

Notice of meeting of

Audit & Governance Committee

To:	Councillors Pierce (Chair), Brooks, Crisp, Holvey, Moore, R Watson and B Watson
Date:	Monday, 25 June 2007
Time:	5.30 pm
Venue:	The Guildhall, York

AGENDA

Note:

As agreed at previous meetings, the Chief Internal Auditor and District Auditor (Audit Commission) will be present in the meeting room from 5:00 pm to provide a private briefing for Members, if required.

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. Minutes (Pages 1 - 4)

To approve and sign the minutes of the meeting of the Audit & Governance Committee held on 3 April 2007.

3. Public Participation

At this point in the meeting members of the public who have registered their wish to speak regarding an item on the agenda or an issue within the Panel's remit can do so. Anyone who wishes to register or requires further information is requested to contact the Democracy Officer on the contact details listed at the foot of this

agenda. The deadline for registering is Friday 22 June 2007 at 5:00 pm.

4. Statement of Accounts 2006/07 (Pages 5 - 10)

This report enables the Audit and Governance Committee to undertake an examination of the Council's financial accounts for the financial year 2006/07 prior to their approval by Full Council on the 28 June. As such this report provides the Audit and Governance Committee with an opportunity to review and comment on the content and presentation of the Accounts prior to their finalisation. The report also allows the Audit and Governance Committee to fulfil the Comprehensive Performance Assessment (CPA) requirement that the accounts have been given a 'robust' scrutiny by Members prior to being approved.

[Please note that hard copies of the Statement of Accounts will be circulated to Members on Wednesday 20 June 2007 with the Council Summons and that it will also be available to view on the Council's website from that date: www.york.gov.uk]

5. The Action Plan arising from the Annual Audit Letter 2005/06 (Pages 11 - 46)

This report sets out a plan of the actions required in 2007/08 further to the issues highlighted by the District Auditor in his annual Audit Letter to the Council, reported to the Executive on 27 March 2007.

6. The Annual Audit Plan 2007/08 & Outturn 2006/07 (Pages 47 - 76)

This report introduces the Audit & Inspection Plan of the District Auditor for 2007/08 and reports performance against the 2006/07 plan for final outturn purposes.

7. Annual Report of the Chief Internal Auditor (Pages 77 - 108)

This report details the outcome of audit and fraud work undertaken in 2006/07 and provides an opinion on the overall adequacy and effectiveness of the Council's internal control arrangements.

8. 2006/07 Statement of Internal Control (Pages 109 - 126)

This report presents the draft 2006/07 Statement on Internal Control (SIC) for consideration.

9. Urgent Business

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

Democracy Officer:

Name: Simon Copley

Contact details:

- Telephone – (01904) 551078
- E-mail – simon.copley@york.gov.uk

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.

This page is intentionally left blank

City of York Council

Committee Minutes

MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	3 APRIL 2007
PRESENT	COUNCILLORS HYMAN (CHAIR), HOLVEY (VICE-CHAIR), R WATSON, I WAUDBY (AS SUBSTITUTE FOR MOORE) AND B WATSON (AS SUBSTITUTE FOR JONES)
APOLOGIES	COUNCILLORS MOORE, JONES, SCOTT AND HILL

44. DECLARATIONS OF INTEREST

The Chair invited Members to declare at this point any personal or prejudicial interests they might have in the business on the agenda. No interests were declared.

45. PUBLIC PARTICIPATION

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

46. MINUTES

RESOLVED: That the minutes of the meeting of the Audit and Governance Committee held on 31 January 2007 be approved and signed by the Chair as a correct record.

47. FOLLOW UP OF INTERNAL AUDIT RECOMMENDATIONS AND BREACHES OF THE FINANCIAL REGULATIONS (2005/06)

Members considered a report which set out progress made by departments in implementing the audit recommendations agreed for implementation by 31 January 2007. The report also provided an interim summary of progress made in addressing the breaches and waivers of Financial Regulations identified for 2005/06, as requested by Members at the meeting on 4 October 2006.

It was reported that breaches that had occurred in the former Commercial Services Directorate were now being successfully resolved by Neighbourhood Services.

The Chair noted that the annual report of breaches and waivers would be discussed at the next meeting and asked Members to consider which officers they wished to attend when they had seen the papers.

RESOLVED: (i) That the progress made in implementing audit recommendations, as set out in paragraphs 6-9 and 14

of the report, be noted and the further action proposed be endorsed;

- (ii) That the actions taken to address outstanding breaches of Financial Regulations, as set out in paragraphs 10-13, 15-16 and Annex 1 of the report, be noted and the further action necessary on those matters that remained outstanding be endorsed.

- REASON:
- (i) To enable Members to fulfil their role in providing independent assurance on the Council's control environment;
 - (ii) To enable Members to fulfil their role in considering the Council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice.

48. OFFICER GOVERNANCE GROUP - 2006/07 OUT-TURN AND 2007/08 WORK PROGRAMME

Members considered a report which informed them of progress made during 2006/07 in respect of the Officer Governance Group work programme, and set out a proposed work programme for 2007/08.

Members thanked officers involved in the Group for their work.

The Assistant Director (Audit & Risk Management) reported that the Comprehensive Performance Assessment (CPA) Use of Resources (UOR) headline score had dropped one point in the recent CPA Annual Refresh and highlighted that this masked improvement in the detailed scores across many areas. She advised Members that it would be useful for them to understand both the complex scoring system and the result in detail and queried how they wished to consider them. Members suggested that the scoring system and a briefing report on the results form part of a future training session for Audit & Governance Committee.

- RESOLVED:
- (i) That the progress made in respect of the Group's work programme since September 2005, as set out in Annex 2 of the report, be noted;
 - (ii) That the outstanding matters, as detailed in paragraph 9 of the report, be noted;
 - (iii) That the proposed work programme for the Group for 2007/08, as set out in Annex 3, be noted and endorsed;
 - (iv) That the need for the Group to provide a mid-term monitoring report on progress in September 2007 be endorsed.

REASON: (i) In fulfilment of the delegated responsibilities of the Committee as set out in Article 13 of the Council's Constitution;

(ii)-(iv) To ensure the effective management and follow-up of key action to be taken to support ongoing development and improvement work at the Council.

49. STATEMENT OF INTERNAL CONTROL

Members considered a report which detailed progress made towards preparing the 2006/07 Statement of Internal Control (SIC), addressing the significant control issues identified in the 2005/06 SIC and rectifying the control weaknesses declared by departments in their individual control self assessments.

The Committee commented on the control issues identified by Members, which were set out in Annex 1 of the report.

RESOLVED: (i) That the results of the work completed to date by Internal Audit to prepare the 2006/07 Statement of Internal Control be noted;

(ii) That the results of the follow up review of the 2005/06 Statement of Internal Control action plan be noted.

REASON: (i) To enable Members to consider the adequacy and effectiveness of the Council's control environment;

(ii) To ensure Members are aware of the progress which has been made to address previously reported significant control issues.

50. ANNUAL AUDIT AND FRAUD PLAN FOR 2007/08

Members considered a report which sought approval for a planned programme of audit and fraud work to be undertaken during 2007/08, together with new terms of reference for the Internal Audit Service.

Members thanked officers for their hard work producing the Plans.

RESOLVED: (i) That the 2007/08 Internal Audit and Counter Fraud Activity Plans be approved;

(ii) That the new terms of reference for the Internal Audit Service be approved.

REASON: (i) To enable the Audit and Fraud plans to be delivered effectively;

(ii) To ensure that the role and responsibility of Internal Audit within the Council is properly defined.

51. RISK MANAGEMENT OUT-TURN REPORT

Members considered a report which informed them of progress made during 2006/07 in managing and embedding risk management arrangements at City of York Council, and provided details of the 2007/08 work programme.

Members noted the low take up of training places by the City Strategy Directorate and queried whether risk management needed further embedding in this area.

Members noted that risk management was included in the post-election Member training programme and highlighted the importance of adequate training for Audit & Governance Committee Members and substitutes.

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

REASON: (i) To raise awareness of the progress made to date in respect of the risk management framework at the Council and to advise Members of the 2007/08 work programme.

52. CHAIR'S COMMENTS

The Chair noted the professionalism and competence of Audit & Risk Management staff and thanked officers generally for their support and hard work over the last year.

K Hyman, Chair

[The meeting started at 5.30 pm and finished at 6.10 pm].



