that the Council has in place adequate arrangements to prevent, detect and, where necessary, report on suspected money laundering activities.

**30. THE ROLE OF AUDIT AND GOVERNANCE COMMITTEE IN MONITORING THE IMPLEMENTATION OF THE FRAUD AND CORRUPTION PROSECUTION POLICY**

Members considered a report which advised them of the Committee's role in monitoring the implementation of the Council's Fraud and Corruption Prosecution Policy.

A copy of the revised Prosecution Policy, approved by the Executive Member for Corporate Services on 12 September 2006 and effective from 1 October, was attached as Annex A to the report. It was proposed that details of decisions taken under the Policy, and outcomes where known, be reported to the Committee twice a year as part of the Fraud mid-term monitor in January and the Annual Report of the Chief Internal Auditor in June. This would enable Members to ensure that the policy was being fully adhered to, remained effective and complied with relevant legislation and best practice.

RESOLVED: That the proposed monitoring arrangements for the Prosecution Policy be noted and approved.

REASON: To ensure that the Prosecution Policy remains effective and is adhered to.

**31. THE ROLE OF AUDIT AND GOVERNANCE COMMITTEE IN MANAGING AND MONITORING THE IMPLEMENTATION OF RISK MANAGEMENT**

Members considered a report which advised them of the Committee's role in managing and monitoring the process of embedding corporate risk management arrangements at the Council.

Part of the Committee's stated purpose was to "provide independent assurance of the adequacy of the [Council's] risk management framework".

The basis for risk management was set out in Regulation 4 of the Accounts and Audit Regulations 2003. The attributes required to ensure an effective risk management framework were contained in the CIPFA/ALARM publication Risk Management in Public Services and listed in Annex 1 to the report. These attributes were reflected in the Key Lines of Enquiry (KLOE) relating to risk management. The risk and insurance team was making good progress in meeting the requirements of the KLOEs forming part of this year's CPA 'refresh' exercise. A full list of the KLOEs and the Council's comments and actions was attached as Annex 2. The team had also made progress in developing a robust and effective framework to facilitate the embedding of a risk management culture across the Council, although there were some development issues.

The report noted that the Committee's role in relation to the development agenda, the CPA KLOEs and the risk management framework was to monitor progress. It suggested that this role be facilitated by providing a mid-term monitoring report and an out-turn report highlighting achievements, progress and any other areas of constraint. Paragraph 16 of the current report summarised progress made by each directorate in embedding risk into their culture and process. Future monitoring reports would provide details of actions being taken by directorates to identify, manage and mitigate key risks as well as highlighting any gaps in the process across the Council.

RESOLVED: (i) That the contents of the report be noted.

REASON: To be aware of the progress made to date in respect of the risk management of the Council and of the further work now needed to support the effective development of the Council's approach in the future.

(ii) That the proposed role for the Committee, as set out in paragraph 14 of the report (to monitor progress), be approved.

REASON: To clarify the role and purpose of the Committee in relation to the delivery of risk management at the Council.

(iii) That the Committee receive mid-term monitoring an out-turn reports, as suggested in paragraph 15, which will include details on progress against CPA criteria and the Development Plan.

REASON: To ensure that Members can fulfil their role in monitoring the progress made by the Risk and Insurance team against the CPA criteria and the development agenda.

(iv) That the Committee monitor the progress made by directorates in deploying risk management arrangements, as outlined in paragraph 19.

REASON: To ensure that Members can fulfil their role in monitoring the progress made by directorates in considering, managing and embedding risk management into their services.

**32. STRATEGIC AUDIT PLAN - CONSULTATION**

Members considered a report which invited them to contribute to the annual review and update of the Council's internal audit risk assessment and five year strategic audit plan.

A copy of the latest Strategic Audit Plan was attached as Annex B to the report. Details of the criteria used by internal audit to assess and score each risk factor within the Plan were attached as Annex A. The report outlined the existing risk assessment methodology, which had last been reviewed as part of the project to implement the Galileo Audit and Risk Management software in January 2006. It was noted that the current shortfall in audit resources meant that many 'medium' or 'low' risk audit areas were not being reviewed as often as required. Members were invited to comment on the adequacy of the methodology, the accuracy of the risk assessment process and whether any changes or additions should be made to the Plan.

Members commented on the criteria for scoring and prioritising risks within the Plan. It was noted that high-value transactions did not always attract the highest score, because other relevant factors such as the volume of business and level of control might lower the risk. However, PFI agreements were variable in terms of risk and must be reviewed on a case by case basis. It was suggested that high volume cash transactions were potentially a high risk area which might require tighter audit controls.

RESOLVED: (i) That the existing audit risk assessment and planning process be noted and that Officers be asked to consider the points raised by Members during their discussion.

REASON: For information and to ensure that scarce audit resources are used effectively.

**33. AUDIT COMMISSION REPORT : ARRANGEMENTS FOR THE DISPOSAL OF THE BARBICAN**

Members received a report which presented the findings of the Audit Commission's review of the Council's arrangements for the disposal of the Barbican.

A representative of the Audit Commission had attended to answer Members' questions on the report. However, due to pressure of time he had to leave the meeting before discussion on this item could begin.

RESOLVED: That this item be deferred for consideration at a special meeting of the Audit and Governance Committee, the date of which shall be arranged in consultation with the Chair, Vice-Chair and the District Auditor.

REASON: To enable the District Auditor to attend the meeting so that Members can properly consider the report.

**34. ANNUAL MONITORING REPORT: BREACHES AND WAIVERS OF FINANCIAL REGULATIONS 2005/2006.**

Members considered a report which informed them of unauthorised breaches of the Council's Financial Regulations during the 2005/06 financial year and any waivers of Financial Regulations approved by the Section 151 Officer during the year. It also summarised progress made in addressing breaches identified and reported in previous years.

The exempt annexes to the report detailed breaches of Financial Regulations identified in 2005/06 (Annex 1), the current status of breaches outstanding from previous years (Annex 2) and applications for waivers received in 2005/06 (Annex 3). It was noted that 13 new breaches had been reported in 2005/06, compared to 22 in 2004/05, and that departments had made good progress in addressing breaches from previous years, with action taken to deal with 23 of the 27 outstanding breaches. A total of 28 applications for waivers had been received, of which 27 had been approved and one was not required. Taken together, the figures appeared to show an increasing awareness of the requirements of the Financial Regulations and EU procurement rules, and of the need to comply with these.

Members expressed concern that a number of the unresolved breaches had been reported to Commercial Services EMAP on previous occasions and suggested that these be monitored more closely. They also commented on the implications section of the report, noting that, whilst the report itself had no legal or financial implications, the breaches potentially did. Officers agreed to provide details of the implications of individual breaches in future reports.

RESOLVED: (i) That the breaches of Financial Regulations identified, or otherwise notified to the Section 151 Officer during 2004/05, as set out in paragraph 7 and Annex 1, be noted.

(ii) That the actions taken to address outstanding breaches of Financial Regulations be noted and that Officers bring an update report to the Committee on those matters that currently remain outstanding, the date of the report to be agreed with the Chair and Vice-Chair.

(iii) That the waivers of Financial Regulations approved by the Section 151 Officer under the Council's scheme of delegation, as detailed in paragraphs 13-14 and Annex 3, be noted.

REASON: To fulfil the Committee's role in considering the Council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice.

**PART B - MATTERS REFERRED TO COUNCIL**

**35. CONSTITUTIONAL AMENDMENT**

Members considered a report which gave details of a constitutional amendment proposed by the Labour Group and asked the Committee to make a suitable recommendation to Council in respect of the proposal.

The proposed amendment was to Standing Orders 8(2)(a) and 10(a), which related to questions to Executive Members and the Executive Leader respectively. It proposed inserting the sentence: "*No answer given shall exceed 2 minutes in duration*" after the words denoting a ten minute time limit for questions set out in each of the two Standing Orders.

RECOMMENDED: That Standing Orders 8(2)(a) and 10(a) be worded as follows:

**Standing Order 8(2)(a):** "The Executive Member will answer questions on any item in their written report, the time spent on this item shall not exceed 10 minutes. Such questions must relate directly to the report and be received by the Chief Executive in writing on the day before the meeting."

**Standing Order 10(a):** "A member of the Council may ask a question on the Leader's written report or ask an Executive Member a question upon any item within their portfolio when their portfolio is under consideration by the Council under Standing Order 4(c)(9). Such questions must relate directly to the report in the case of the former and in any event must be received by the Chief Executive not later than the day prior to the Council meeting. The time limit for questions on the report is 10 minutes. The Chair of Council will determine the order in which questions should be put and answered to reflect political balance, public expectation and significance to the Council."

REASON: To enable the amendment and the Committee's recommendation on it to be considered at the next Council meeting, on 5 October.

Note: Cllr Scott abstained from voting on the above recommendation and asked that this be recorded.

K Hyman, Chair

[The meeting started at 5.30 pm and finished at 7.55 pm].

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**Meeting of Audit And Governance Committee****31<sup>st</sup> January 2007**

Report of the Director of Resources

**Audit Commission Report : Arrangements for the Disposal of the Barbican****Summary**

1. The purpose of this report is to report to Councillors the findings of Audit Commission's review of the Council's arrangements for the disposal of the Barbican.

**Background**

2. The Audit Commission have received and taken account of information from York residents and Council Officers in carrying out their review (attached at Annex A). The objectives of the review were to assess the Council's arrangements for:
  - Securing best consideration for the site.
  - Ensuring appropriate governance controls are maintained.
  - Managing the impact on service delivery.

At the time of writing this report the Council was awaiting the results of the Planning Committee's considerations on the Barbican, which are due to take place on September the 28<sup>th</sup> 2006. Whilst the outcome of this meeting is awaited the Council has not finalised the sale of the Barbican site, but does expect to do so fairly soon after the Planning Committee meeting, subject to the outcome of that meeting. This is not likely to be before the Audit and Governance Committee meeting on the 4<sup>th</sup> October.

