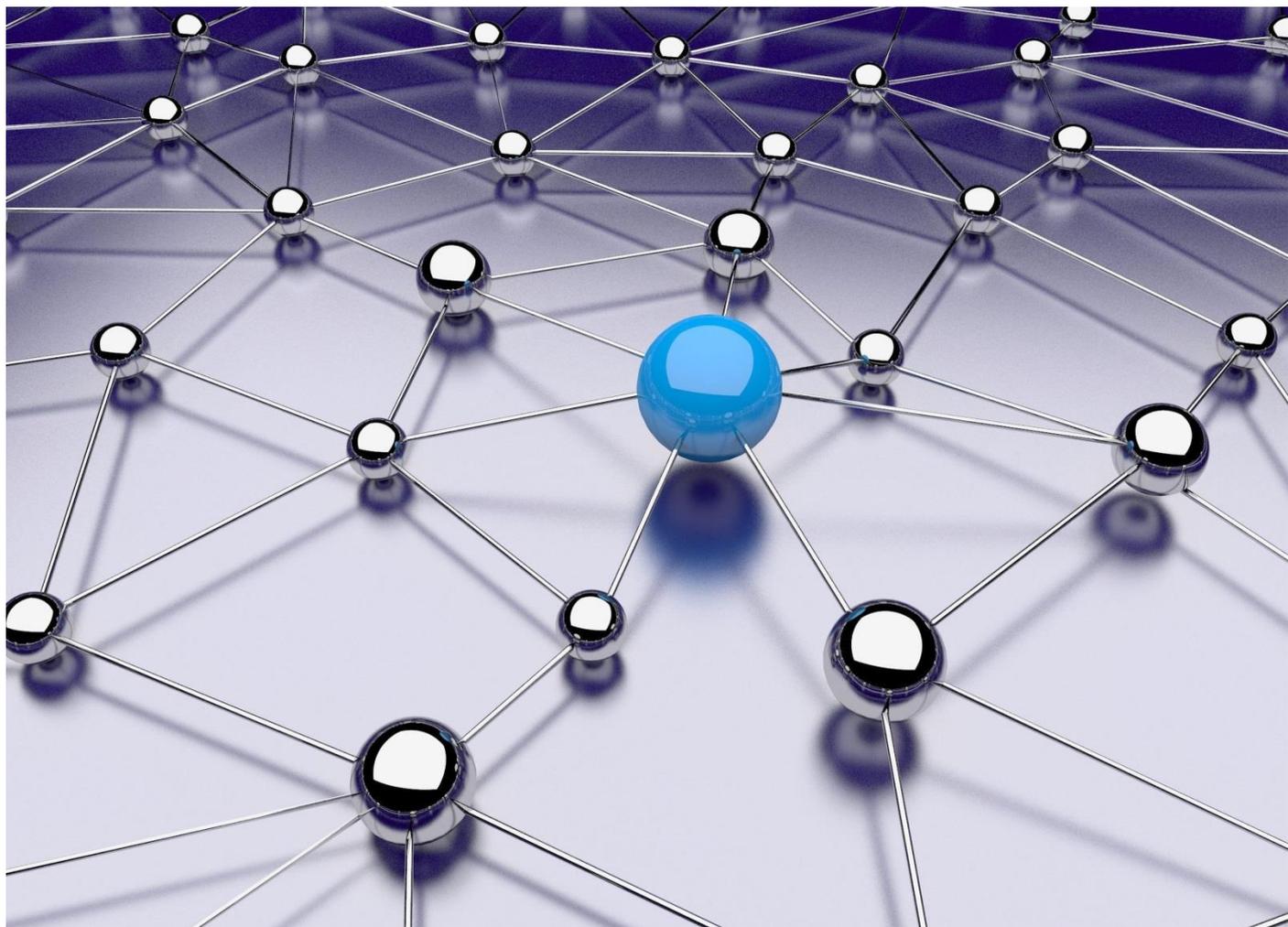


City of York Council Audit Progress Report

July 2016



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Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to City of York Council, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.

01 Introduction

The purpose of this report is to update the Audit and Governance Committee of City of York Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

02 Summary of audit progress

2015/16 update

It is only a few weeks since the Committee's last meeting in June, so our update is brief.

The main change since the last meeting is that the Council has published its unaudited financial statements on its website and initiated the public inspection period which runs from 1 July to 11 August 2016.

