

**City of York Council**  
**2005/06 Statement of Internal Control**

## STATEMENT ON INTERNAL CONTROL

### 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.

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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.

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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.

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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.

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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.

Control Issue	Action Taken or Proposed	Due Date	Source(s)
<b>Risk Management</b>			
<p>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.</p>	<p>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.</p>	<p>March 2007</p>	<p>2004/05 SIC * Annual report of the Chief Internal Auditor * Corporate and Directorate Assurance Statements Audit Commission – CPA 'Use of Resources' assessment</p>
<b>Competition and Procurement</b>			
<p>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.</p>	<p>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.</p>	<p>December 2006</p>	<p>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)</p>

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<b>Control Issue</b>	<b>Action Taken or Proposed</b>	<b>Due Date</b>	<b>Source(s)</b>
<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>

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Control Issue	Action Taken or Proposed	Due Date	Source(s)
<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 *



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<b>Control Issue</b>	<b>Action Taken or Proposed</b>	<b>Due Date</b>	<b>Source(s)</b>
<b>Health and Safety</b>			
<p>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.</p>	<p>A prioritised corporate workplan has been agreed by the Health and Safety Steering Group.</p>	Ongoing	<p>2004/05 SIC * H&amp;S Prohibition Notice</p>
	<p>Revised corporate policies on Risk Assessment, Lone Workers and Slips, Trips and Falls have been adopted.</p>	May 2006	
	<p>Revised policies on Violence and Aggression, Incident Reporting and Manual Handling are currently the subject of final stage consultation.</p>	July 2006	
	<p>A revised approach to Health and Safety Training has been agreed.</p>	May 2006	
	<p>Training needs relating to lone workers, violence and aggression and manual handling are being assessed by Directorates.</p>	September 2006	
<b>Project Management, Programme Management and Benefit Realisation</b>			
<p>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.</p>	<p>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.</p>	March 2007	<p>2004/05 SIC * Corporate risk register *</p>

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