Audit and Governance**25 June 2007**

Report of the Director of Resources

Statement of Accounts 2006/07**Summary**

1. The purpose of this report is to enable the Audit and Governance Committee to undertake an examination of the Council's financial accounts for the financial year 2006/07 prior to their approval by Full Council on the 28 June. As such this report provides the Audit and Governance Committee with an opportunity to review and comment on the content and presentation of the Accounts prior to their finalisation.
2. The report also allows the Audit and Governance Committee to fulfil the CPA requirement that the accounts have been given a 'robust' scrutiny by Members prior to being approved. It is therefore important that the accounts are looked at in some detail and that such discussions are minuted as evidence of that discussion. Any follow-up issues required by this Committee will be brought back at a later date. In determining which areas they wish to address Members may wish to refer to the key issues and changes identified throughout the rest of this report.
3. The outcomes of this meeting will be reported to the Executive when they meet on the 26 June to consider the statement of accounts and refer them to council. The draft statement of accounts itself is due to be approved by full council on the 28 June.
4. The Committee should note that copies of the statement of accounts are not attached to this agenda but instead are being circulated as part of the council agenda papers.

Background

5. The 2006/07 final account process has been very difficult. On a national basis the format of the accounts has been radically altered to bring it in line with Generally Accepted Accounting Practice (GAAP), the underlying international standard for accounts with which the Council must comply. Such an approach isn't very useful for the council in that the new standards are designed for business accounting purposes and some of the existing connectivity between the accounts and the council's business has been eroded.
6. A side affect of these changes has been that not only have officers had to deal with changed, or new, reporting and analysis arrangements but they have also had to recast the 2005/06 accounts into the revised format. The level of commitment this has required from accounting staff should not be underestimated.

7. The challenge that this has presented has meant that at the time of publication of this agenda the statement of accounts were still being finalised. A decision has been taken that rather than provide members with an incomplete document with this report, and then subsequently have to table a substantial erratum sheet at the meeting, to defer production until the council papers are published on the 20 June. Whilst not ideal this still provides committee members with an opportunity to review the statement of accounts prior to the meeting. It should be noted, however, that the accounts review process will continue up until the accounts are agreed at full council and so there is a probability that some minor erratum will be issued at that meeting.
8. To aid in their deliberations members will be briefed on the statement of accounts at the meeting. This presentation will highlight the significant issues or changes that the Committee may wish to discuss; alternatively members may have other issues they wish to query. To assist with their discussions, Members are requested to bring their set of the draft financial accounts to the meeting.
9. It is a statutory requirement that this year Members approve the Statement of Accounts before 30 June and following this the accounts must be 'on deposit' and for the District Auditor to be available for interrogation by any member of the public. It has been provisionally agreed that the District Auditor will be available on the 6 August, and the accounts will be 'on deposit' for public inspection between 9 July and 3 August. The deposit period will be advertised in the York Press.
10. A provisional out-turn report will be presented to the Executive on 26 June 2007. That report will concentrate on the performance against the revenue budgets, and will make recommendations for use of the overall underspend for carry forward items where budgeted work could not be completed by 31 March. As the accounts need to fully represent the financial position of the Council these recommendations will be incorporated into the Foreword to the Statement of Accounts. Any changes will have to be approved by Council when the accounts are presented to them for final approval on 28 June 2006.
11. Members should note that the District Auditor has not yet started the audit of the Statement of Accounts. If the District Auditor does insist on any significant changes to the accounts, they will be reported to the Executive following the completion of the audit.
12. To assist members understanding the following sections set out information on the constituent parts of the Statement of Accounts in the order in which they are produced.

Foreword

13. This is designed to help give readers an understanding of the accounts. It sets out a description of all the individual sections, gives an overview of the revenue and capital position in the year, identifies the position on the Council's borrowing powers and reserves and future issues that may influence how the Council is run. The Foreword also provides the opportunity to explain any changes in accounting policies that have been used in the preparation of the Accounts.

District Auditor's Report

14. This is the auditor's certificate on the accuracy or otherwise of the authority's accounts and is issued at the end of the audit process. York has never had a qualification to its audit certificate.

Statement of Accounting Policies

15. This statement sets out all the policies that have been followed in preparation of the accounts. It also intended to demonstrate where, if at all, the policies followed by Council differ from either the best practice or the CIPFA guidelines.

Statement of Responsibilities

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

Statement of Internal Control

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

Income and Expenditure Account

19. The Income and Expenditure Account is a new requirement which replaces the Consolidated Revenue Account. This account shows the net cost of all the functions for which the Council is responsible. It compares the cost of service provision with the income raised by fees and charges, from specific Central Government grants and from the Collection Fund. The surplus or deficit on this account represents the amount by which income is greater than or less than expenditure, where income and expenditure are measured using essentially the same accounting conventions that a large (but unlisted) company would use in preparing its audited annual financial statements.

Statement of the Movement on the General Fund Balance

20. This account reconciles the amounts that must be taken into account when determining the Council Tax of the Council in accordance with statute and non-statutory proper practices and the sums included in the Income and Expenditure

Account.

Statement of Total Recognised Gains and Losses

21. This statement is a new requirement which attempts to analyse changes in the council's asset base due to:
- Surplus or deficits on income and expenditure
 - The revaluation of the council's fixed assets
 - Changes in pension liabilities due to actuarial revaluation
22. In many instances these revaluations impact primarily on the council's balance sheet.

Balance Sheet

23. The balance sheet shows the overall financial position of the Council with external bodies by bringing together the year-end balances of all the Council's accounts. It shows the balances and reserves at the Council's disposal, the long-term indebtedness, the net current assets and summary information on the fixed assets held.

Cash Flow Statement

24. This statement provides a link between the Balance Sheet at the beginning of the year, the revenue accounts for the year and the Balance Sheet at the end of the year. It summarises on a subjective basis the expenditure and income of the Council for revenue and capital purposes.

Housing Revenue Account Income and Expenditure

25. This account summarises the income and expenditure of providing Council houses. There is a statutory requirement to keep this account separate from other Council activities.

Statement of Movement on the Housing Revenue Account Balance

26. This statement shows how the deficit on the Housing Revenue Account Income and Expenditure Account for the year reconciles to the surplus for the year on the Statutory Housing Revenue Accounts.

Collection Fund

27. This fund shows the transactions of the Council acting as Charging Authority in relation to Council Tax, Community Charge and Non-Domestic Rating in aid of local services and shows how much monies have been distributed to the Council, North Yorkshire Police Authority, North Yorkshire Fire and Rescue Authority, and parish councils.

Consultation

28. This report is presented for scrutiny purposes. In particular it is presented to enable Members to request further information on any matters included within the Accounts, or to request further information to be presented to them at a later date. The outcome of this meeting will be reported to the Executive and Council as part of their decision taking process.

Options

29. There are no alternative options applicable to this paper.

Analysis

30. The analysis of the statement of accounts will be provided at the meeting.

Corporate Priorities

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

Implications

32. The implications are

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

Risk Management

33. This report is for Members to review and comment on the Statement of Accounts. Failure to adequately review the Accounts can impact negatively upon the Council's CPA assessment and reportage of financial issues. Scrutiny also provides a valuable mechanism for the identification of potential errors, enhanced clarity of reportage and overall awareness of elected members. All of these areas have a positive impact on the financial management of the authority.

Conclusion

34. The production and publication of the Statement of Accounts is a statutory requirement that provides Members and interested parties with the chance to see the full financial position of the Council. Once the Accounts are audited, a set will be distributed to all Members and Chief Officers.

35. In bringing the Statement of Accounts to Audit and Governance Committee prior to their presentation to the Executive and adoption at full Council maximises the opportunity for Member led debate and compliance with defined best practice.

Recommendations

36. Members are requested to ask questions or raise issues in relation to the 2006/07 financial accounts

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

Contact Details

Author:

Peter Steed
Head of Finance
01904 551745

Chief Officer responsible for the report:

Simon Wiles
Director of Resources

Report approved Date 13/6/07

Specialist Implications Officer(s) None

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

For further information please contact the author of this report

Background Working Papers

Statement of Accounts 2006/07
Closure of Accounts files held in the City Finance Centre



Audit & Governance Committee

25 June 2007

The action plan arising from the annual Audit Letter 2005/06

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

Summary

- 1 This paper sets out a plan of the actions required in 2007/08 further to the issues highlighted by the District Auditor in his annual Audit Letter to the Council, reported to the Executive on 27 March 2007.