Our audit work on the financial statements will continue through July and August with planned completion in September 2016. Our VFM work will also be undertaken over the summer, including the additional VFM work described in detail in last month's Audit Progress Report.

We will report our findings on the audit of the financial statements and the VFM conclusion in our Audit Completion Report which we will present to the next meeting of the Audit and Governance Committee on 28 September 2016.

Management processes and oversight by those charged with governance

We have a good understanding of your governance arrangements but each year we write to you to formally update our understanding in accordance with auditing standards. Our request focuses on your arrangements to prevent and detect fraud and corruption, maintain effective internal controls and comply with law and regulations. We also seek information on your arrangements for identifying related parties.

The attached letters have been prepared from the Director of Customer and Business Support Services (on behalf of management) and the Chair of the Audit and Governance Committee (on behalf of those charged with governance) – see Appendices 1 and 2.

We will consider these responses further as part of our audit work.

North Yorkshire Governance Forum

Our second North Yorkshire Governance Forum, for Members and officers to share knowledge and discuss topical governance issues, was on Friday 8 July. Topics discussed included commercialisation, alternative models of service delivery and local authority trading companies, and an update on police and fire issues. We hope this forum continues to develop and is a useful resource for Members. The next meeting will be in January 2017.

03 National publications and other updates

This section contains updates on the following:

	National publications and other updates
1.	Brexit, Mazars
2.	Consultation on changes to governance arrangements for local authority lending, HM Treasury, May 2016
3.	Whole of Government Accounts, HM Treasury, May 2016
4.	Delivering Good Governance in Local Government, CIPFA, April 2016

1. Brexit, Mazars

The UK has voted to leave the EU, which will have significant implications for businesses and individuals. The exact consequences for future policy and regulation remain unknown. It will take time to fully understand the implications of the vote, and it is important to note that Article 50 of the Lisbon treaty provides for two years, from the date the UK Government gives notice to the Council of Europe, to negotiate and agree exit terms.

We remain committed to partnering with our clients and our people during this period of volatility and uncertainty, supporting them as the implications of the vote become clear and helping them work through any necessary changes.

Based on our discussions with clients to date, there is obviously concern over the implications for local government bodies ranging from the impact on EU Funding (eg. grants) to the impact on local businesses and the economy.

<http://www.mazars.co.uk/Home/News/Brexit-The-implications>

2. Consultation on changes to governance arrangements for local authority lending, HM Treasury, May 2016

HM Treasury is consulting on proposed changes to the governance arrangements for local authority lending, which include the abolition of the PWLB and transfer of its lending functions to another body using powers set out in the Public Bodies Act 2011. The text states that the proposals only affect the governance arrangements and do not change any of the policy or operational aspects of lending to local authorities. The consultation ends on 3 August 2016.

<https://www.gov.uk/government/consultations/transfer-of-functions-from-the-public-works-loan-board-new-governance-arrangements>

3. Whole of Government Accounts, HM Treasury, May 2016

The Whole of Government Accounts (WGA) are the consolidated financial statements for the whole of the UK public sector, showing what the UK Government spends and receives, and what it owns and owes. WGA can help Parliament hold the Treasury, as the government ministry with overall responsibility for public spending, to account. It gives Parliament and the public additional information, all in one place, on the Government's overall financial position.

The report by the National Audit Office includes a 'snapshot of UK finances' which Members may find of interest. Some key points are set out below.

- The deficit (the difference between what the Government receives and what it spends) was £152.0 billion. In 2013-14 it was £145.7 billion.
- In 2014-15, the public sector (including local government) had assets of £1.455 trillion (i.e. £1,455,300,000,000).
- In 2013-14, the public sector liability was £3.558 trillion. Taking into account its assets of £1.455 trillion, the net liability was £2.103 trillion.

The audit opinion was qualified in respect of a number of areas, including significant bodies not being included in the consolidated accounts (e.g. Royal Bank of Scotland) and the valuation of infrastructure assets such as the local authority road network and the rail network is yet to be aligned with the rest of the Government's assets.

The WGA helps to manage the longer-term risks to the government's assets and liabilities that do not feature as prominently in the other management frameworks that instead focus on government spending, cash requirements or an individual, rather than portfolio level view of financial assets and liabilities. While the information in the WGA is incomplete in this regard, as demonstrated by the qualifications of the Comptroller and Auditor General's audit opinion; the WGA is the most comprehensive record of what the government spends, receives, owns, owes and is committed to spending.