**Consultation**

3. The only consultation on the contents of this report has been that which the Auditor has referred to in his report and between the Auditor and Officers of the Council with regard to the factual accuracy of the report.

**Conclusion**

4. The Audit Commission have not highlighted any significant weaknesses in the Council's approach to the disposal of the Barbican however, they have made

three recommendations which are set out in paragraph 15 at the end of the Audit Commission report.

- 4.1 Recommendation R.1 refers to the need to include within the reports the legal framework and basis for making key decisions. This echoes one of the findings in the recent Osabaldwick/Derwenthope Audit Commission review and requires Officers to be more specific in this area. The Council has already responded by making this a requirement within its recently agreed template for committee reports, and the Monitoring Officer and I will follow this up by sending a reminder of the requirements to all Chief Officers.
- 4.2 Recommendation R.2 has two parts. The first involves the Council being clearer in its selection criteria for future partners, in particular with regard to their legal status. Again this echoes a finding in the Osbaldwick/Derwenthorpe review. Since these projects were commenced the Chief Executive's Department has established a post responsible for keeping records on and advising on partnerships (although this is under review) and the Resources department has 0.5 of a post responsible for the financial aspects of partnerships.

The second element of recommendation R2 advises that the Council should set parameters for major schemes, variation beyond which would give rise to a review of the validity of proposed development. This recommendation will be considered further by Officers and is likely to be linked with R3 below.

- 4.3 Recommendation R3 focusses on requesting the Council to clearly articulate and record the objectives of major projects and transactions at the outset, so that success can be evaluated against them in the future. Whilst this does take place in many projects it is not universal and consistent and Officers need to give consideration as to how this approach can be embedded within it process.

### **Other Implications**

5. There are no specific Financial, Human Resources, Equalities, Crime and Disorder, Information Technology or Property implications raised by this report other than those directly referred to within it.

### **RISK Management**

6. The three Audit Commission recommendations are all aimed at enabling the Council to better manage risk and as such it is important that further steps are taken to embed these approaches into working practice within the Council.

### **Options**

7. The Audit Commission report does not offer options but does make three recommendations, which Officers are intending to accept, but which in some cases require further consideration about how to implement.



## Recommendations

8. Members are asked to:-

- a) note the Audit Commissions report.
- b) Delegate to the Director of Resources the actions to devise and implement appropriate responses, through giving advice and guidance to other Officers on Council procdures and requirements.

**Reason:** In order to improve governance and risk management of council projects and developments.

## Contact Details

**Author:**

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Director of Resources and Deputy  
Chief Eexecutive  
Dept Resources  
Tel No.01904 551100*

**Chief Officer Responsible for the report:**

*Simon Wiles  
Director of Resources and Deputy Chief Executive*

**Report Approved**

**Date** *25<sup>th</sup> September  
2006*

**Wards Affected:** Fishergate

**All**

For further information please contact the author of the report

**Background Papers:**

**Barbican files are held in the Resources Property Services offices in Swinegate**

**Annexes**

**Annex A is the Audit Commission's Report on the Arrangements for the disposal of the Barbican**

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# **Arrangements for the Disposal of the Barbican**

**City of York Council**

**Audit 2005-2006**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Council**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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## Background and introduction

- 1 In 2000, the Council undertook a Best Value Review of leisure facilities which highlighted the continued importance of swimming provision to the achievement of corporate objectives. In August 2001 the tendering arrangements began for the Barbican site, with the requirement for:
  - a pool to remain on site; and
  - the auditorium to be refurbished, managed and made available for specified events.
- 2 After an appraisal process based on the achievement of these objectives a report went to the Member Panel recommending selecting the Barbican Venture as the preferred developer on 31 October 2002. This included:
  - £750,000 capital receipt for the auditorium, which is to be refurbished and run at nil subsidy;
  - £4.125 million receipt for the remainder of the site; and
  - a new pool.
- 3 Following legal advice in December 2003 the Council took responsibility for the development of the pool and a higher capital receipt of £10.33 million was agreed with Barbican Venture.
- 4 In February 2004, the Council agreed to separate the Conditional Development Agreements with Barbican Venture for the auditorium and main development. A conditional contract was signed with Absolute Leisure Ltd in January 2006 and they now occupy the site on a short-term lease. The Council is currently finalising a revised deal with Barbican Venture for the remainder of the site, which is due to be signed in the near future. The current proposed deal involves:
  - no pool provision; and
  - a receipt of £7.862 million.
- 5 Section 123 of the Local government Act 1972 provides that '*a principal Council may dispose of land held by them in any manner they wish*', but that '*except with the consent of the Secretary of State a Council shall not dispose of land under this section ...for a consideration less than the best that can reasonably be obtained.*' A key principle established in case law is that the commercial value of the land represents best consideration.

## Objectives and scope

- 6 The objectives of our review were to assess the Council's arrangements to:
  - secure best consideration;
  - ensure appropriate governance controls are maintained; and
  - manage the impact on service delivery.
- 7 During the course of our work a number of electors have contacted us and provided us with information. We have taken account of the information they have provided which is relevant to our external audit responsibilities.

## Audit approach

- 8 Our work included:
  - discussion with senior officers;
  - reviewing reports to Members dating back to the inception of the project in 2000; and
  - auditing supporting information.
- 9 During the audit we obtained our own legal and technical advice to complement the work of the local audit team.

## Main conclusions

- 10 The project to dispose of the Barbican site has been lengthy. The nature of the current deal is different from the requirements contained within the original tender in two significant aspects:
- the disposal of the auditorium has been separated from the rest of the site; and
  - the requirement to include the provision of leisure facilities on the site has been removed.
- 11 As a consequence of a change in requirements, and the time taken to progress the project, the value to be received for the site has fallen from £10.3 million to £7.9 million. To ensure the continued achievement of best consideration the Council has:
- undertaken an initial market testing exercise, which led to the selection of Barbican Venture as preferred partner;
  - obtained an independent professional valuation for the auditorium equipment in January 2006;
  - obtained an independent professional valuation for the car park and hotel site; and
  - reviewed the arrangements by Barbican Venture to remarket the site in December 2005.
- 12 We note that the requirement to comply with s123 of the 1972 Local Government Act has not been set out to Members in project progress reports.
- 13 Our audit of the Council's controls over the process to select a preferred partner has not identified any significant weaknesses:
- clear assessment criteria were established in relation to the objectives of the project;
  - each tender was scored and evaluated against these criteria;
  - the processes were documented; and
  - timely reporting of progress was reported to Members for decision making, and these reports were made publicly available.
- 14 The Council has not, however, defined the what level of variation in either the requirements of the project or the value offered by the partner, would require a retendering exercise, and whether the preferred partner would be able to challenge any retendering in law.



- 15 The original objective of the project to dispose of the Barbican was to support the improved provision of sports facilities in the City. Our review of the Council's arrangements to ensure continued service provision through the project and to achieve this objective has not highlighted any significant weaknesses. However, there are opportunities for the Council to improve the clarity of how the objectives are expressed and how success will be assessed.

<b><i>Recommendations</i></b>
<i>R1 Establish adequate arrangements to inform members of the legal framework within which decision are taken.</i>
<i>R2 Clarify the legal status of the preferred partner in future transactions and establish controls over the variations that will generate a review of the continued validity of the agreement.</i>
<i>R3 Ensure that the objectives of projects and significant transactions are clearly articulated, allowing them to drive decision making and for success to be evaluated.</i>

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## **Audit and Governance Committee**

31<sup>st</sup> January 2007

### **Report of Director of People and Improvement**

## **Deciding and Delivering Council Priorities – Audit Commission report**

### **Summary**

1. This report details the findings and recommendations arising from the Audit Commission's study of our arrangements for deciding and delivering the Council priorities. It includes the actions taken, or planned to be taken, in response to these recommendations.

### **Background**

2. The Audit Commission carried out a review of the Council's prioritisation arrangements in mid 2006. One of the purposes of this review was specifically to help the Council to understand the improvements necessary to respond effectively to the prioritisation Key Line Of Enquiry in the CPA Corporate Assessment process.
3. The Commission issued the attached report (Annex A) in mid-August. They followed this up with an "update" letter attached as Annex B, which was issued by them to reflect the fact that there has been a significant amount of development work and progress on the priorities since the report was first completed.

### **Key Messages**

4. The findings from the report present a reasonably positive picture of the way that the Council has developed its priorities as part of the corporate strategy but identified a significant amount of work required in order to embed and deliver them.
5. The Commission identified improvement focussing on five main themes (reflected in six headline recommendations):
  - Improving links between service planning and prioritisation (Recommendation 1 (R1))
  - How resources follow priorities (R2)
  - Integrating priorities into performance management systems (R3)
  - Learning from experience in delivering priorities (R4)
  - Communicating priorities and where they have come from (R5 and R6)

6. As reflected in the Council's response to these recommendations (Annex C), much of this work is already planned to be completed (or has been completed) as part of delivering the Council's Organisational Effectiveness Programme (OEP). Actions not already in the OEP have since been incorporated within it as part of developing the priority Delivery and Innovation Plans.
7. Delivery of the OEP (in particular key parts of it relating to areas such as prioritisation) has been identified as a key priority for the Chief Executive and new Director of People and Improvement. The Council is therefore well placed to improve its prioritisation arrangements in line with the direction recommended by the Commission. The Commission will also be briefly revisiting this area to assess progress, probably in June. The findings from this exercise will be reported to this committee.

## Consultation

8. The report, update letter and recommendations have been considered and agreed by the Corporate Management Team. Improving the way that the Council prioritises and delivers its priorities forms a key part of the OEP approved by the Executive in July 2006.