Background

- 2 The District Auditor reports his independent opinion of the Council's arrangements each year based on an annual programme of work agreed in advance by officers and Members. This programme of work must meet the standards set out in the Code of Audit Practice and is focused across 3 main areas of interest:
 - the opinion given on the Council's annual Statement of Accounts and Statement of Internal Control;
 - the financial aspects of corporate governance (including financial health, systems of assurance, probity and legality);
 - performance management (including CPA, VFM, performance management information and the Best Value Performance Plan).
- 3 The Letter also summarises key findings from the annual Inspection programme and includes the Council's CPA scorecard for 2006 and a related 'Direction of Travel' statement.
- 4 The Council's Constitution requires that the Letter be reported in the first instance to the Executive for consideration and acceptance on behalf of the Council. Following receipt of the Letter and action plan is prepared by officers and reported to the Audit & Governance Committee for in-year monitoring and follow up purposes.

The action plan

- 5 As reported to the Executive in March 2007, the District Auditor noted many positive achievements and improvements in his Letter, along with a variety of areas for improvement and on-going performance issues to be addressed by the Council. A copy of the covering report to the Executive in March and the District Auditor's Letter are included as Annex A to this paper for reference purposes.
- 6 Unlike previously, the Letter does not include specific recommendations from which to draw up an action plan for in-house monitoring and follow up purposes. In addition, the reporting time-scales for the Letter as required by the Audit Commission nationally changed this year, pushing back the publication of the Letter from December to March. As the Letter is a retrospective review of matters arising in the previous audit year, this meant in effect that the District Auditor reported to Member on 27 March 2007, those matters noted in the 2005/06 audit year. Clearly, this meant that some of the historic issues noted by the District Auditor had already been dealt with, or were no longer relevant by the time they were formally reported to the Council. Whilst these changes in Audit Commission practice have complicated the internal planning process this year, a draft action plan, along with updates on known progress since 2005/06, has been prepared and is included at Annex B for Members to consider.

Options & analysis

- 7 Not relevant for the purpose of this report.

Consultation

- 8 The action plan has been drafted in consultation with Corporate Management Team who have agreed the actions to be taken in response to their consideration of the key issues arising from the Letter of the District Auditor.

Corporate priorities

- 9 The external audit of the organisation contributes to the achievement of Corporate Priority Improvement Statement 13 'To improve efficiency and reduce waste to free up more resources'.

Implications

- 10 There are no specific financial, legal, HR, property, crime & prevention, IT&T or other implications arising from this report.

Risk Management

- 11 The Council is at risk of a poor CPA and/or specific inspection reports if the arrangements for the appropriate action to be taken in response to the findings of the audit of the organisation are judged to be unacceptable.

Recommendations

12 Members are asked to

- a) note the issues raised by the District Auditor in the annual Audit Letter and reported to the Executive on the 27 March 2007, attached as Annex A;

Reason

To advise Members of the scope and content of the Audit Letter.

- b) consider and endorse the draft action plan arising from the Letter attached as Annex B to this report.

Reason

To agree the action plan for subsequent in-year monitoring and follow up purposes by this Committee during 2007/08.

Author:

*Liz Ackroyd
Assistant Director of Resources
(ARM)*

Ext 2943

Chief Officer Responsible for the report:

*Liz Ackroyd
Assistant Director of Resources (ARM)*

**Report
Approved**



Date 15 June 2007

Specialist Implications Officer(s) None

Wards Affected Not applicable

All

For further information please contact the author of the report

Annexes

Annex A – The Annual Audit & Inspection Letter 2005/06

Annex B – The Action Plan Arising from the Annual Audit Letter

This page is intentionally left blank

Annex A

*The Annual Audit & Inspection Letter
as reported to the Executive on 27 March 2007*

This page is intentionally left blank



Executive

27 March 2007

The Annual Audit Letter 2005/06

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

Summary

- 1 This paper summarises the key findings and conclusions of the District Auditor in respect of the 2005/06 audit year.

Background

- 2 The District Auditor reports annually his independent opinion of the Council's arrangements based on an annual programme of work agreed by officers and Members. This programme of work must meet the standards set out in the Code of Audit Practice and is focused across 3 main areas of interest:
 - the opinion given on the Council's annual Statement of Accounts and Statement of Internal Control;
 - the financial aspects of corporate governance (including financial health, systems of assurance, probity and legality);
 - performance management (including CPA, VFM, performance management information and the Best Value Performance Plan).
- 3 The Letter also summarises key findings from the annual Inspection programme and includes the Council's CPA scorecard for 2006 and a related 'Direction of Travel' statement.

Summary of key issues

- 4 In summary, the District Auditor notes that:
 - a) overall, the Council is "**improving adequately and demonstrating a 3 star overall performance**" for 2006 CPA purposes (*page 5, paragraph 5*) but that preparing for the Corporate Assessment in January 2008 "**presents challenges for the Council**" (*page 4, paragraph 3*)
 - b) the Council has maintained sound financial management and "**sustained a strong focus on value for money, with very good performance across a range of services whilst containing**

overall service costs in line with the lowest spending Councils nationally” (page 7, paragraph 16) and unqualified opinions were given on the financial accounts and in respect of the VFM conclusion (page 4, paragraph 3);

- c) important improvements in internal control and the overall governance framework have been made, such as the introduction of the Audit & Governance Committee, and in raising awareness of these matters (page 14, paragraph 44);
- d) the Use of Resources CPA re-refresh in 2006 was scored as a 2 compared to 3 in 2005. Priority areas for improvement noted by the Audit Commission (page 14, paragraph 45) are:
- accounts for audit to be free of material misstatements;
 - all partnerships to have robust governance arrangements;
 - the financial performance of all partnerships to be reviewed and achievement of objectives actively monitored;
 - consolidate the corporate approach to procurement;
 - continue to develop the Audit & Governance Committee to ensure it is confident in its role and is able to provide effective challenge as part of the Council’s overall management assurance framework;
 - embed the development work on-going in relation to the equalities agenda.
- e) various service improvements have been made across a wide range of services but there remain areas for improvement, some of which remain outstanding from last year (page 4, paragraph 3). Particular matters to note include:
- the strategic planning and prioritisation issues arising from a review of deciding & delivering Council priorities (page 9, paragraphs 25-27);
 - the adequacy of overall programme and project management arrangements at the Council (page 10, paragraph 29);
 - the need to address the improvement issues set out in respect of LSP to properly support the development of the LAA and partnership working (page 11, paragraph 33-35);
 - excellent Ofsted Inspection (page 12, paragraph 37);
 - that whilst the fraud and security side of the BFI Inspection is judged to be excellent and improving, there were some performance issues to be addressed by the Benefits service in 2005/06 (pages 12, paragraphs 38);
 - good CSCI Inspection overall but it was noted that the improvement areas identified previously in respect high cost

Adult intensive social care and the unit costs of home care remain outstanding (*page 12, paragraph 39*).

- 5 The Letter also notes key areas for improvement based on performance in 2005/06, as set out in the Direction of Travel (DOT) report (*page 6, paragraphs 7-23*). Positive progress made includes:
- a) high performance within services for children, young people and adult care services, supported by LPSA initiatives to further improve performance;
 - b) improvement across the majority of key BVPIs, most notably in respect of planning which is now meeting national standards;
 - c) good progress has been made in addressing local priorities through the York Pride initiative particularly in respect of the built environment and access to services ([Easy@York](#) project work);
 - d) strong focus on VFM sustained with very good performance noted across a range of services whilst keeping service costs in line with the lowest spending Councils nationally. Significant progress has also been made in the early achievement of national efficiency targets and the development of the five year Efficiency Programme which along with the Organisational Effectiveness Programme should help to support organisational development and the considered allocation of resources to priority services;
 - e) proactive response to recent job losses in taking a strategic approach to consideration of the City's future employment and economic prospects and good progress made in developing and implementing a Local Area Agreement (LAA) by April 2007;
 - f) healthy schools scheme contribution to helping to improve the health of local people;
 - g) evidence of a number of robust service delivery plans spanning key service areas including the Local Transport Plan and Children and Young People's Plan, both of which received the highest possible rating in external assessment;
 - h) the York Neighbourhood Pride has been launched, building on the success of the original York Pride initiative to address specific local neighbourhood issues;
 - i) plans for sustainable waste management have progressed and an outline business case to DEFRA for PFI status has been submitted;
 - j) evidence of good progress being made in implementing the improvement plan to address known governance issues, improved call-handling arrangements following the successful launch of the new Customer Centre and the York Pride Action line and key milestones in respect of the Admin Accommodation project have been achieved;

- k) key development work progressing in respect of the corporate procurement development programme including the development of a robust regulatory framework, the Strategic Procurement Programme and the re-structure of the CPT to ensure it is fit for purpose and better able to deliver a demanding and complex support service across the organisation.