<https://www.nao.org.uk/highlights/whole-of-government-accounts/>

4. Delivering Good Governance in Local Government, CIPFA, April 2016

This publication positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures. Outcomes are what give the role of local government its meaning and importance, and it is fitting that they have this central role in the sector's governance.

The focus on sustainability and the links between governance and public financial management are crucial – local authorities must recognise the need to focus on the long term. They have responsibilities to more than their current electors; they must take account of the impact of current decisions and actions on future generations.

To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub principles contained in this Framework. It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out. Whatever form of arrangements are in place, authorities should test their governance structures and partnerships against the Framework's principles.

Local authorities are required to prepare a governance statement in order to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.

The preparation and publication of an Annual Governance Statement in accordance with the Framework fulfils the statutory requirement in England, Scotland, Northern Ireland and Wales for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts.

This edition of the Framework applies to annual governance statements prepared for the financial year 2016/17 onwards. Guidance notes are also available; these are intended to assist local authorities and associated organisations and systems – combined authorities, joint boards, partnerships and other vehicles established through which authorities now work – in reviewing the effectiveness of their own governance arrangements by reference to best practice and using self-assessment.

<http://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-guidance-notes-for-english-authorities-2016-edition>

04 Contact details

Please let us know if you would like further information on any items in this report.

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Appendix 1

Management arrangements letter from the Director of Customer and Business Support Services



30 JUN 2016

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16 June 2016

Dear Gavin

Management processes and arrangements

Further to your letter of 27 May 2016, please find the council's response to your questions, below.

1) Management processes in relation to fraud and error

Management discharges its responsibilities through systems of internal control. These controls are designed, amongst other things, to prevent any material mis-statement in the financial statements and to ensure that appropriate action is taken in the event of actual or suspected fraud occurring. The system of control and specific activities include:

- a corporate framework of standards, regulations, and rules for example the council's Constitution, Schemes of Delegation, and Finance and Contract Procedure Rules
- Codes of Conduct for members and officers
- Counter fraud and related policies which clearly outline to staff the council's commitment to the elimination of fraud and the steps that they should take in the event of fraud being suspected
- Register of members' interests, gifts and hospitality
- Register of officers' interests, gifts and hospitality.
- comprehensive budgetary control systems and regular budget and performance reporting arrangements

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- analytical review of the financial statements themselves
- administrative procedures (including the segregation of duties) and management supervision
- commissioning internal audit services from Veritau, this work includes reporting on the council's systems for financial accounting and financial management as part of its annual risk based internal audit plan.
- the provision of dedicated counter fraud services by Veritau who undertake proactive work to identify possible fraud and investigate all suspected cases of fraud which are identified (in accordance with an annual counter fraud plan).
- participation in the Audit Commission's National Fraud Initiative and investigation of potential benefit fraud cases identified by the Department for Work and Pensions (DWP)
- joint working protocols and arrangements with the DWP and the police to support the investigation of suspected fraud
- the provision of fraud awareness training for all relevant staff
- staff induction processes
- fraud awareness measures for example articles in staff newsletters and on the intranet
- publication of successful prosecutions through the local press
- provision of advice and guidance to managers to assist them in the prevention and detection of possible fraud.

The council's counter fraud policies and annual counter fraud plan cover the following main areas:

- creation of a council wide anti-fraud culture
- arrangements to deter and prevent fraud
- measures taken to detect fraud
- investigation of suspected cases of fraud
- application of appropriate sanctions and the recovery of losses due to fraud.

Details of the counter fraud work undertaken by Veritau during the year, and the outcome of investigations into suspected fraud have been reported to the Audit and Governance Committee. Regular reports to the

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Committee on other counter fraud activities have also been made during the year.

2) Compliance with laws and regulations

The Monitoring Officer has a specific responsibility to ensure that the council operates lawfully. The council also has comprehensive arrangements in place to ensure that risks are managed and all relevant laws and regulations have been complied with.