## Options

9. Prioritisation is one of the 4 key strands within the CPA Corporate Assessment process. The Executive have previously approved a range of actions to improve the way that the Council prioritises and delivers its priorities as part of the OEP. The actions in Annex C are at the heart of the OEP.

## Corporate Priorities

10. The actions outlined in this paper directly support the delivery the Council's organisational effectiveness priorities – in particular "improving leadership at all levels .....".
11. Improving prioritisation will also support more effective delivery of the Council's nine service-related priorities which are set out in the Corporate Strategy.

## Implications

12. **Financial:** Improving the way that the Council prioritises and delivers its priorities potentially impacts on the way that the Council allocates its financial (as well as human, legal, IT, property) resources. These financial implications are reflected in the body of the attached report and in the planned actions relating to its recommendations.
13. **Human Resources/Information Technology/Property/Legal:** See paragraph 12.
14. **Equalities:** There are no specific implications arising from this report – however equalities runs through each of the Council's 13 priorities and is a key cross-cutting theme within the CPA corporate assessment process.

15. **Crime and Disorder:** There are no specific implications arising directly from this report – however “reducing ...impact of violent, aggressive and nuisance behaviour.....” is one of the Council’s 13 priorities

### **Risk Management**

16. Failure to implement the identified range of improvements is likely to affect the Council’s ability to deliver its priorities and affect the Council’s CPA corporate assessment rating.

### **Recommendation**

17. Members are asked to note the findings of the Audit Commission study and the actions which have been taken or are planned to be taken to respond to the recommendations contained within the report and update letter.

Reason: To note the progress in improving the Council’s prioritisation arrangements

#### Contact Details

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##### **Chief Officer Responsible for the report:**

Heather Rice, Director of People and  
Improvement

Report Approved ✓ Date: 17<sup>th</sup> January 2007

##### **Specialist Implications Officer**

##### **Wards Affected**

CMT 6<sup>th</sup> December  
ALL

Background papers: None

Annexes: Annex A: Audit Commission report: Deciding and Delivering Council Priorities  
Annex B: Audit Commission letter 4<sup>th</sup> December 2006 York Prioritisation  
Annex C: CYC actions in response to recommendations in Annex A

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# **Deciding and Delivering Council Priorities**

**City of York Council**

**Audit 2006/2007**

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## Introduction

- 1 Community leadership is a key element of the approach to CPA 2005. Achievement is assessed by examining how well Councils are delivering local priorities and outcomes across five sub-themes. These are based on the 'shared priorities' which were agreed by the then Office of the Deputy Prime Minister's central and local government partnership. The five sub-themes are:
  - sustainable communities and transport;
  - safer and stronger communities;
  - healthier communities;
  - older people; and
  - children and young people.
- 2 The community strategy is the natural vehicle for tackling these agendas in their local contexts and in the light of local priorities. The community leadership role of the Council is vital to make this happen.
- 3 The way that local priorities are determined and how they are balanced with other sometimes competing priorities is crucial to successful delivery. The Audit Commission research on performance breakthrough revealed three actions that successful public sector organisations do:
  - focus on what the organisation is about, prioritise and do something. This means considering competing priorities and making difficult judgements about which should come first;
  - get the right people involved in deciding what matters; and
  - put resources behind what matters.
- 4 This report sets out the findings of our recent review of how City of York Council (CYC) has developed and started to implement its approach to delivering against its new priorities.

## Background

- 5 The justification for undertaking this review -originally included in the 2004/05 Audit and Inspection Plan and subsequently postponed - goes back to work carried out in 2003/04 which identified weaknesses in the Council's approach to prioritisation. By mutual agreement, we agreed to postpone the review until the Council had strengthened its prioritisation arrangements - work which ultimately took longer than the Council had originally anticipated.

- 6 Our 2005 Annual Audit and Inspection Letter (AAIL) noted that 'Our 2004 AAIL Letter reported a mixed performance, and concluded that consistent corporate arrangements were needed to enable you to demonstrate value. These messages were reinforced by the peer review you commissioned this year, particularly the need to improve your approach to prioritisation, performance management and project management'. The Letter also referred to progress and improvement across a number of areas, together with some outstanding areas for action in relation to prioritisation.
- 7 The Council is already engaged in transforming some important aspects of the way it carries out its community leadership responsibilities. These include a revision of the Council's priorities to align them more closely to the objectives of the community plan. These changes are taking place within the context of increased cost pressures which has made the need for prioritisation more acute.
- 8 The Council has retained its eight corporate aims and agreed 13 new priorities (called improvement statements) within 7 of those aims. Nine of these are externally focused and four are internal efficiency priorities. These are as follows.

#### **Improving Quality and Sustainability**

- Decrease the tonnage of biodegradable waste and recyclable products going to landfill.
- Increase the use of public and other environmentally friendly modes of transport.
- Improve the actual and perceived condition and appearance of the city's streets, housing estates and publicly accessible spaces.

#### **Creating a Safe City**

- Reduce the actual and perceived impact of violent, aggressive and nuisance behaviour on people in York.

#### **Opportunities for Education, Skills and Learning**

- Increase people's skills and knowledge to improve future employment prospects.

#### **Strengthening and Diversifying York's Economy**

- Improve the contribution that Science City York makes to economic prosperity.

#### **Improving Health and Well Being**

- Improve the health and lifestyles of the people who live in York, in particular among groups whose levels of health are the poorest.

#### **Ensuring Services Are Accessible And Inclusive**

- Improve the life chances of the most disadvantaged and disaffected children, young people and families in the city.
- Improve the quality and availability of decent affordable homes in the city.

### Improving Our Organisational Effectiveness

- 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.
- 9 There are no improvement statements specifically aligned to the corporate aim to 'work with others to develop opportunities for residents and visitors to experience York as a vibrant and eventful city'.

## Audit approach

- 10 This review assessed how the Council is developing its new performance and financial planning arrangements, linked to the new priorities, and the extent to which these have been applied in practice. Two probe areas were used: the previous priority of 'York, the safer city'; and the new improvement statement 'Health and Lifestyle'.
- 11 The report findings and recommendations are based on the three key questions relating to prioritisation contained within the 2005 corporate assessment methodology.
- Are there clear and robust priorities within the ambitions for the area?
  - Is there a robust strategy to deliver the priorities?
  - Is robust action taken to deliver the strategy?

## Main conclusions

- 12 The Council is at an early stage in the process of implementing its new priorities which were formally agreed by the Council in June 2006. It has a significant amount of work to do to ensure that these priorities are embedded within its service and financial planning systems in time for the budget allocation process, which begins in the autumn.

### **Are there clear and robust priorities within the ambitions for the area?**

- 13 The Council's priorities are directly linked to its vision and eight aims, which are also reflected in the community strategy, 'Without Walls'. There is a good balance of national and local priorities; they are based on the identified needs of disadvantaged groups and communities and clearly seek to address inequalities. The four internal improvement priorities are to be integrated with Council's overall organisational improvement programme with the intention of delivering wider corporate improvements and efficiencies.
- 14 The new corporate priorities were developed internally through the Council's Corporate Leadership Group (CLG) of senior officers in consultation with the Leader, using a wide range of available data and local intelligence.
- 15 To date, this has been an internal process but there are emerging plans to integrate the new priorities within the restructured Local Strategic Partnership (LSP) and associated partnership work to deliver Local Area Agreements and Local Public Service Agreements. Some priorities, such as for Safer York are already well established within a partnership framework, but others, such as Health and Lifestyle, are at a very early stage and so there is little evidence to indicate how new priorities relating to this area are being embedded.
- 16 Although the priorities are based on good intelligence, including community input, the Council's corporate strategy does not clearly demonstrate how local people's and partners' views have influenced them. This could result in a lost opportunity to gain ownership and support from local communities and partners.
- 17 The approach to developing the priorities through the CLG has generated a new sense of corporate ownership amongst the Council's senior management and a better understanding of their potential roles in delivering the Council's ambitions.
- 18 There is not yet a clear and agreed strategy for communicating the priorities. Because they have only been recently agreed, the Council is at a very early stage in communicating them internally and to the wider community. The approach used to formalise the arrangements will be critical to their early adoption. A successful launch, with early and consistent messages will help to promote ownership of the priorities and provide a clearer understanding of how individual members of staff and councillors can relate to them.

### **Is there a robust strategy to deliver the priorities?**

- 19 The Council is at an early stage of developing strategies and robust delivery frameworks for the new priorities. It has appointed chief officer 'champions' to lead in each priority area; these offer the potential for greater focus and a higher profile for the priorities within the Council's working. It is intended that the priorities will be cross-cutting rather than owned by individual directorates.

- 20 Each champion is tasked with developing the second and third year detailed project plans for each priority, including expected outcomes and how partners will be involved. These are expected to be completed by September 2006 in time for the next round of service and financial planning. Year One actions have been agreed, based on existing budget allocations.
- 21 However, there are still some significant steps to be taken before the Council has a realistic and robust strategy to deliver against these priorities:
- the Council has a consistently applied service planning framework. However, detailed guidance on incorporating the improvement statements into service plans with sufficient emphasis on user focus has yet to be developed;
  - the Council is committed to developing 'better measures' to drive improvement in services, but the current measures to assess performance against the Year One actions are not sufficiently SMART and staff training to assist with this has not yet happened; and
  - currently, there is a lack of clarity about the way resources will be allocated to priorities and how value for money will be demonstrated. Strategies, such as those for procurement and the medium term financial plan, which was developed at the same time as the new priorities were being decided upon, have yet to be adapted to incorporate the improvement statements.