6 However, the DOT report also notes that:

- a) despite improvements in the Benefits service, the Council remained in the lower quartile for processing times in 2005/06. It should be noted however that performance in this area has since improved with officers reporting that;
 - i. the time taken to process new claims has improved from 40 days in 2005/06 to 35 days in 2006/07 (year to date in February 2007);
 - ii. the time taken to process changes in circumstances has improved from 28 days in 2005/06 to 16 days in 2006/07 (YTD in February 2007)
- b) whilst the Council's overall improvement through the LPSA was higher than the national average, a small number of specific stretch targets set by the Council for youth offending, housing benefits and educational attainment at Key Stage 3 and GCSE were not achieved;
- c) the triennial Best Value user satisfaction survey shows inconsistencies in the levels of user satisfaction with services at the Council, so that whilst satisfaction with some services such as recycling and street cleanliness increased significantly, satisfaction with some other services such as waste collection and sports & leisure have fallen;
- d) tight financial constraints continue to require careful management to ensure budget pressures in 2006/07 and savings targets for 2007/08 are achieved. This is known and officers report that the current projection for 2006/07 outturn will be at or slightly below the Budget set by Council for the year;
- e) there is a need to ensure that performance management arrangements are properly focused on the delivery of community outcomes and that the Council's community leadership role is exercised in such a way as to encourage the engagement and inclusion of all partners further to the LAA;
- f) failure to achieve affordable housing targets and increases in the overall housing waiting list. Officers report that the waiting list increased by 2.9% between 2005 and 2006 and this is thought to be largely due to lower turnover rates in tenancies and hence less housing opportunities becoming available in the period. In addition, whilst the Council failed to achieve its affordable housing target in 2005/06 it is important to note that the target referred to by the

District Auditor is an average annualised figure derived from a global five year target. To that end it is more meaningful to consider achievement across that time frame given the particular time-leads involved in housing provision of this kind and the fact that there will be peaks and troughs in terms of new provision coming on stream across the whole five year period;

- g) despite some progress in implementing the Equalities strategy overall, further work is needed to address the development of a consistent and effective approach to inclusion across all services;
- h) the Council remains one of the worst performing authorities in respect of sickness absence indicators which may be adversely affected further in light of growing capacity problems and the impact of the Job Evaluation scheme on staff relations and increased budgetary pressures;
- i) delays in progressing some aspects of the overall corporate procurement development programme, most notably the Corporate Procurement Strategy due to staffing problems in 2006;
- j) on-going need to ensure the Equalities strategy and the Risk Management strategy are fully embedded across the Council.

Next steps

- 8 Following the Executive's consideration of the Letter on the 27 March 2007, the Letter must be made publicly available in accordance with the relevant legislation by 31 March 2007. As in previous year's the Letter will therefore be published on the Council's website. An action plan setting out what will be done and by whom in response to the issues raised will be prepared and reported to the Audit & Governance Committee for in-year monitoring purposes by those Members charged with governance in accordance with the Council's Constitution. As last year, this will cover the key areas for improvement identified by the District Auditor.

Options

- 9 Not relevant for the purpose of the report.

Analysis

- 10 Not relevant for the purpose of the report.

Corporate Objectives

- 11 Not relevant for the purpose of the report.

Implications

- 12 There are no financial, HR, equalities, legal, crime and disorder or IT&T implications arising from this report.

Risk Management Assessment

- 13 Not applicable to this report.

Conclusions

- 14 The Annual Letter is generally positive and recognises much of the excellent progress made by the Council in 2005/06. Nonetheless the District Auditor notes some key areas for improvement which will be incorporated into the action plan arising from the annual audit letter and reported to the Audit & Governance Committee for on-going monitoring and progress chasing purposes.

Recommendations

- 15 It is recommended that the Executive:

- a) note the content of this report and the Annual Letter itself, attached as Annex 1 to this report, prior to its publication on the Council's website before 31 March 2007;

Reason

To comply with the statutory requirements for the external audit of the Council

- b) consider any particular matters to be included in the action plan in response to the issues raised by the District Auditor to be reported to the Audit & Governance in April 2007.

Reason

To ensure the effective management and follow-up of key action to be taken to support on-going development and improvement work at the Council

Author:

Liz Ackroyd
Assistant Director of Resources
(Audit & Risk Management)
Resources
Ext 1706

Chief Officer Responsible for the report:

Liz Ackroyd
Assistant Director of Resources (ARM)

Report Approved

Yes

Date *10 March 2007*

Specialist Implications Officer(s) Not applicable

Wards Affected Not applicable

All

Annexes

The Annual Audit & Inspection Letter 2005/06

This page is intentionally left blank

Annual Audit & Inspection Letter

City of York Council

Audit 2005/2006

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2007

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Our overall summary	4
Action needed by the Council	4
How is City of York Council performing?	5
The improvement since last year - our Direction of Travel report	6
Service inspections and Performance audits	9
Financial management and value for money	13
Conclusion	15
Availability of this letter	15

Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council, inspections that have been undertaken in the last year and from a wider analysis of the Council's performance and its improvement, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The report is addressed to the Council, in particular it has been written for Members, but is available as a public document for stakeholders.
- 3 The main messages included in this Letter are:
 - An unqualified opinion has been given on your accounts.
 - An unqualified conclusion has been given on your arrangements to secure Value for Money.
 - Your arrangements for financial reporting, financial management and internal control are generally fit for purpose.
 - Our reviews, and those of other inspectorates, have noted service improvements across a wide range of areas. These reviews have, however, also identified areas for improvement, and in some cases, areas for improvement identified last year which have not yet been addressed.
 - Preparing for the Corporate Assessment, to be carried out in early 2008, presents challenges for the Council.
 - The Council needs to continue to manage the big financial challenges successfully, these include: ensuring the Social Services overspend position is under control; and ensuring that the waste management solution is affordable.

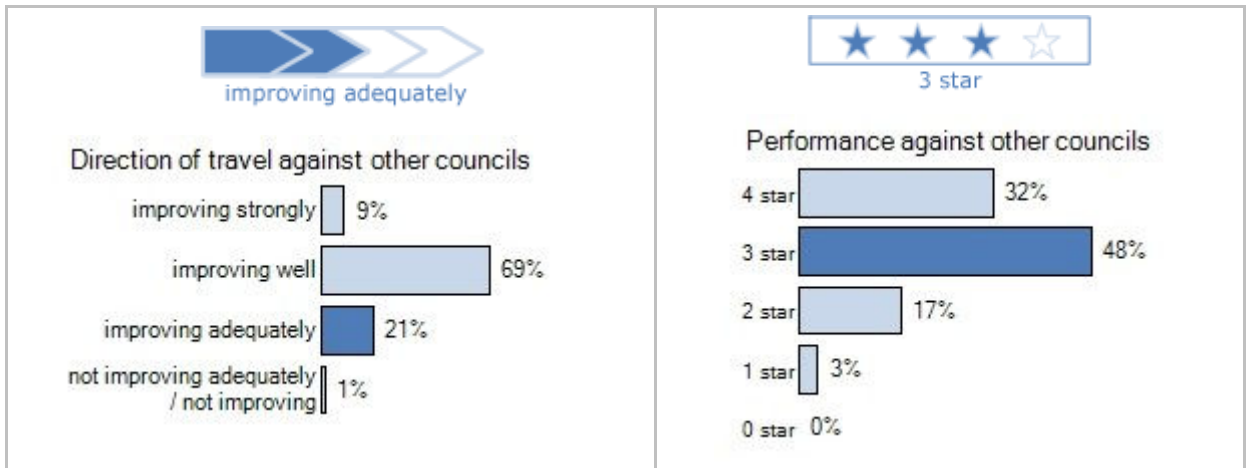
Action needed by the Council

- 4 The issues emerging from our performance reviews are integral to ensuring effective governance, needs-based and customer-focused delivery and continuous improvement. These issues, amongst many others, will be robustly tested in your forthcoming corporate assessment. *CPA 2005 – A Harder Test* has a more demanding framework than the original model; it not only expects councils to have appropriate strategies and systems to promote efficiency and effectiveness, but also to demonstrate that these mechanisms are embedded and are making an impact. One of your key challenges over the next year will be to implement the changes already underway to strengthen your arrangements and to establish an organisational culture which embraces these changes.