The council has developed and implemented a system of assurances based on:

- objective setting – whereby the council's strategic objectives are identified and assigned to individual directors or assistant directors
- risk assessment – whereby each director or assistant director identifies and prioritises the risks related to achieving those strategic objectives
- a Local Code of Corporate Governance – which is consistent with the principles of the CIPFA/SOLACE "Delivering Good Governance in Local Government" Framework and the council's business model
- Annual Governance Statement – which sets out the council's governance framework. The key elements of the governance framework consists of strategic planning processes, political and managerial structures and processes, management and decision making processes, policies and guidance, financial management, compliance arrangements, risk management, internal audit, counter fraud activities, performance management, consultation and communication methods and partnership working arrangements. A review of the governance framework is undertaken as part of the process to prepare the Annual Governance Statement. All significant governance issues are highlighted in the published Annual Governance Statement.

The council's Executive is responsible for decision making within the policy and budget framework set by full Council. The corporate management team (CMT) has responsibility for implementing council policies and decisions, providing advice to members and for co-ordinating the use of resources and the work of the council's directorates. The Executive and CMT monitor and review council

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activities to ensure corporate compliance with governance, legal and financial requirements.

Specific policies, regulations and written guidance exist to support the council's corporate governance arrangements. The Officer Governance Group is responsible for monitoring the effectiveness of these arrangements and for the maintenance of appropriate systems of assurance. Assurance is obtained from the work of internal and external audit, inspection agencies and other relevant bodies.

The Audit and Governance Committee acts as the responsible body charged with governance on behalf of the council. In doing so the Committee provides independent assurance on the adequacy of the risk management framework and the associated control environment, and independent scrutiny of the council's financial and non-financial performance to the extent that it affects the council's exposure to risk. It also oversees the council's financial reporting processes and approves the Statement of Accounts.

The Audit and Governance Committee's terms of reference include the requirement to monitor the effective development and operation of risk management and corporate governance as well as to consider the council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice. The Committee is also responsible for keeping under review the council's Financial Regulations, Contract Procedure Rules, working protocols and codes of conduct and behaviour.

The Audit and Governance Committee receives assurance from management through the:

- receipt and approval of the annual counter fraud plan
- receipt and regular update reports from the Head of Internal Audit detailing the results of internal audit and counter fraud work, including the audit of the financial accounting and financial management of the organisation
- receipt of the annual report of the Head of Internal Audit which provides an overall opinion on the council's control environment including the arrangements to prevent and detect fraud.

I am not aware of any instances of non-compliance with relevant laws or regulations that would affect the financial statements.

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3) Litigation or claims

All known claims or liabilities known have been properly accounted for and provision made, where appropriate, including potential Business Rate appeals.

4) Related party transactions

On an annual basis all senior managers and elected members are asked to provide details of any interests they hold in other companies, transactions with the Council, employment by any other organisation and membership of any outside bodies. These forms are reviewed and subsequently queried with officers and members as appropriate to ensure that a full disclosure is made in the Statement of Accounts.

Signed by the Director of Customer and Business Support Services on behalf of management

Ian Floyd

16 June 2016

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Appendix 1

No	Question	Response
1	<p>Are you aware of any instances of actual, suspected or alleged fraud, either within City of York Council as a whole or within your department during the period 1 April 2015 – 31 March 2016?</p>	<p>Yes. Records of all suspected fraud, and outcomes of any investigation are maintained by Veritau, on behalf of the council. The council receives regular reports on counter fraud activity undertaken by Veritau.</p>
2	<p>Do you suspect fraud may be occurring, either within City of York Council or within your department?</p> <ul style="list-style-type: none"> • Have you identified any specific fraud risks within City of York Council/your department? • Do you have any concerns that there are areas within your department or City of York Council that are at risk of fraud? • Are there particular locations within City of York Council where fraud is more likely to occur? 	<p>Yes. On an annual basis, the council undertakes a risk assessment of service areas, and identifies areas where there are potential fraud risks. This is used to prioritise counter fraud activity. Please refer to the latest fraud risk assessment presented to the Audit and Governance Committee in February 2016.</p>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> • If not where are the risk areas? • What other controls are in place to help prevent, deter or detect fraud? 	<p>Yes. A summary of controls and other arrangements are set out in response to question 1, above.</p>
4	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> • What concerns about fraud are staff expected to report? 	<p>The council has effective whistleblowing arrangements in place. A confidential reporting line is available through Veritau, the council's counter fraud provider. The council expects all non-trivial matters to be reported.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your area of responsibility?</p> <ul style="list-style-type: none"> • How are the risks relating to these posts identified, assessed and managed? 	<p>The control environment that operates within the Council ensures that appropriate systems are in place to ensure separation of duties and authorisation of contracts and expenditure. Therefore no individual posts are considered high risk.</p>