### **Is robust action taken to deliver the strategy?**

- 22 The Council has not yet developed the mechanisms to help it stay focused on the new priorities. Its performance management framework has not been amended to incorporate the improvement statements and it has not been decided how the Council will report progress against the targeted outcomes for these cross-cutting improvements. However, there are plans to introduce a new structure to officer and council agendas, based on the new priorities; this will help to ensure that councillors focus on every council priority and not just an individual's particular areas of interest.
- 23 The arrangements to promote learning from the Council's own successes and failures are still to be developed. The Council has achieved some significant improvements in its previous Safer York priority, including substantial reductions in burglaries and vandalism. This has been achieved through increased focus and resourcing on problem areas and improved working through the ward committee structure to target issues at a local level. This provides an opportunity to analyse the lessons learned and apply them to future partnership working such as within the Health and Lifestyle agenda.
- 24 There is also insufficient clarity about the way that the work of the champions will be managed and monitored to avoid duplication and achieve greater efficiencies through improved, joined-up working.

- 25 The council is taking some steps to ensure the workforce can focus on the new priorities. It has established a leadership development programme based on key themes, including community leadership, member and officer development and partnership working. However, there is scope to extend the scheme further delivering improved outcomes and efficiencies by stimulating feedback from staff through initiatives such as suggestion schemes.

## **The way forward**

- 26 These findings will be discussed with the senior officers in the CLG and action plan to address the recommendations will be agreed in due course.

## Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
P8 para 21	<p>R1 Strengthen the service planning framework and guidance to include the new priorities, better target-setting and increased user focus. The expected benefits of this recommendation are:</p> <ul style="list-style-type: none"> <li>• better incorporation of the improvement statements into service plans; and</li> <li>• a clearer understanding of what outcomes could be achieved.</li> </ul> <p>The implementation of this recommendation will have high impact with low costs.</p>	3				



Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
P8 para 21	<p>R2 Clarify the way in which resources will be allocated to priorities and reflect this in all relevant plans and strategies. The expected benefits of this recommendation are:</p> <ul style="list-style-type: none"> <li>• better demonstration of value for money;</li> <li>• clearer decision making; and</li> <li>• an improved focus on priority outcomes.</li> </ul> <p>The implementation of this recommendation will have high impact with low costs.</p>	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
P8 para 21	<p>R3 Integrate the improvement statements into the performance management framework. The expected benefits of this recommendation are:</p> <ul style="list-style-type: none"> <li>• improved reporting of progress against targeted outcomes for cross-cutting improvements; and</li> <li>• an improved focus on all new priorities.</li> </ul> <p>The implementation of this recommendation will have high impact with low costs.</p>	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
P8 para 22	<p>R4 Introduce arrangements which promote systematic exchange of information about previous successes and failures in improving outcomes. The expected benefits of this recommendation are:</p> <ul style="list-style-type: none"> <li>• less potential for duplicated effort; and</li> <li>• opportunities to learn from notable practice.</li> </ul> <p>The implementation of this recommendation will have medium impact with low costs.</p>	2				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
P7 para 16	<p>R5 Make the reasons for focusing on the new priorities more explicit in Council communications. The expected benefits of this recommendation are:</p> <ul style="list-style-type: none"> <li>greater ownership of the priorities by the public and by potential partners, based on a better understanding of the way in which they have shaped and can now help to deliver the new priorities.</li> </ul> <p>The implementation of this recommendation will have medium impact with low costs.</p>	2				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
P7 para 16	<p>R6 Develop an internal communications strategy and implement it early. The expected benefits of this recommendation are:</p> <ul style="list-style-type: none"> <li>• that all staff and councillors understand their role in delivering improvements in the new priority areas.</li> </ul> <p>The implementation of this recommendation will have medium impact with low costs.</p>	2				

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**audit  
commission**

4<sup>th</sup> December 2006

Mr David Atkinson  
Chief Executive  
City of York Council  
The Guildhall  
YORK YO1 9QN

Dear David

**York Prioritisation**

Thank you for spending time with us on Wednesday to discuss the draft report on Deciding and Delivering Council Priorities. As we discussed yesterday it is not practical to amend the report to take into account recent progress but we have amended the factual errors.

This letter sets out our views on your progress and your response to our recommendations in the action plan.

We note that:

- You have reviewed your corporate planning framework and CMT have approved in principle the removal of the 8 corporate aims which mirror the community strategy aims. This means service plans should now link to the Council's 13 priorities and the community strategy directly.
- You have now developed a strategy for the internal communication of your new priorities. You held a launch event for the top 200 managers and have included a corporate strategy summary in the November payslips of all staff. After our discussion you agreed there is further work to do to test whether councillors and staff fully understand the new priorities through events similar to "talkabout" which you hold with the public.
- The improvement champions have almost completed their delivery and innovation plans (DIPs). It is now very important the service managers have these available before developing their service plans. Kevin has agreed to ensure the service planning process and timing allows for this.
- We also discussed the medium term financial plan which incorporates neither the old nor the new priorities and that it could not be updated until next year. David has rightly said that this should now take place as soon as possible and has asked Kevin to arrange for this with the director of resources.

In summary, we are pleased to see your progress on the action plan. We have attached the amended report – which takes account of the factual errors in the original draft. We anticipate revisiting this work very briefly next year – probably during late May or early June (dates to be mutually agreed) - to establish how the new priorities are starting to make an impact. We will contact Kevin later this month to discuss possible dates.

Kind regards

Anne Forster  
Howard Nash

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# CYC Response to Recommendations

# Annex C

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
P8 Para 21	<p><b>R1</b> Strengthen the service planning framework and guidance to include the new priorities, better target setting and increased user focus. The expected benefits of this recommendation are:</p> <ul style="list-style-type: none"> <li>• better incorporation of the improvement statements into service plans; and</li> <li>• a clearer understanding of what outcomes could be achieved.</li> </ul> <p>The implementation of this recommendation will have high impact with low costs.</p>	3	Policy & Improvement Team	Through consultation with DMTs	<p>The 2007/08 service planning guidance and templates have been revised to incorporate the new priorities. Service managers are expected to demonstrate what improvement actions and improvements they will deliver in support of our priorities.</p> <p>In addition, a two-stage service planning process has been introduced to allow priority champions and service managers to carry out joint planning in November. The outcomes of these changes will a golden thread between Delivery &amp; Innovation Plans (DIPs) and service plans. This process will be further enhanced in the 08/09 service planning process.</p>	Complete  Ongoing
P8 Para 21	<p><b>R2</b> Clarify the way in which resources will be allocated to priorities and reflect this in all relevant plans and strategies. The expected benefits of this recommendation are:</p> <ul style="list-style-type: none"> <li>• better demonstration of value for money;</li> <li>• clearer decision making and an improved focus on priority outcomes.</li> </ul> <p>The implementation of this recommendation will have high impact with low costs.</p>	3	Head of Finance	<p>As part of budget process</p> <p>As part of updating MTFS</p>	<p>The Council already has long standing arrangements which link budget decisions to priorities and underlying service needs. The CRAM (capital resource allocation model) and ITT Development Plan processes have already been amended to focus on the priorities. Since 2004/05 the revenue budget process has required managers to explicitly identify potential impacts of growth, reprioritisation and savings proposals on the council's priorities - as the new priorities become the key strategic driver this will be reflected in the analysis provided by managers.</p> <p>The Medium Term Financial Strategy for 2007/08 to 2009/10 was developed at a point where the new priorities were still being developed and so it was not possible to reflect them within the strategy. However since it was also clear that the existing policy framework was being replaced this was not included in the MTFF. Following formal adoption by the council the new policy framework will be included within the MTFF from 2008/09 onwards.</p>	<p>Stage 1 complete</p> <p>Stage 2 July 07</p>

# CYC Response to Recommendations

# Annex C

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
P8 Para 21	<p><b>R3</b> Integrate the improvement statements into the performance management framework. The expected benefits of this recommendation are:</p> <ul style="list-style-type: none"> <li>improved reporting of progress against targeted outcomes for cross-cutting improvements; and</li> <li>an improved focus on all new priorities.</li> </ul> <p>The implementation of this recommendation will have high impact with low costs.</p>	3	Policy & Improvement Team	Through consultation with Chief Exec & Leader	<p>The first corporate performance monitor session for 2006/07 included presentation from a number of priority champions. Strategic monitoring and reporting of the priorities will be formalised through Exec/CMT monitoring sessions once Delivery &amp; Innovation Plans (DIPs) have been finalised in early December. DIPs will identify a small number of SMART high level measures to track improvement.</p> <p>In addition, regular champion progress/monitor meetings have been established for all 13 priorities: as well as the four Organisational Effectiveness priorities. These from part of ongoing work to enhance the overall programme management arrangements for both the corporate strategy and the OEP.</p>	<p>Ongoing</p> <p>6 weekly OEP champions meetings: 8 weekly 13 champions meetings</p>
P8 Para 22	<p><b>R4</b> Introduce arrangements which promote systematic exchange of information about previous successes and failures in improving outcomes. The expected benefits of this recommendations are:</p> <ul style="list-style-type: none"> <li>less potential for duplicated effort; and</li> <li>opportunities to learn from notable practice.</li> </ul> <p>The implementation of this recommendation will have medium impact with low costs.</p>	2	Policy & Improvement Team	<p>Chief Executive, all Champions group &amp; OEP champions group</p> <p>OEP planning group (headed by Cex)</p>	<p>The two champions groups (i.e. all 13 champions and the 4 OE champions) have been established to help drive forward delivery of the priorities – and develop/share common approaches. This is complemented by work of the Corporate Leadership Group (CLG) who are taking an active involvement in supporting delivery – and promulgating learning and innovation.</p> <p>Benefits have already accrued from collective learning in preparing and finalising priority specification and DIPs. Further benefits and learning will accrue in the delivery of the priorities – but work needs to be carried out to ensure that this is both systematic and structured.. This will be picked-up as part of further enhancing programme management arrangements.</p>	<p>Ongoing</p> <p>By End Dec 06</p>