How is City of York Council performing?

- 5 Our overall judgement is that City of York Council is improving adequately and we have classified the Council's performance as three star. The results of our assessments of all single tier and county councils are in Table 1.

Table 1 CPA assessment



Source: Audit Commission

- 6 The detailed assessment for City of York Council is as follows.

Table 2 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	3 star
Current performance	
Children and young people	4 out of 4
Social care (adults)	3 out of 4
Use of resources	2 out of 4
Housing	2 out of 4
Environment	3 out of 4
Culture	2 out of 4
Benefits	3 out of 4
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2006	3 out of 4

The improvement since last year - our Direction of Travel report

- 7 Our assessment is based on performance recorded in 2005/06 as data for that year has been audited. We also recognise more up to date changes to your arrangements and service developments and note that officers report further performance improvements in the current year.
- 8 You maintained your improvement trend in 2005/06. You have sustained high performance within services for children and young people and adult care services, and improved the majority of key Best Value Performance Indicators (BVPIs), most notably in areas of poorer performance, such as planning, where national standards are now being met, although performance remained significantly below the national average in 2005/06. The Department for Transport has designated you as a centre of excellence for integrated transport planning. Your arrangements to process housing benefit claims have also improved substantially, but you remained in the lowest quartile nationally for this particular measure in 2005/06. Officers report that performance has improved in 2006/07.
- 9 You have sustained progress in addressing local priorities through the York Pride initiative which has led to improvements to the environment, and the easy@york project which continues to improve access to services. Actions to make York a safer city have been successful in 2005/06 in reducing crime overall, but car crime increased significantly.
- 10 Your Local Public Service Agreement (LPSA) initiatives have helped you to improve performance within some areas such as services to children and young people and sustainable transport. We note that your overall rate of improvement through the LPSA was slightly higher than the national average rate. However, stretch targets for areas such as youth offending, housing benefits and educational attainment at Key Stage 3 and GCSE were not achieved.
- 11 You have responded positively to recent job losses in the city by setting up an independent strategic review group including members from key partners to produce an overview of the city's employment and economic prospects. In addition, your Science City initiative continues to achieve positive outcomes for the local economy in the form of increased business start-ups and learning opportunities. You have made progress against the York Central Area action plan, which aims to redevelop an area of the city to provide brownfield land for housing and new employment opportunities. However, the closure of the British Sugar plant on an adjacent site has introduced further complications along with opportunities to broaden your original proposals, which you are now evaluating and addressing.
- 12 Increased participation in the healthy schools scheme and other health promoting activities has contributed to a general trend of improvement in the health of local people. Your new 'Eco Depot', which incorporates sustainable construction principles and energy sources, will provide an opportunity for environmental education.

- 13 The recently reported triennial Best Value user satisfaction survey has revealed inconsistent levels of satisfaction with your services. Satisfaction with some services such as recycling and street cleanliness has increased significantly, although satisfaction with others, such as waste collection and sport & leisure has fallen. There has also been a reduction in the overall satisfaction from 57 per cent in 2003/04 to 44 per cent, which represents a move from the top quartile, to the bottom quartile, although the satisfaction with the way you handle complaints has improved.
- 14 This fall in overall satisfaction has occurred despite a general trend of improvement in services. It is important that the council understands the reasons for the reduction in satisfaction. You already have processes in place to communicate with the public. In addition to the city-wide newsletter you provide each household with a ward newsletter setting out Council messages for specific wards, and this is a good practice initiative. To maximise public satisfaction, you will need to actively engage with the public to ensure that their needs and expectations are identified and reflected in your actions.
- 15 You have made some progress in delivering your equalities strategy, and there are examples of positive engagement of service users in developing services. An affordable housing pilot using an equity loan scheme has been successful and, in conjunction with regional partners, external funding has been secured to finance the scheme for the period from 2005/06 to 2010/11. However, feedback from residents suggests that your actions to make York a more inclusive city have not had the desired impact. You did not achieve your annual target for affordable housing completions and the overall housing waiting list has increased. There has been limited progress in integrating social inclusion issues into neighbourhood action plans. You have identified a range of issues related to the rapidly changing diversity of the community, which need to be addressed to achieve a consistent and effective approach to inclusion across all services.
- 16 You have sustained a strong focus on value for money, with very good performance across a range of services whilst containing overall service costs in line with the lowest spending Councils nationally. You have made significant progress against the national efficiency targets, by developing a five-year Corporate Efficiency Programme, to support the redirection of resources to priority services, and officers report that they are on track to meet the efficiency targets early.
- 17 Your recent organisational restructure aims to deliver improved management capacity and enable further redirection of resources to priority services. You have made good progress in developing plans to sustain future improvement. You have recently revised your corporate strategy, agreed new priorities and are developing arrangements to support their delivery. One example of this is your creation of the Organisational Effectiveness Programme, which has combined four internally-focused priorities with a range of existing initiatives, to promote a more corporate approach to organisational development.

- 18 You have made good progress on developing a Local Area Agreement and have taken steps to implement the agreement by the deadline of April 2007. You have restructured the Local Strategic Partnership (LSP) to address its requirements. Some challenges remain, including the development of leadership capacity and new approaches to budget pooling. Through the LSP you have developed performance management arrangements which focus on the delivery of community outcomes required by the LAA. These will need to be rolled out as soon as practicable to enable you and your partners to demonstrate the impact of your actions. Effective engagement with partners is essential in delivering these shared outcomes. You need to satisfy your community leadership role in respect of the emerging LAA in an inclusive way to ensure that partners remain engaged and actively participate in strategic partnership working. Partners' understanding of your revised priorities, and your understanding of theirs, will be a determining factor in the success of the LAA.
- 19 You now have some robust service delivery plans. For example, your Local Transport Plan and your Children and Young People's Plan have both received the highest possible rating from external assessments. York Neighbourhoods Pride is being launched to build on the success of the initial York Pride initiative by developing projects to address specific local neighbourhood issues. You are also making progress on your plans for sustainable waste management by submitting, with your partner, an outline business case to DEFRA for PFI funding to assist the development of waste management facilities. However, sites for the facilities have yet to be determined by North Yorkshire County Council. There are significant affordability issues to resolve regardless of the option pursued.
- 20 You have made good progress at implementing your improvement plans linked to your priorities. Your Customer Centre is now open and you have improved call-handling arrangements to the York Pride Action Line. This has contributed to improvements in the cleanliness of the local environment. Early land transactions have been completed to enable the office accommodation project to progress. This project is still at an early stage but you have met your initial objectives and milestones, including the completion of land assembly transactions. You have also made significant progress in addressing weaknesses in your governance and assurance arrangements.
- 21 Tight financial constraints continue to place pressure on your capacity to deliver your priorities. A government decision to set a notional budget for the current year has made your financial position even more challenging. You have identified 2006/07 budget pressures of £3 million which you are closely monitoring and managing. Your 2007/08 budget has been set on the basis you will achieve savings to the value of £6m and this will need to be monitored to ensure they are delivered.

- 22 In terms of organisational capacity, staffing issues remain a key challenge. Although your staff absence levels have improved, you were still amongst the worst performing Councils for this measure in 2005/06. A combination of staff absences and recruitment and retention issues is likely to place additional pressure on existing staff. Your job evaluation scheme is due to be implemented in 2007; this is likely to create a range of staff relations and budgetary pressures which you will need to manage effectively.
- 23 You have made progress in developing more robust corporate procurement arrangements. A Strategic Procurement Programme has been agreed; delivery of this programme will be a significant step forward in helping the Council to use procurement as a tool to improve services and demonstrate value for money. However, the development of a new corporate procurement strategy has been subject to significant delay, and you now anticipate implementing this strategy by June 2007.