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6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> • How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>A full review of related party relationships has been undertaken and no issues have been identified as being of concern.</p>
7	<p>Are you aware of any entries made in the accounting records of City of York Council that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> • Are there particular balances where fraud is more likely to occur? • Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of City of York Council? • Could a false accounting entry escape detection? If so, how? • Are there any external fraud risk factors which are high risk of fraud? 	<p>No. The final accounts have been prepared in accordance with proper practice. Detailed working papers are available and an analytical review completed.</p>
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> • Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>No. The Council reports its financial position to Executive on a regular basis which has highlighted areas of concern and actions being taken to mitigate those areas.</p>

Appendix 2

Oversight of management
letter from the Chair of the
Audit and Governance
Committee (on behalf of
those charged with
governance)



30 JUN 2016

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16 June 2016

Dear Gavin

Statement from those Charged with Governance – gaining assurance from management

Further to your letter of 27 May 2016, please find the Audit and Governance Committee's response to your questions, below.

1) Oversight of management processes in relation to fraud and error

Management discharges its responsibilities via systems of internal control, including Financial Regulations, Contract Procedure Rules and the Employee Code of Conduct, and via disciplinary procedures where fraud is highlighted as a dismissible event. The organisation also has in place appropriate counter fraud policies which clearly outline to staff the commitment to the elimination of fraud and the steps that they should take in the event of fraud being suspected.

The organisation commissions local counter fraud specialists from the council's shared service provider, Veritau Limited, to undertake an annual counter fraud plan of work on its behalf. The Director of Corporate and Business Support Services meets on a regular basis with the Head of Internal Audit (Veritau) to discuss progress.

The council's Counter Fraud and Corruption Policy and the annual counter fraud plan cover the following main areas:

- the creation of an anti-fraud culture

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- deterrence
- prevention
- detection
- investigation
- sanction
- redress

The Audit and Governance Committee receives reports on counter fraud risks, approves the annual counter fraud plan and receives regular updates on counter fraud activity.

2) Oversight of processes for identifying and responding to risks of fraud and breaches of internal control

All reported cases of suspected fraud are investigated by Veritau. Details of the counter fraud work undertaken by Veritau and the outcome of investigations into suspected fraud are reported to the Audit and Governance Committee.

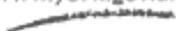
Management also commissions internal audit services from Veritau. The company is required to report on the council's systems for financial accounting and financial management as part of its annual internal audit plan. This includes reporting potential errors or control weaknesses which may result in financial misstatement. The assurance gained contributes to the preparation of the Annual Governance Statement.

The Audit and Governance Committee receives assurance from management through:-

- receipt and approval of the annual internal audit plan
- receipt of regular update reports from the Head of Internal Audit detailing the results of internal audit and counter fraud work, including the audit of the financial accounting and financial management systems of the organisation
- receipt of the annual report of the Head of Internal Audit which provides an overall opinion on the council's control environment, including the arrangements to prevent and detect fraud.

The Audit and Governance Committee also receives and considers regular reports from its external auditors.

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Specific weaknesses in internal control are summarised in the periodic monitoring reports and annual report brought to the committee by the Head of Internal Audit.

3) Assurance that relevant laws and regulations have been complied with

The council has developed and implemented a system of assurances based on:

- Objective setting – whereby the council’s strategic objectives are identified and assigned to individual directors or assistant directors
- Risk assessment – whereby each director or assistant director identifies and prioritises the risks related to achieving those strategic objectives
- A Local Code of Corporate Governance – which is consistent with the principles of the CIPFA/SOLACE ‘Delivering Good Governance in Local Government’ framework and the council’s own Business Model
- Annual Governance Statement (AGS) – which sets out the council’s governance framework. The key elements of the governance framework consist of strategic planning processes, political and managerial structures and processes, management and decision making processes, policies and guidance, financial management, compliance arrangements, risk management, internal audit, counter fraud activities, performance management, consultation and communication methods and partnership working arrangements. A review of the governance framework is undertaken as part of the process to prepare the AGS. All significant governance issues are highlighted in the published AGS.