# CYC Response to Recommendations

# Annex C

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
P7 Para 16	<p><b>R5</b> Make the reasons for focusing on the new priorities more explicit in Council communications. The expected benefits of this recommendation are:</p> <ul style="list-style-type: none"> <li>greater ownership of the priorities by the public and by potential partners, based on a better understanding of the way in which they have shaped and can now help to deliver the new priorities.</li> </ul> <p>The implementation of this recommendation will have medium impact with low costs.</p>	2	Head of Marketing and Communications, Policy & Improvement Team	CYC leadership champion – as part of delivering this priority	The priorities are now being widely communicated (see comments on R6). The CYC leadership priority includes a number of actions due to be completed before March 2007 which will further help embed the priorities and make clearer the reasons for focusing on them (including clarify impacts on non-priority areas, linking to strategic agendas, wider communication to partners).	To be completed by March 2007
P7 Para 16	<p><b>R6</b> Develop an internal communications strategy and implement it early. The expected benefits of this recommendation are:</p> <ul style="list-style-type: none"> <li>that all staff and councilors understand their role in delivering improvements in the new priority areas.</li> </ul> <p>The implementation of this recommendation will have medium impact with low costs.</p>	2	Head of Marketing and Communications	Chief Executive, OEP champions	<p>(see also R5). An internal communications strategy has been developed and agreed by the Chief Executive/OEP champions.</p> <p>Key parts of the strategy have been delivered including:</p> <ul style="list-style-type: none"> <li>launch to top 200 Managers (10<sup>th</sup> November)</li> <li>communication of priorities to all staff (end November payslips)</li> <li>Further actions are scheduled as part of the strategy</li> </ul>	<p>Complete</p> <p>Complete</p> <p>Ongoing</p>

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**Audit and Governance Committee**

31 January 2007

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

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**2006/07 Statement of Internal Control – Managing the Process**

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**Summary**

- 1 The purpose of this report is to advise Members of the process which is planned to enable publication of the 2006/07 Statement of Internal Control (SIC).

**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 its corporate governance arrangements, particularly those in respect of risk management and internal control. Publication of the SIC enables the Council to formally report on governance related issues identified during the relevant accounting period. The purpose of the SIC is to demonstrate and/or provide;
  - a) openness and accountability to the public;
  - b) assurance to stakeholders;
  - c) a framework for improving the adequacy and effectiveness of corporate governance arrangements;
  - d) evidence for the Comprehensive Performance assessment (CPA).
- 4 CIPFA has previously issued guidance on the process which needs to be followed to prepare the SIC (including the need to establish, maintain and review the systems of internal control). The guidance also prescribes the form and content of the SIC. The Council's 2005/06 SIC fully complied with the CIPFA guidance and the process which was followed resulted in ten significant control issues being identified. Details of these issues, together with the planned remedial actions were included in the action plan which formed part of the SIC. A copy of the final 2005/06 SIC is attached for information (see annex 1).

## 2005/06 Statement of Internal Control

- 5 There is now a well established process to prepare the SIC. For the 2005/06 SIC the process was coordinated by the Officer Governance Group. Each Directorate completed a self assessment of the key controls within their respective areas. Directors 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 was undertaken, and the S151 Officer and Monitoring Officer 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 also gathered and reviewed other documentary evidence to identify possible control weaknesses (for example, internal and external audit reports and other inspection reports).
- 6 The Officer Governance Group evaluated the control issues identified through the review process and considered which should be disclosed as a significant control weakness. A control weakness was considered to be significant where;
  - a) the issue had seriously prejudiced or prevented achievement of a principal Council aim or objective;
  - b) the issue had resulted in a need to seek additional funding to allow it to be resolved, or had resulted in a significant diversion of resources from another aspect of the Council's services;
  - c) the issue had led to a material impact on the Statement of Accounts;
  - d) the Audit and Governance Committee had advised that it should be considered significant for this purpose;
  - e) the Chief Internal Auditor had reported on it as significant in the annual opinion on the Council's internal control environment;
  - f) the issue, or its impact, had attracted significant public interest or had seriously damaged the Council's reputation;
  - g) the issue had resulted in formal action being taken by the S151 Officer and/or the Monitoring Officer.
- 7 The significant issues control issues identified through the process were discussed with the Leader and a copy of the proposed SIC was considered by Corporate Management Team. The draft SIC was also presented to this Committee prior to it being reported to the Executive for their approval and recommendation to Full Council on 29 June 2006 (as part of the report on the 2005/06 Statement of Accounts). The SIC was signed by the Leader and the Chief Executive.

- 8 The Officer Governance Group also agreed to monitor delivery of the action plan and the progress made by each Directorate to rectify control weaknesses, through periodic focused reviews. The results of these reviews would be reported to this Committee as part of the ongoing monitoring reports from OGG, as scheduled in the forward plan.

### **Action Plan Monitoring**

- 9 Internal Audit is currently undertaking a follow up exercise to identify the progress which has been made in addressing the significant control issues identified in the 2005/06 SIC, together with the control weaknesses in each Directorate. The results of the review will be reported to this Committee at the April meeting.

### **Proposed Changes to the Process**

- 10 The process followed for the preparation of the 2005/06 SIC worked well and was considered to be thorough and fully documented by the Audit Commission. It is therefore proposed to follow a broadly similar process this year, subject to the following limited changes;
  - a) Additional time needs to be allowed to incorporate any changes to the draft SIC which are proposed by Members and Corporate Management Team. The period allowed for consulting on the draft SIC, prior to it being reported to this Committee, has therefore been extended (see draft timetable below).
  - b) In previous years, Members have been consulted on the contents of the draft SIC, and in particular the significant control issues identified through the review process. Although Members have been satisfied with this approach there remains the risk that this consultation is too late in the process and that as a consequence specific issues are not fully and properly considered. It is therefore proposed that Members are invited to contribute to the review process itself by identifying control weaknesses and other governance issues for possible inclusion in the SIC. This consultation is planned to take place during early April with the results being reported to this Committee initially at the April meeting. The Officer Governance Group will then evaluate the results as part of the overall review of the control environment.
  - c) As noted above, this is the first year in which progress in delivering the SIC action plan has been monitored. The monitoring arrangements still need to be fully developed but it is already recognised that they could be improved if the proposed actions in the SIC were more explicit and responsibility for specific control issues was assigned to named officers. It is therefore proposed that ownership of any significant control issues identified in 2006/07 will be agreed when the SIC is prepared and the details included in the published SIC. The officers concerned will also be required to prepare more detailed action plans even if the full details are not included in the published version of the SIC.

## Proposed Timetable

11 The following timetable is proposed for the 2006/07 SIC;

Action	Target Completion Date
Deadline for the receipt of control/governance related issues from Members	13/4/07
Deadline for receipt of Directorate key control self assessments and the completion of the Corporate key control self assessment	18/5/07
Deadline for receipt of Directorate Assurance Statements	23/5/07
Deadline for receipt of S151 and Monitoring Officer Disclosure Statements	23/5/07
Completion of evidence gathering (by Internal Audit)	23/5/07
Consideration of identified control weaknesses by OGG, for possible inclusion in the SIC	1/6/07
Deadline for the preparation of the draft SIC and circulation to OGG	1/6/07
Consideration of the draft SIC by CMT	6/6/07*
Completion of the formal consultation on the draft SIC with the Leader and Chief Executive	13/6/07
Final amendments to the SIC to be completed	15/6/07
Audit and Governance Committee	27/6/07*
Executive	TBA
Full Council	TBA
SIC to be signed by the Leader and Chief Executive	TBA

\* dates of meetings to be confirmed.



## Consultation

12 Not relevant for the purpose of the report.

## Options

13 Not relevant for the purpose of the report.

## Analysis

14 Not relevant for the purpose of the report.

## Corporate Priorities

15 This report contributes to the Council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

## Implications

16 The implications are;

- **Financial** – there are no financial implications other than the time required to undertake the review of key controls and prepare the SIC.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there is a legal requirement for the Council to publish a Statement of Internal Control as part of the annual Statement of Accounts.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.
- **Property** - there are no property implications to this report.

## Risk Management Assessment

17 The Council will fail to comply with legislative requirements if it does not publish a Statement of Internal Control with the annual Statement of Accounts. The Council would be criticised by the external auditor if the process followed to prepare the Statement of Control was not sufficiently robust. This in turn would adversely impact on the Council's CPA score for the Use of Resources and therefore its overall CPA score when it is re-assessed.

## Recommendation

18 Members are asked to;

- Consider and agree the proposed process and timetable for the completion of the 2006/07 SIC.

Reason

*To ensure the Council complies with relevant legislation.*

- Note the intention to report on the progress made to address the significant control weaknesses included in the 2005/06 SIC to the next meeting of this Committee.

Reason

*To enable Members to consider the adequacy and effectiveness of the Council's control environment.*

## Contact Details

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Report Approved



Date 18 January  
2007

## Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

## Background Papers

- Accounts and Audit Regulations 2003 (as amended)
- CIPFA guidance

## Annexes

Annex 1 – Copy of the 2005/06 Statement of Internal Control

**City of York Council**

**2005/06 Statement of Internal Control**

<b>STATEMENT ON INTERNAL CONTROL</b>
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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 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.

<b>STATEMENT ON INTERNAL CONTROL</b>
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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.

<b>STATEMENT ON INTERNAL CONTROL</b>
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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 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 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 and contract procedure 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 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.

<b>STATEMENT ON INTERNAL CONTROL</b>
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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 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 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. 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 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 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 co-ordinated and monitored on an ongoing basis by the Officer Governance Group.

<b>STATEMENT ON INTERNAL CONTROL</b>
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**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.