Service inspections and Performance audits

- 24 We did not plan to deliver any service inspections during the year, but did deliver several performance audit reviews. The key issues arising from these reviews are set out below:

Deciding and Delivering Council Priorities Review

- 25 This review was originally scheduled for delivery during 2004/05, but by mutual agreement, we delayed its delivery until you had completed the initial work on updating your priorities. We completed the review when you were in the early stages of implementing your new priorities, which were formally agreed by the Council in June 2006. At that stage you had a significant amount of work to do, to ensure that these priorities were embedded within your service and financial planning systems in time for the 2007/08 budget setting process. We are aware that you have been taking further action to make this happen.
- 26 The key messages emerging from our review were
- Whilst some priorities, such as for Safer York are already well established within a partnership framework, others, such as Health and Lifestyle, were at a very early stage, with little evidence to indicate how new priorities relating to this area were being embedded.
 - The process of developing the priorities through the Corporate Leadership Group has helped to instil a new sense of corporate ownership amongst your senior managers and a better understanding of their potential roles in delivering your ambitions.
 - You had not developed the mechanisms necessary to keep you focused on the new priorities. Your performance management framework had not been amended to incorporate the improvement statements and you had not decided how to report progress against the targeted outcomes for these cross-cutting improvements.

- There were still some significant steps to develop a realistic and robust strategy to deliver against these priorities, these are set out below:
 - You applied your service planning framework consistently, but had yet to develop detailed guidance on incorporating the improvement statements into service plans with sufficient emphasis on user focus.
 - You were committed to developing 'better measures' to drive improvement in services, but the current measures to assess performance against the Year One actions were not sufficiently SMART and staff training to address that had not started.
 - Clarity is needed on how resources are allocated to priorities, and how you will demonstrate value for money. Strategies, such as those for procurement and the medium term financial plan, which was developed at the same time as the new priorities, were still being finalised.

27 Our review made a number of high and medium priority recommendations which you are now taking action on, and which we intend to follow up during 2007/08, in advance of the Corporate Assessment. In addition, since prioritisation is one of five key themes explored by the Corporate Assessment model, we will revisit some of the issues identified during the Assessment in early 2008. In particular, we will be assessing how well your priorities are understood, the extent to which your resource allocations reflect those priorities and whether you have developed clear links between your strategic priorities and your action plans.

Review of project management and programme management arrangements

28 During 2006 we carried out a review of your programme and project management arrangements and focused on the:

- easy@york programme management, and
- administration accommodation project management.

29 Our main conclusion from these two reviews is that in the absence of corporately agreed programme and project management guidance, your ability to introduce new initiatives robustly and consistently will continue to be wholly dependent on the skills and experience of individual officers. It is worth noting that the Corporate Assessment model explores whether capacity is used effectively to deliver ambitions and priorities – including the extent to which projects are properly resourced and managed.

30 Our review of your Easy@York programme involved a brief follow-up of a more detailed review undertaken during 2005, which we reported in last years Letter. We found that:

- you have strengthened your programme assurance arrangements, and
- whilst changes to programme staff may cause you some interim difficulties, the programme is now established, and we do not propose carrying out any further audit work on the part of the programme approved to date.

- 31 Our initial work on your administration accommodation project has confirmed that your arrangements for establishing this project include many good practice elements.
- 32 Our main concern related your decision to run the set of diverse sub-projects as a project rather than as a programme, this decision being influenced by the non-availability of corporate guidance on programme management. Nevertheless, controls have been established for this particular initiative, including issue and risk management.

Delivery of Corporate Objectives through the Local Strategic Partnership

- 33 This review focused on the Local Strategic Partnership's (LSP) performance management arrangements and considered how your community leadership role contributes to effective partnership working.
- 34 The key issues emerging from the review relate to:
 - the need for the LSP to consolidate the work already done to establish the community strategy by strengthening its focus on the delivery of community priorities;
 - the need to ensure that all partners, whether in a strategic or operational capacity, are effectively engaged with the LSP and share ownership of the priorities and outcomes it is committed to deliver; and
 - the need to strengthen current performance management arrangements to ensure that the impact of the LSP's actions can be measured.
- 35 Our Corporate Assessment model will assess your effectiveness at ensuring that partnership working is productive and sustainable, that accountability within partnerships is clear and robust and that partners, individually and collectively, review performance within a culture of open debate and constructive challenge.

Reviews by other Regulators

- 36 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on your performance. During the last year you have received an annual performance assessment (APA) from three inspectorates covering your Adult Social Care, Children and Young People (C&YP) and Benefits arrangements.

- 37** The Office for Standards in Education (Ofsted) judged that you provide outstanding outcomes for children and young people. Your Children's Trust has successfully built on established patterns of partnership, reflected by the recent award of Beacon status for Early Intervention. Your C&YP Plan was completed ahead of time, which, together with targeted services that address the needs of vulnerable groups, demonstrates a good shared understanding of local needs. You have made good progress against most, but not all, of the issues identified in the 2005 APA. Whilst you continue to operate under tight fiscal constraints and some significant financial and organisational uncertainties amongst other agencies, you provide excellent value for money for C&YP. Within the available resources, you have excellent capacity to continue to reshape services and to further improve outcomes for C&YP in the area.
- 38** The Benefit Fraud Inspectorate (BFI) has judged your performance as good; you met 5 of the 12 performance measures where the BFI had set a standard, and 52 of the 65 enablers. Whilst you have demonstrated a clear commitment to detecting fraud and undertaking appropriate sanctions and steadily improved against the majority of performance measures set for claims administration there are some performance issues in other areas, for example, the speed of processing changes in circumstances. You have drawn up an action plan to address these issues, and officers report that the performance has improved significantly in 2006/07.
- 39** The Commission for Social Care Inspectorate (CSCI) judged that you serve most people well, and your capacity to improve was promising. You have consolidated last year's performance and in many areas, have delivered improvements on that performance. However, CSCI identified a range of areas for improvement, including some, such as the high cost of intensive social care for adults and older people and unit costs of home care, which were identified as areas for improvement last year.

Financial management and value for money

- 40 As your Appointed Auditor I have reported separately to the Audit & Governance Committee on the issues arising from our 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
 - a conclusion on your Value for Money arrangements to say that these arrangements are adequate; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 41 My audit findings are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial Reporting (including the preparation of your accounts and the way these are presented to the public).
 - Financial Management (including how the financial management is integrated with strategy to support your priorities).
 - Financial Standing (including the strength of your financial position).
 - Internal Control (including how effectively you maintain proper stewardship and control of your finances).
 - Value For Money (including an assessment of how well you balance the costs and quality of your services).
- 42 We assessed your arrangements in these five areas as follows.

Table 3 Use of resources judgements

Element	Assessment
Financial reporting	2 out of 4
Financial management	3 out of 4
Financial standing	2 out of 4
Internal control	2 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	2 out of 4

43

- 44 You have made a number of improvements in your internal control environment during 2005/06, for example the adoption of the new constitution, the development of the Officer Governance Group and the role of the Audit & Governance Committee. You have also introduced member champions for important governance themes and this has raised awareness of internal control matters, and has improved the overall governance framework.
- 45 There are some areas where improvements are needed. The key points include:
- Submit accounts for audit that are free from material mis-statement.
 - Ensure that all partnerships have robust governance arrangements in place. Review the financial performance of the partnerships, and monitor the achievement of the operational objectives of the partnerships.
 - Continue to successfully manage your tight financial position, specifically ensuring that the Social Services overspend remains under control, and that the waste management solution is affordable to the Council.
 - Deliver the ongoing work to strengthen your procurement approach and deliver the new corporate procurement strategy.
 - Continue to develop the role of the Audit & Governance Committee to ensure that it informs, and is a part of, your whole assurance framework.
 - Embed equality issues – ensuring high standards of service delivery are achieved across the increasingly diverse community.