The council’s Executive is responsible for decision making within the policy and budget framework set by Full Council. The corporate management team has responsibility for implementing council policies and decisions, providing advice to members and for co-ordinating the use of resources and the work of the Council directorates. The Executive and corporate management team monitor and review council activities to ensure corporate compliance with governance, legal and financial requirements.

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Specific policies, regulations and written guidance exist to support the council's corporate governance arrangements. The Officer Governance Group is responsible for monitoring the effectiveness of these arrangements and for the maintenance of appropriate systems of assurance. Assurance is obtained from the work of internal and external audit, inspection agencies and other relevant bodies.

The Audit and Governance Committee acts as the responsible body charged with governance on behalf of the council. In doing so the Committee provides independent assurance on the adequacy of the risk management framework and the associated control environment, and independent scrutiny of the council's financial and non-financial performance to the extent that it affects the Council's exposure to risk. It also oversees the council's financial reporting processes and approves the Statement of Accounts.

The Audit and Governance Committee's terms of reference include the requirement to monitor the effective development and operation of risk management and corporate governance as well as to consider the council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice. The Committee is also responsible for keeping under review the council's Financial Regulations, Contract Procedure Rules, working protocols and codes of conduct and behaviour.

I am not aware of any instances of non-compliance with relevant laws or regulations that would affect the financial statements.

4) Litigation

All known claims or liabilities known have been properly accounted for and provision made, where appropriate, including potential Business Rate appeals.

5) Assessment of going concern assumption

Through its role in overseeing the operation of risk management arrangements, the Audit and Governance Committee receives regular reports from officers on significant risks (including financial risks) faced by the council. No risks have come to light through this process that would cast doubt on the council's ability to operate as a going concern. The committee will also receive the draft financial statements and will be

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able to challenge officers on the underlying assumptions, including the ability of the council to operate as a going concern.

Signed by the Chair of the Audit & Governance Committee on behalf of those charged with governance:

Cllr Neil Barnes

16 June 2016

Director: Ian Floyd

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Appendix 1

No	Question	Response
1	Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2015 – 31 March 2016?	Yes. Records of suspected fraud, and outcomes of investigations are maintained by Veritau, on behalf of the council. A summary of counter fraud activity undertaken by Veritau is regularly presented to the Audit and Governance Committee.
2	Do you suspect fraud may be occurring, within City of York Council? <ul style="list-style-type: none"> • Have you identified any specific fraud risks within City of York Council? • Do you have any concerns that there are areas within City of York Council that are at risk of fraud? • Are there particular locations within City of York Council where fraud is more likely to occur? 	Yes. On an annual basis, the council undertakes a risk assessment of service areas, and identifies areas where there are potential fraud risks. This is used to prioritise counter fraud activity. The latest fraud risk assessment presented to the Audit and Governance Committee was in February 2016.
3	Are you satisfied that internal controls, including segregation of duties, exist and work effectively? <ul style="list-style-type: none"> • If not where are the risk areas? • What other controls are in place to help prevent, deter or detect fraud? 	Yes. A summary of arrangements are set out in my responses to the questions above.
4	How do you encourage staff to report their concerns about fraud? <ul style="list-style-type: none"> • What concerns about fraud are staff expected to report? 	The council has effective whistleblowing arrangements in place. A confidential reporting line is available through Veritau, the council's counter fraud provider. The council expects all non-trivial matters to be reported.
5	From a fraud and corruption perspective, what are considered to be high risk posts within City of York Council? <ul style="list-style-type: none"> • How are the risks relating to these posts identified, assessed and managed? 	The control environment that operates within the Council ensures that appropriate systems are in place to ensure separation of duties and authorisation of contracts and expenditure. Therefore no individual posts are considered high risk.
6	Are you aware of any related party relationships or transactions that	A full review of related party relationships has been undertaken

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	<p>could give rise to instances of fraud?</p> <ul style="list-style-type: none"> • How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>and no issues have been identified as being of concern.</p>
7	<p>Are you aware of any entries made in the accounting records of City of York Council that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> • Are there particular balances where fraud is more likely to occur? • Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of City of York Council? • Could a false accounting entry escape detection? If so, how? • Are there any external fraud risk factors which are high risk of fraud? 	<p>No. The final accounts have been prepared in accordance with proper practice. Detailed working papers are available and an analytical review completed.</p>
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> • Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>No. The Council reports its financial position to Executive on a regular basis which has highlighted areas of concern and actions being taken to mitigate those areas.</p>

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