<b>Control Issue</b>	<b>Action Taken or Proposed</b>	<b>Due Date</b>	<b>Source(s)</b>
<b>Risk Management</b>			
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
<b>Competition and Procurement</b>			
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 draft corporate Procurement Strategy is being prepared and will be issued for consultation in summer 2006. Strategic Procurement Plans and practitioner guidance will be developed. A competition policy and strategy is also 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)
<b>Overall Governance Framework</b>			
<p>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 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.</p>	<p>The Officer Governance Group will coordinate the ongoing review of the Council's governance arrangements and the implementation of the detailed governance action plan.</p>	<p>March 2007</p>	<p>Corporate and Directorate Assurance Statements Monitoring Officer Disclosure Statement 2005 Annual Audit and Inspection Letters (External Audit) * Governance Report (External Audit) 2004/05 SIC *</p>
<b>Sickness</b>			
<p>The levels of sickness across the Council remain higher than for comparable local authorities. Sickness monitoring and reporting arrangements also need to be improved.</p>	<p>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.</p> <p>A revised Attendance Management policy was agreed by Personnel Committee in October 2005.</p> <p>Comprehensive workplan for an attendance management strategy was agreed by CMT and Personnel Committee in February 2006.</p> <p>Pilot arrangements in Adult Social Services continued providing improved data and levels of attendance.</p> <p>Further work on improving management information concerning the causes of absence were developed and continue.</p>	<p>September 2006</p> <p>On-going</p> <p>On-going</p>	<p>Corporate and Directorate Assurance Statements Performance and Financial Monitoring Reports *</p>

<b>STATEMENT ON INTERNAL CONTROL</b>
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<b>Control Issue</b>	<b>Action Taken or Proposed</b>	<b>Due Date</b>	<b>Source(s)</b>
<b>Recruitment and Selection Procedures</b>			
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.	Revised recruitment and selection policy, and associated guidelines were approved by the Personnel Committee in October 2005. Workshops with HR staff are currently taking place. The guidelines will be issued to all relevant staff in summer 2006. Briefings for Directorate Management Teams planned for late summer 2006. Attendance by HR staff at shortlisting and interview as necessary.	December 2006	Annual report of the Chief Internal Auditor *
<b>Business Continuity</b>			
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
<b>Action Plan Implementation</b>			
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
<b>Budgetary Control</b>			
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 *

## STATEMENT ON INTERNAL CONTROL

Control Issue	Action Taken or Proposed	Due Date	Source(s)
<b>Health and Safety</b>			
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.	A prioritised corporate workplan has been agreed by the Health and Safety Steering Group.	Ongoing	2004/05 SIC * H&S Prohibition Notice
	Revised corporate policies on Risk Assessment, Lone Workers and Slips, Trips and Falls have been adopted.	May 2006	
	Revised policies on Violence and Aggression, Incident Reporting and Manual Handling are currently the subject of final stage consultation.	July 2006	
	A revised approach to Health and Safety Training has been agreed.	May 2006	
	Training needs relating to lone workers, violence and aggression and manual handling are being assessed by Directorates.	September 2006	
<b>Project Management, Programme Management and Benefit Realisation</b>			
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.	The Council has adopted the Prince II project management methodology and the OGC programme management approach and will apply these to all appropriate activity. Staff leading major projects and programmes will be given formal training in these methodologies. COG will perform a Quality Assurance role for major corporate projects and programmes to ensure the further development of skills and capacity in this area.	March 2007	2004/05 SIC * Corporate risk register *

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 ..... Dated .....  
D. N. Atkinson  
Chief Executive

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

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## **Audit and Governance Committee**

31 January 2007

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

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## **Audit and Fraud Mid-Term Monitor**

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### **Summary**

- 1 This report provides details of the progress made in delivering the internal audit and fraud work plan for 2006/07.

### **Background**

- 2 The work of Internal Audit is governed by the Accounts and Audit Regulations 2003 (as amended) and the CIPFA Code of Practice for Internal Audit in Local Government. In accordance with the Code of Practice, the 2006/07 Audit and Fraud Plan was approved by the Audit and Governance Committee on 6 June 2006. The Plan included a programme of audit reviews and details of planned counter fraud activities. The total number of planned audit days was 1,340. However, there were still insufficient resources in the Audit team to allow all the systems or areas identified through the 5 year Strategic Audit planning process to be audited. As with previous year's Audit Plans, priority was therefore given to 'high' and 'medium' risk areas. The counter fraud activity plan was based on the resources available to the Fraud Team. The total number of days allocated to counter fraud activities in 2006/07 was 1,200.
- 3 In addition to the shortfall between available resources and the Strategic Audit Plan there was also a shortfall of 90 days against the total number of days included in the Audit Plan. It was proposed that this excess would initially be accommodated by variations which might occur during the year. However, it was also recognised that priorities would need to be reviewed during the year if this was not possible or if additional resources were not made available to the Internal Audit team.
- 4 It was also recognised that changes would need to be made to the Audit Plan through the year as a result of new or changed priorities and/or as new risks were identified. Any variations to the Audit Plan would be approved by the AD (Resources) ARM and then reported to the S151 Officer and the Audit and Governance Committee.
- 5 The Counter Fraud Activity Plan included details of;

- planned activities, including fraud detection and investigation;
- fraud awareness and training;
- proactive fraud work;
- joint working with other counter fraud agencies;
- resource allocation.

### **2006/07 Internal Audit Plan – Progress to Date**

- 6 Two of the priorities for the service are to deliver at least 90% of the Audit Plan and to ensure that Internal Audit continues to retain its 'managed audit' status with the Audit Commission. These are the minimum requirements necessary to achieve a good score for internal control as part of the Use of Resources CPA assessment process.
- 7 Internal Audit successfully delivered 91.3% of the 2005/06 Audit Plan (compared to 90% in 2004/05). Whilst only 51% of the 2006/07 Audit Plan has been completed to date it is still anticipated that the 90% target will be achieved this year. This is because the current figures do not take into account a further 25% of audit fieldwork which is either complete or in progress. Details of the audits completed and the reports issued are given in Annex 1.
- 8 As noted in paragraphs 3 and 4 above, it has been necessary to make a number of variations to the Audit Plan to accommodate the shortfall in resources and to take account of changes in priorities. Details of the Audit Plan variations approved by the AD (Resources) ARM to date, are given in Annex 2. These variations take account of the 90 day shortfall in resources.
- 9 One investigation into a suspected financial irregularity within Neighbourhood Services has been completed in the year. In addition, 4 minor thefts and frauds have been investigated. Internal Audit has also undertaken two preliminary investigations following complaints received through the Council's Whistleblowing Policy. Annex 3 provides a summary of the audit findings for all the completed investigations together with details of the recommendations made to address any control weaknesses identified.

### **2006/07 Counter Fraud Activity Plan – Progress to Date**

- 10 Counter fraud work has been undertaken in accordance with the approved Plan. Annex 4 provides a summary of the work completed. The majority of the work undertaken by the Fraud team during the year has continued to relate to the identification and investigation of suspected fraudulent Housing and Council Tax benefit claims. However, the team has also worked closely with Internal Audit on the internal fraud investigation detailed in paragraph 9 above. In addition, a number of other external fraud investigations have been conducted, including the identification of fraudulent blue badge use and Council Tax

single person discounts. Details of the investigations undertaken and, prosecutions and sanctions achieved in the year are given in Annex 5.

- 11 The Fraud team is also currently undertaking work on the Audit Commission's 2006/07 National Fraud Initiative data matching exercise. This is a national exercise which is undertaken every two years and is designed to detect fraud and error, particularly in respect of housing benefits, occupational pensions and student loans. Data from local authorities is matched against data provided by central government, the NHS and a number of participating private sector pension bodies. The data required by the Audit Commission was submitted by the due date of 13 October 2006 and the Fraud team is now waiting to receive details of the resulting data matches. In previous years, many of the initial data matches were found to be caused by erroneous data or simply timing differences between when the relevant datasets were obtained. It is expected that this will be the same this year, particularly as this exercise has included new datasets such as creditors and taxi driver licences. A number of the existing datasets have also been expanded to include new categories of data.

## Consultation

- 12 Not relevant for the purpose of the report.

## Options

- 13 Not relevant for the purpose of the report.

## Analysis

- 14 Not relevant for the purpose of the report.

## Corporate Priorities

- 15 This report contributes to the Council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

## Implications

- 16 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** – the report includes details of prosecutions carried out during the year in accordance with the Council's Fraud and Corruption Prosecution Policy.

- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.
- **Property** - there are no property implications to this report.

### **Risk Management Assessment**

- 17 The Council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if the results of audit work are not reported to those charged with governance. This in turn would adversely impact on the Council's CPA score for the Use of Resources and therefore its overall CPA score when it is re-assessed.

### **Recommendation**

- 18 Members are asked to;

- Note the results of the audit and fraud work undertaken to date in 2006/07.

Reason

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

- Note the variations to the 2006/07 Audit Plan, approved to date by the AD (Resources) ARM.

Reason

*To enable Members to consider the delivery of the Internal Audit Plan.*



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Assistant Director (Audit and Risk Management)  
Telephone: 01904 551706

**Report Approved**



**Date**

18  
2007

January

**Specialist Implications Officers**

Not applicable

**Wards Affected:** Not applicable

All



**For further information please contact the author of the report**

**Background Papers**

- 2006/07 Internal Audit Plan
- 2006/07 Counter Fraud Activity Plan

**Annexes**

Annex 1 – Audits Completed and Reports Issued  
Annex 2 – Variations to the Audit Plan  
Annex 3 – Investigations into suspected fraud and corruption  
Annex 4 – Counter Fraud Activity  
Annex 5 – Investigations, Prosecutions and Sanctions (Housing and Council Tax Benefits)

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## Annex 1

### 2006/07 Audits Completed and Reports Issued

#### Systems/establishment audits

An overall opinion is given following each audit review. The opinion is based on the following five categories;

<b>Opinion</b>	<b>Assessment of internal control</b>
“High standard”	Few or no weaknesses
“Good”	Some weaknesses, but mostly insignificant
“Acceptable”	A number of weaknesses but mostly insignificant
“Weak”	A number of weaknesses, mostly significant
“Not acceptable”	Major control weaknesses

Recommendations are made where weaknesses in control are identified. The recommendations are prioritised using the following categories;

#### **Definition of Priority**

- |          |  |
|----------|--|
| 1 (High) | Action considered necessary to ensure that the Council is not exposed to high or catastrophic risks. For example significant financial loss, death or injury of Council staff or customers, damage to reputation, disruption to a service or continuity of operations. |
|----------|--|

Actions may be considered a high priority if the impact of a potential risk is high, even though its likelihood may be low.