Conclusion

- 46 This letter has been discussed and agreed with Chief Executive and the Director of Resources. A copy of the letter will be presented at the Executive on 27 March 2007.
- 47 The Council has taken a positive and constructive approach to our audit and inspection work and I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 48 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Mark Kirkham

District Auditor and Relationship Manager

This page is intentionally left blank

Annex B

The Action Plan Arising from the Annual Audit Letter

This page is intentionally left blank

Issue arising	Planned action	Update comment	RCO	Due
CPA UOR improvement priorities				
<ul style="list-style-type: none"> accounts for audit to be free of material misstatements 	New quality assurance and management review arrangements and to be implemented in accordance with UOR criterion requirements	New arrangements implemented as part of 2006/07 closedown. Impact to be assessed through CPA UOR judgement in 2007	SW/PS	May 2007
<ul style="list-style-type: none"> all partnerships to have robust governance arrangements 	Council's partnerships register to be reviewed for completeness and accuracy	Complete	ST/RB	May 2007
	Need for further corporate guidance to be considered further to the on-going work to review and make further amendments to the new Constitution	Post-implementation review in hand	SH/ERA	Dec 2007
	New partnerships officer to review the adequacy of individual Council partnerships governance arrangements in consultation with the relevant lead officer for the partnership concerned	Partnerships officer appointed and AD responsibility assigned in City Strategy	RR/NB	By March 2008
<ul style="list-style-type: none"> the financial performance of all partnerships to be reviewed and achievement of objectives actively monitored 	Review current partnership arrangements and collate examples of best practice for 2007 UOR CPA purposes	Nearing completion	RB/RR	June 2007
	Need for further corporate guidance to be considered further to the on-going work to review and make further amendments to the new Constitution	Post-implementation review in hand	SH/ERA	Dec 2007
	New partnerships officer to review the adequacy of individual Council partnerships governance arrangements in consultation with the relevant lead officer for the partnership concerned	Partnerships officer appointed and AD responsibility assigned in City Strategy	RR/NB	By March 2008

Issue arising	Planned action	Update comment	RCO	Due
CPA UOR improvement priorities				
<ul style="list-style-type: none"> consolidate the corporate approach to procurement 	Finish development work and implement all remaining parts of the procurement development agenda including the CPS, Practitioner Manual, Competition Policy, Competition Strategy, Competition Handbook	CPS and manual complete to be reported to members in June 2007. Work on the Competition policy scheduled for draft completion before the end of July 2007. Work on Competition Strategy and Handbook time-tabled for completion in Oct 2007.	ERA	By Oct 2007
<ul style="list-style-type: none"> continue to develop the Audit & Governance Committee to ensure it is confident in its role and is able to provide effective challenge as part of the Council's overall management assurance framework 	Work complete in 2006/07 and arrangements on-going. Auditor will test 'embeddedness' in 2007 CPA UOR judgement.	Done & on-going	ERA	On-going
<ul style="list-style-type: none"> embed the development work on-going in relation to the equalities agenda 	Establish Equalities Board to drive agreed corporate action plan for further development & improvement	Action plan reported to COG in early 2007. Board established. Progress reported separately to CMT.	HR/LD	By March 2008
Service improvement issues arising from service Inspection reports				
<ul style="list-style-type: none"> strategic planning & prioritisation issues arising from the Audit Commission Inspection study 	Implement the agreed service action plan	Inspection report taken to A&G and the Executive for consideration in 2006. progress report to be brought back to A&G in September 2007	HR/KB	Sept 2007
<ul style="list-style-type: none"> put in place adequate programme & project management arrangements 	CO responsibility to be assigned and appropriate arrangements to be agreed and implemented across the organisation	CO responsibility assigned	HR	By March 2008
<ul style="list-style-type: none"> LSP arrangements 	Implement the agreed service action plan	LSP responsibility assigned within City Strategy	RR/NB	By March 2008
<ul style="list-style-type: none"> Benefits performance 	Implement outstanding issues from the internal development & improvement plan	Action plan implemented and significant improvement achieved in 2006/07	JD	On-going

Issue arising	Planned action	Update comment	RCO	Due
Service improvement issues arising from service Inspection reports				
<ul style="list-style-type: none"> high costs of intensive social care for adults and older people and the unit costs of home care 	Review relative costs in 2006/07 from most recent Audit Commission benchmarking data	VFM benchmarking data received from the Audit Commission. Further action to be determined on review.	PS/BH	June 2007
Direction of travel issues				
<ul style="list-style-type: none"> LPSA stretch targets not achieved for youth offending, housing benefits and educational attainment at Key Stage 3 and GCSE 	Review financial & service impacts of non-achievement	To be scheduled in 2007/08	KB	TBA
<ul style="list-style-type: none"> inconsistent user satisfaction with services 	Full review to be completed and reported to CMT to inform action planning proposals	To be scheduled in 2007/08	MB	TBA
<ul style="list-style-type: none"> failure to achieve affordable housing targets and an increase in housing waiting lists in 2005/06 	To keep target and waiting list figures under regular review to ensure targets are hit over the overall five year target period, aside from in-year fluctuations		SW/TB	On-going
<ul style="list-style-type: none"> further work required to develop a consistent and effective approach to inclusion across all services further to the Equalities Strategy 	Establish Equalities Board to drive agreed corporate action plan for further development & improvement	Action plan reported to COG in early 2007. Board established. Progress reported separately to CMT.	HR/LD	By March 2008
<ul style="list-style-type: none"> sickness absence 	Fully implement the action plan agreed by CMT further to the Internal Audit review of sickness absence in 2006/07	Progress made in 2006/07 by HR to put in place more robust policy framework (attendance policy for eg).	HR	By March 2008
	Follow-up audit to be reported to CMT in 2007/08	Scheduled	ERA/MT	Sept 2007
<ul style="list-style-type: none"> embed Risk Management Strategy 	Fully implement any outstanding actions from the RM development plan	Scheduled	ERA/DW	By March 2008

This page is intentionally left blank



Audit & Governance Committee

25 June 2007

The Annual Audit Plan 2007/08 & Outturn 2006/07

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

Summary

- 1 This paper introduces the Audit & Inspection Plan of the District Auditor for 2007/08 and reports performance against the 2006/07 plan for final outturn purposes.

Background

- 2 The Annual Audit Plan sets out the audit and inspection work to be conducted by the District Auditor in discharging their statutory duties to:
 - give an opinion on financial statements of the audited body;
 - draw conclusions as to the arrangements put in place by the audited body to secure value for money (ie the extent to which there are satisfactory arrangements in place for securing economy, efficiency and effectiveness in the use of resources).
- 3 In preparing their Plan, the Audit Commission have taken into account:
 - the outcomes of the 2006 CPA Use of Resources work;
 - the quality and coverage of the work conducted by Internal Audit, placing reliance on the Internal Audit Annual Plan to make best use of scarce audit resources and reduce costs wherever possible;
 - an understanding of the key issues facing the organisation in the coming year based on a series of individual interviews conducted with key officers and leading Members over the last few months;
 - their assessment of the inherent audit risks arising;
 - the requirements of the Code of Audit Practice in discharging their statutory responsibilities in the conduct of the audit;
 - the planned corporate CPA assessment of the authority scheduled for Jan/Feb 2008
- 4 The Audit Plan for the 2007/08 is attached as Annex A to this report.

- 5 The Plan has been reported later than usual this year, as the Audit Commission have changed their reporting cycle and their plan was not ready for the meeting of Audit & Governance Committee in April 2007.

2006/07 outturn

- 6 The audit was satisfactorily concluded in accordance with last year's plan. The key points of note for Members are that:
- managed audit status was maintained;
 - all products delivered as planned by the Audit Commission;
 - core audit fees out-turned on budget but the Council budget for grant claim work overspent by £25k due to un-notified additional grant claim work arising in year mainly in City Strategy and LCCS. New planning arrangements have been agreed between the client, the Audit Commission and departmental finance managers for 07/08 to avoid any repetition of this problem (albeit that the budget for grants can only ever be indicative as work is done on a 'needs must' basis at the discretion of the District Auditor)
 - new reporting and relationship management arrangements introduced in 2006/07 to include regular update and report on the conduct and progress of the audit by the Audit Manager and Council Client to the Chief Executive, and regular attendance by the District Auditor and/or the Audit Manager at Audit & Governance Committee.

Options & analysis

- 6 Not relevant for the purpose of this report.

Consultation

- 7 The plan has been considered by Corporate Management Team.

Corporate priorities

- 8 The external audit of the organisation contributes to the achievement of Corporate Priority Improvement Statement 13 'To improve efficiency and reduce waste to free up more resources'.

Implications

- 9 There are no specific financial, legal, HR, property, crime & prevention, IT&T or other implications arising from this report.

Risk Management

- 10 The Council is at risk of a poor CPA and/or specific inspection reports if the arrangements for the appropriate audit of the organisation are judged to be unacceptable.

Recommendations

11 Members are asked to

- a) note the content of Annual Audit Plan attached as Annex A;

Reason

To advise Members of the scope and content of the plan.

- b) note the outturn issues on last year's audit included at paragraph 6.

Reason

To advise Members of the progress of the audit in 2006/07.