Recommendations that address breaches of legislation or Council policies and procedures may also be rated as a high priority.

2 (Medium) Action considered necessary to avoid exposure or reduce exposure to significant risks. For example financial or other loss.

This will include areas where there are no controls to mitigate significant risks or where amendments are required to ensure that controls are effective and mitigate the risks to an acceptable level.

3 (Low) Action considered necessary to improve controls that are already in place and reasonably effective, although further improvements are required in order to mitigate risks to an acceptable level.

Recommendations that may result in efficiencies or better value for money will also be included in this category.

25 draft reports have been issued and are currently with management for consideration and comments. These reports are categorised as follows;

<b>Opinion</b>	<b>Number</b>
“High standard”	10
“Good”	4
“Acceptable”	3
“Weak”	3
“Not acceptable”	0
“Not given”	5

17 reports have been finalised. In all cases the recommendations made have been accepted by management, and will be subject to follow up by Internal Audit. Details of the finalised reports are summarised below;

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
Best Value Performance Indicators / Public Service Agreements	11/9/06	Not given	6	0	The review was undertaken in conjunction with the Audit Commission. 21 BVPI and local indicators were tested by Internal Audit. One of these indicators was found to be based on inaccurate data. Recommendations were made to improve the quality of data input for this indicator in the future.
City Mills Sheltered Housing Scheme	13/12/06	Good	2	0	No significant weaknesses identified.
Honeysuckle House Sheltered Housing Scheme	22/12/06	Good	4	0	No significant weaknesses identified.
Fordlands Road Elderly Persons Home	8/1/07	Acceptable	5	0	There was insufficient segregation of duties when handling residents' money. Controls over the use of the amenity fund also needed to be improved.

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
Haxby Hall Elderly Persons Home	5/1/07	Good	3	0	No significant weaknesses identified.
Willow House Elderly Persons Home	13/12/06	Acceptable	6	0	Controls over income receipting and budget monitoring needed to be improved.
Delwood Sheltered Housing Scheme	13/12/06	Good	3	0	No significant weaknesses identified.
Glen Lodge Extra Care Housing Scheme	22/12/06	Good	6	0	The reconciliation of income and controls in respect of budget monitoring needed to be improved.
Supporting People	13/11/06	Acceptable	5	2	Improved controls needed to ensure the accuracy of contract payments. A strategy was also required for underperforming services.
Local Land Charges	27/10/06	High Standard	0	0	No significant weaknesses identified.
Private Finance Initiative (PFI)	8/1/06	High Standard	2	0	No significant weaknesses identified.
Scarcroft Primary	12/9/06	Good	3	0	The school fund needed to be registered

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
School					with the Charity Commission and the recording of school fund income needed to be improved.
St Paul's CE Primary School	19/12/06	High Standard	4	0	A register of gifts and hospitality needed to be introduced and the school fund needed to be registered with the Charity Commission.
Licensing	2/8/06	Good	6	0	Controls over the recording and reconciliation of income needed to be improved. The planning of enforcement activity needed to be changed so that resources were targeted to areas of greatest risk.
Registrars	9/1/07	High Standard	0	0	No significant weaknesses identified.
Breaches and Waivers	4/10/06	Not given	N/A	N/A	A review of non compliance with Financial Regulations and EU Procurement legislation. A copy of the report was presented to A&G on 4 October 2006.
Follow up report on the	4/10/06	Not given	N/A	N/A	A review of the progress made by

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
implementation of Internal Audit recommendations.					management to implement previously agreed audit recommendations. A copy of the report was presented to A&G on 4 October 2006.

#### Other Work Completed

- Statement of Internal Control for 2005/06, prepared and published as part of the annual Statement of Accounts
- Report of the Chief Internal Auditor for 2005/06, prepared and presented to A&G on 6 June 2006.
- Data collected and submitted to the Audit Commission as part of the NFI exercise
- Support and advice to Neighbourhood Services regarding the move to the new depot.
- Report prepared for A&G detailing their role in monitoring the implementation of the new Fraud and Corruption Prosecution Policy (presented to A&G on 4/10/06)
- The development of appropriate procedures (in conjunction with staff from Learning, Culture and Children's Services) to enable the introduction of the Financial Management Standard in Schools
- 4 audits undertaken on behalf of the Learning and Skills Council (LSC) – chargeable work
- DTI grant claim audited – chargeable work
- 1 school fund audit completed – chargeable work



## **Annex 2**

### **Variations to the Audit Plan**

Additions to the Plan are considered where;

- Specific requests are received from the S151 Officer which are necessary for him to discharge his statutory responsibilities.
- New or previously unidentified risks result in changes to the Strategic Audit Plan priorities
- Significant changes in legislation, systems or service delivery arrangements occur which have an impact on audit priorities
- Requests are received from customers to audit specific services, systems or activities usually as a result of weaknesses in controls or processes being identified by management
- Urgent or otherwise unplanned work arises as a result of investigations into fraud and other wrongdoing identifying potential control risks

Additions to the Audit Plan are only be made if the proposed work is considered to be of a higher priority than work already planned, the change can be accommodated within the existing resource constraints and the change has been reviewed and approved by the AD (Resources) Audit and Risk Management.

Audits are deleted from the Plan or delayed until later years where;

- specific requests are received from the S151 Officer or the audit customer and the grounds for such a request are considered to be reasonable
- the initial reason for inclusion in the Audit Plan no longer exists.

All additions and deletions are reviewed and approved by the AD (Resources) ARM who then reports all variations to the S151 Officer and the Audit & Governance Committee for information.

## 2006/07 Audit Plan Variations

The following variations to the Plan have been approved by AD (Resources) ARM in 2006/07;

Audit	Days	Justification For Change
<u>Additional Work</u>		
Supporting People – Follow Up review	+ 10 days	Additional work required to review controls following the 2005/06 audit.
Petty cash and cash advances	+ 20 days	A review was required of the controls and procedures for administering petty cash throughout the Council due to concerns raised during an investigation into a cash discrepancy. The systems for paying cash advances through Cashiers also required review following the identification of weaknesses in control.
Money Laundering Procedures	+ 10 days	Work required to strengthen the Council's counter fraud arrangements in this area.
Reporting to Audit & Governance Committee	+ 10 days	Provision to prepare reports for A&G Committee and attend meetings
Oaklands Sports Centre	+ 8 days	Provision to review the controls associated with the new computerised invoicing system introduced as part of the extended school arrangements.
Financial Management Standard in Schools	+ 20 days	Provision required to develop appropriate audit systems/processes for implementing the FMSiS and presenting proposals to the Schools Forum. Provision also to undertake risk

		assessment and report findings to OGG.
External Audit liaison	+ 4 days	Provision for regular liaison and information sharing with the Audit Commission
Total additional work	+ 82 days	

<b>Audit</b>	<b>Days</b>	<b>Justification For Change</b>
<u>Deletions from the Audit Plan</u>		
Contingency Audits	- 60 days	To resource additional work (see above). Balance remaining – 30 days.
Neighbourhood Services – Finance and Administration	- 25 days	Request received for the audit to be deferred for 6 months following the appointment of a new finance manager.
City Strategy – York Training Centre	- 18 days	Audit to be deferred for 6 months due to service manager being sick and recent appointment of new AD.
Merge Sure Start and Children’s Services Administrative Sites	- 7 days	Potential overlap of audit work following the opening of Hob Moor, Clifton Green and Westfield Family Centres
LC&CS Capital Programme	- 20 days	To defer to 2006/07, in order to balance the Audit Plan to available resources. This area was audited in 2005/06 and no significant control weaknesses were identified.

<b>Audit</b>	<b>Days</b>	<b>Justification For Change</b>
HASS Capital Programme	- 8 days	To defer to 2006/07, in order to balance the Audit Plan to available resources. This area was audited in 2005/06 and no significant control weaknesses were identified.
City Strategy Capital Programme	- 20 days	To defer to 2006/07, in order to balance the Audit Plan to available resources. This area was audited in 2005/06 and no significant control weaknesses were identified.
Fraud Investigations	-14 days	Reduce contingency in order to balance the Audit Plan to available resources.
Total deletions	- 172 days	

### Annex 3

#### Completed Investigations into suspected financial irregularities

Nature of Investigation	Findings and Conclusions
Financial irregularities at an establishment	Although the investigation by Internal Audit is complete, the case is currently subject to internal disciplinary proceedings.

#### Preliminary Investigations undertaken in accordance with the Whistleblowing Policy

Nature of Complaint	Findings and Conclusions
Decision made on the basis of insufficient information	Preliminary enquiries concluded that there was sufficient information to justify a full investigation. The Audit Commission has subsequently instigated a full investigation into this issue, which is currently ongoing.
Possible collusion in the award of contracts	Preliminary enquires concluded that there was no evidence of collusion, however there were concerns regarding procedural issues related to the contract award which justified further work. This review is currently ongoing.

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**Annex 4  
Counter Fraud Activity**

<b>Activity</b>	<b>Work Completed or in Progress</b>
Training	The source and type of fraud referrals received has continued to be monitored through the year. This has influenced the fraud awareness training delivered to Benefits and Housing staff, including new starters. A new desktop e-learning training programme has also been made available to all staff in Revenues, Benefits and ARM. The programme was originally developed by the DWP and covers fraud related issues but has been tailored to meet the Council's specific training needs. The programme is designed to be user friendly and takes approximately 30 minutes to complete. To date 65 staff have completed the course. The programme will now be made available to other relevant staff groups in the Council.
Public and Internal Fraud Awareness	A programme of staff and public awareness was delivered in March 2006. The programme included a series of radio and press advertisements and articles, together with publicity for the new facility to report fraud by e-mail. In conjunction with this a programme of fraud awareness measures within the Council was delivered. The programme included articles in staff newsletters and publications and greater web-site presence. The campaign generated a 56% increase in fraud referrals from the public during the following 3 months. A similar staff and public awareness campaign is planned for March 2007. A facility to receive referrals by SMS text message is also being considered.
Advice and Guidance	Advice and guidance has been provided on the design and implementation of measures to prevent and detect fraud and other financial irregularities. Examples include changes to the design of benefit claim forms and the implementation of security measures in Council establishments and offices. Feedback is now given to relevant staff on all cases investigated. This feedback is intended to encourage more referrals but, where necessary, will include recommendations to change or improve systems and procedures so as to prevent or detect fraud

	in the future. Procedures are also being developed to strengthen the arrangements across the Council to prevent and detect money laundering.
Data Matching	Work during the year has been concentrated on coordinating the collection and despatch of data for the Audit Commission's National Fraud Initiative. The results from this exercise are expected to be received in early February 2007, and preparations are ongoing to enable the different matches to be investigated. In addition, the Fraud team has continued to investigate potential benefit fraud cases identified each month by the DWP through the HBMS data match process. An exercise has also commenced, using data interrogation software, to identify potential high risk groups of benefit claimants so as to inform the future work of both the Fraud and Interventions teams.
Targeted Visits	Unannounced visits have continued to be undertaken, targeting specific properties and claimants suspected of committing residency related fraud.
Joint Working with Other Agencies	The Fraud Partnership Agreement (FPA) with the DWP which encourages and facilitates joint working on relevant cases is now fully operational and is proving to be very successful. Both agencies are cooperating on individual investigations and sharing information to identify further possible fraud. Where appropriate the Fraud team has also continued taken part in specific joint exercises with other agencies. For example, the Fraud team recently took part in a joint exercise with the DWP, police and trading standards to identify counterfeit traders at a car boot sale.
Other	The Council's Fraud and Prosecution Policy has been reviewed and a revised Policy was approved at Corporate Services EMAP on 12 September 2006. The new Policy became effective from 1 October 2006.



## Annex 5

### Investigations, Prosecutions and Sanctions (Housing and Council Tax Benefits)

778 fraud referrals have been received in the first 9 months of the year, of which 425 have been accepted for investigation (54.6%) (840 referrals were received in total during 2005/06, of which 393 were accepted for investigation). The following table summarises performance to date;

	<b>2006/07 Actual (to 31/12/06)</b>	<b>2006/07 Target</b>	<b>2005/06 Actual</b>
Number of fraud investigations completed	363	520	509
Prosecutions	16	22	35
Administrative Penalties	13	18	11
Cautions	10	18	19

In addition to the above cases, an investigation into the fraudulent use of a blue badge resulted in the police giving an offender a caution.

The number of sanctions achieved (cautions and administrative penalties) is on course to exceed the total achieved in 2005/06. However, the number of prosecutions achieved to date is lower than in 2006/07. Although this is in part due to the Council adopting a new Prosecution Policy from 1 October 2006, the main difference has been caused by a large backlog of prosecution cases at the DWP (for cases arising from joint investigations).

Performance of the fraud team is also measured and reported through three statutory Best Value Performance Indicators. The projected outturn for 2006/07 (based on the performance of the team to 31 December 2006) is as follows;

	<b>2006/07 Projected</b>	<b>2006/07 Target</b>	<b>2005/06 Actual</b>	<b>Comments</b>
BVPI 76b – Number of investigators per 1000 caseload	0.51	0.51	0.51	This is expected to remain unchanged as there are no plans to change the overall fraud team establishment.
BVPI 76c – Number of investigations completed per 1000 caseload	41.2	44	43.33	The number of referrals received each month has increased compared to 2005/06. The number of cases accepted for investigation has also increased significantly compared to last year. This trend is causing pressures on the team and a backlog of work. As a result, the average case load has increased from 43 to 53 per investigator in the first 9 months of the year. The existing case load is currently being reviewed with a view to prioritising those cases most likely to result in a positive outcome. It is expected that the number of cases completed will therefore reach the target.

	<b>2006/07 Projected</b>	<b>2006/07 Target</b>	<b>2005/06 Actual</b>	<b>Comments</b>
BVPI 76d – Number of sanctions/prosecutions per 1000 caseload	4.43	4.9	5.53	As noted above, the existing case load is currently being reviewed and as a consequence the number of sanctions/prosecutions is expected to reach the target.

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## **Audit and Governance Committee**

31 January 2007

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

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## **Privacy and Confidentiality Policy**

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### **Summary**

- 1 The purpose of the report is to allow Members to consider adopting a privacy and confidentiality policy, which would cover;
  - a) the receipt of reports relating to specific audit matters;
  - b) periodic informal discussions with the external auditor and the Chief Internal Auditor.

### **Background**

- 2 To improve transparency, Part 5A of the Local Government Act 1972 provides for public access to the meetings and related reports of Councils, and their committees and sub-committees.
- 3 The legislation however permits Members, by resolution, to exclude the public from meetings for the consideration of items containing exempt information. The categories of information exempt from disclosure are listed in Schedule 12A of the LGA 1972, as amended by the Local Government (Access to Information) Variation Order 2006. The following provides a summary of the different categories of exempt information;
  - a) information relating to an individual;
  - b) information which is likely to reveal the identity of an individual;
  - c) information relating to the financial or business affairs of any particular person;
  - d) information relating to any consultations or negotiations associated with labour relations;
  - e) information subject to legal professional privilege;
  - f) information regarding the proposed making of orders or directions or the serving of notices;

- g) any action taken or proposed in connection with the prevention, investigation or prosecution of crime.
- 4 CIPFA has issued guidance on the role and functioning of Audit Committees within local authorities. To maximise their effectiveness, CIPFA advise that Audit Committees should periodically hold private discussions with both the external auditor and the Chief Internal Auditor. This arrangement allows Committee members to listen to the views of the auditors independently of senior management, with whom the auditors must retain an ongoing working relationship. Such discussions can cover a number of subject areas, including;
- a) the degree of cooperation being received by the auditors;
  - b) any limitations placed on the scope of internal audit activities;
  - c) the extent of any significant disagreements with senior management, and the way in which these have been resolved;
  - d) the auditors' view of their relationship with management;
  - e) any other control issues or matters which the auditors consider should be brought to the attention of the Audit Committee, without management being in attendance.

### **Privacy and Confidentiality Policy**

- 5 There is a strong public interest in showing how public funds have been spent, that assets have been safeguarded and that the Council has obtained value for money and minimised waste. There is also a public interest in demonstrating that Members and officers have acted in accordance with the highest standards of probity and propriety. The presumption should therefore be to publish as much information as necessary to satisfy these requirements. However, given the nature of audit activity there will be certain information which it would not be in the public interest to disclose. The majority of audit reports presented to this Committee are unlikely to contain such information. The exceptions are likely to be those reports which;
- a) Relate to the investigation of actual or suspected fraud, corruption or other irregularities, and which name individuals who are the subject of ongoing internal disciplinary proceedings and/or prosecution;
  - b) Contain commercially confidential information such as the value of tenders or quotations received in respect of current procurement activities.

In both cases, this type of information would in any case be classed as exempt under Schedule 12A of the LGA 1972, as amended, and would not need to be disclosed.

- 6 It is therefore proposed that a policy of full disclosure is adopted, except where audit reports contain exempt information. In such cases every effort will be made to disclose as much information as is possible, providing that it is considered to be in the public interest.
- 7 In both the private and public sectors it is regarded as beneficial for Audit Committees to hold periodic private discussions with their respective internal and external auditors. Such meetings enable issues relating to the governance of the organisation to be discussed freely and independently of management. It is therefore proposed to adopt the guidance from CIPFA and to hold informal private meetings between the Members of this Committee and the Chief Internal Auditor and/or the external auditor. It is suggested that these meetings take place quarterly and immediately prior to the formal public meetings. To encourage open debate and the full disclosure of relevant information any notes which are kept of these meetings will be treated as confidential.

### **Consultation**

- 8 The Head of Legal and Democratic Services has been consulted on the proposals detailed in this report.

### **Options**

- 9 Not relevant for the purpose of the report.

### **Analysis**

- 10 Not relevant for the purpose of the report.

### **Corporate Priorities**

- 11 This report contributes to the Council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

### **Implications**

- 12 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 is a need to comply with relevant legislation regarding the disclosure of information to the public.
  - **Crime and Disorder** – there are no crime and disorder implications to this report.

- **Information Technology (IT)** - there are no IT implications to this report.
- **Property** - there are no property implications to this report.

### **Risk Management Assessment**

- 13 Without an appropriate privacy and confidentiality policy the Council may not be able to adequately fulfil its responsibility to demonstrate openness and accountability in respect of its governance arrangements. The effectiveness of audit activities within the Council may also be reduced if the auditors are constrained in their ability to discuss relevant matters with Members.

### **Recommendation**

- 14 Members are asked to;

- Consider the proposed privacy and confidentiality policy as set out in this report.

Reason

*To ensure the Council provides for openness and transparency in audit and governance related matters.*

- Agree to holding private informal meetings with the external auditor and the Chief Internal Auditor.

Reason

*To enable Members of the Committee to be made aware of issues arising from the work of internal and external audit.*



**Contact Details**

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**Report Approved**



**Date** 17 January  
2007

**Specialist Implications Officers**

Not applicable

**Wards Affected:** Not applicable

**All**



**For further information please contact the author of the report**

**Background Papers**

CIPFA guidance for Local Authorities on Audit Committees

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