Author:

*Liz Ackroyd
Assistant Director of Resources
(ARM)*

Ext 2943

Chief Officer Responsible for the report:

*Liz Ackroyd
Assistant Director of Resources (ARM)*

**Report
Approved**



Date 14 June 2007

Specialist Implications Officer(s) None

Wards Affected Not applicable

All

For further information please contact the author of the report

Annexes

Annex A – The Annual Audit & Inspection Plan (Audit Commission)

Annex A

*The Annual Audit & Inspection Plan
(Audit Commission)*

This page is intentionally left blank

Audit and Inspection Plan

City of York Council

Audit 2007/2008

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.
- 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, 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

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 non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2007

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Introduction	4
Responsibilities	4
CPA and Inspection	5
Work under the Code of Audit Practice	6
Financial statements	6
Use of resources	6
Data quality	7
Best Value Performance Plan (BVPP)	8
Assessing risks	9
Work specified by the Audit Commission	10
Whole of government accounts (WGA)	10
National Fraud Initiative	10
Voluntary improvement work	11
Certification of grant claims and returns	12
The audit and inspection fee	13
Other information	14
The audit and inspection team	14
Independence and objectivity	14
Quality of service	15
Planned outputs	15
Appendix 1 – Initial risk assessment – use of resources	16
Appendix 2 – Audit and inspection fee	19
Specific audit risk factors	20
Assumptions	20
Specific actions the Council could take to reduce its audit and inspection fees	21
Process for agreeing any changes in audit fees	21
Appendix 3 – Independence and objectivity	22

Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2007/08;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.
- 3 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Responsibilities

- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999 (best value inspection and audit); and
 - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements, including the statement on internal control (SIC); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

CPA and Inspection

- 8 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 9 Your CPA category is a key driver in the Commission's inspection planning process. For CPA 2006, the Council was categorised as three stars.
- 10 Our inspection activity will be focused on the following areas for 2007/08.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT label will be reported in the CPA scorecard alongside the CPA category. The DoT assessment summary will be published on the Commission's website.
Corporate assessment	We will carry out a corporate assessment in line with the processes set out in CPA - the Harder Test. Our approach will be a combined corporate assessment and Joint Area Review which will include an inspection of services for children and young people.

Work under the Code of Audit Practice

Financial statements

- 11 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 12 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year.
- 13 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Council.

Use of resources

Value for money conclusion

- 14 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 15 In meeting this responsibility, we will review evidence that is relevant to your corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 16 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 17 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support your priorities and improve services.
- 18 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the value for money conclusion.

- 19 We will arrive at a score of 1 to 4 for each of the following themes.

Theme	Description
Financial reporting	<ul style="list-style-type: none"> • Preparation of financial statements • External reporting
Financial management	<ul style="list-style-type: none"> • Medium-term financial strategy • Budget monitoring • Asset management
Financial standing	<ul style="list-style-type: none"> • Managing spending within available resources
Internal control	<ul style="list-style-type: none"> • Risk management • System of internal control • Probity and propriety
Value for money	<ul style="list-style-type: none"> • Achieving value for money • Managing and improving value for money

- 20 We will report our scores and judgements to the Council and, where appropriate, make recommendations for improvement. The Commission will use the scores as the basis for its overall use of resources judgement as part of the CPA.

Data quality

- 21 The Audit Commission requires auditors to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- Stage 1 - management arrangements;
 - Stage 2 - completeness check; and
 - Stage 3 - risk-based spot checks of a sample of performance indicators.
- 22 The work at stage 1 will link to our review of your arrangements to secure data quality as required for our value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the spot check work at stage 3. The results of the work at stage 3 will inform the CPA assessment.
- 23 Our fee estimate reflects an assessment of risk in relation to your performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Best Value Performance Plan (BVPP)

- 24 We are required to audit your BVPP and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

Assessing risks

- 25** The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 26** Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.
- 27** We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements during 2007. At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- changes to the SORP for 2007;
 - the new contract with ABRO for vehicle provision and maintenance; and
 - a replacement financial system being introduced for payments for care.
- 28** For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.
- 29** Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

Work specified by the Audit Commission

Whole of government accounts (WGA)

- 30 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office which is proportionate to risk.

National Fraud Initiative

- 31 The Council participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

Voluntary improvement work

- 32** Under section 35 of the Audit Commission Act 1998, the Commission may undertake voluntary improvement work at the request of the audited body. We are not proposing to do any voluntary improvement work at the Council during 2007/08.

Certification of grant claims and returns

33 We will continue to certify your claims and returns on the following basis.

- Claims below £100,000 will not be subject to certification.
- Claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification.
- Claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

The audit and inspection fee

- 34 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 35 The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £322,530 which compares with the planned fee of £245,000 for 2006/07. The fee this year includes the corporate assessment fee of £103,750. The plan is prepared on the basis that the corporate assessment will enable us to minimise value for money audit work for 2007/08 by taking assurance from the inspection findings. As a consequence the like for like audit fee for 2007/08 is 10 per cent lower than the 2006/07 fee.
- 36 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions the Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically excluded.
- 37 In addition we estimate that we will charge approximately £50,000 for the certification of claims and returns.
- 38 As indicated in paragraphs 2 and 29, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 35 above. Any changes to the fee will be agreed with you.

Other information

The audit and inspection team

- 39 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

Table 2

Name	Contact details	Responsibilities
Mark Kirkham District Auditor & Relationship Manager	m-kirkham@audit- commission.gov.uk 0113 251 7130	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and the Audit & Governance committee. The primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Alastair Newall Audit Manager	a-newall@audit- commission.gov.uk 01904 552007	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Resources.
Paul Goodlad Area Performance Lead	p-goodlad@audit- commission.gov.uk 0113 251 7130	Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment.

Independence and objectivity

- 40 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 41 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

Quality of service

- 42 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the Relationship Manager or District Auditor in the first instance. Alternatively you may wish to contact the Yorkshire and Humber Head of Operations, Terry Carter.
- 43 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.

Planned outputs

- 44 Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit & Governance committee.

Table 3

Planned output	Indicative date
Opinion audit plan	October/November 2007
Data quality report	October/November 2007
Interim audit memorandum	May/June 2008
Annual governance report	September 2008
Opinion on the financial statements and value for money conclusion	September 2008
Final accounts memorandum (to the Director of Finance)	November 2008
Use of resources report	December 2008
Corporate Assessment outputs	February 2008
Annual audit and inspection letter	TBC
BVPP report	December 2007

Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
Job evaluation	Work is ongoing to deliver the job evaluation scheme.	Yes	Impact on Code of Practice responsibilities will be assessed as settlements are reached.	KLOE 4.1 - The Council manages its significant business risks.
Social services financial position and eligibility criteria	The Council continues to actively manage the position during 2006/07.	Yes	Assessment of arrangements for ensuring financial position is maintained during 2007/08.	KLOE 2.2 - The Council manages performance against budgets. KLOE 3.1 - The Council manages its spending within available resources.
The revised LSP is key to delivering the LAA objectives	The Council has improved its capacity by creating new posts to manage partnerships.	Yes	We will follow up our 2006/07 reviews of the LSP and the LAA to ensure the council delivers the planned improvements.	KLOE 4.2 - The Council has arrangements in place to maintain a sound system of internal control. KLOE 5.2 - The Council manages and improves value for money.
Council priorities	The Council has responded positively to our 2006/07 report on prioritisation.	Yes	Follow up the Councils progress in delivering the agreed actions from our 2006/07 review of prioritisation.	KLOE 4.1 - The Council manages its significant business risks. KLOE 5.2 - The Council manages and improves value for money.

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Service improvement planning	The Council has responded positively to our 2006/07 report on service improvement planning.	Yes	Follow up the Council's progress in delivering the agreed actions from our 2006/07 review of service improvement planning.	KLOE 5.2 - The Council manages and improves value for money.
Debt recovery arrangements	The Council has responded positively to our 2005/06 report on debt recovery arrangements.	Yes	Follow up the Council's progress in delivering the agreed actions from our 2005/06 review of the debt recovery arrangements.	KLOE 2.3 - The Council manages its asset base. KLOE 3.1 - The Council manages its spending within the available resources.
The current projections show the council will incur significantly more cost for waste disposal from 2009/10 to the start of the PFI contract.	The council is actively responding to the challenge.	Yes	Assessment of arrangements for ensuring the financial position is maintained during 2007/08.	KLOE 2.2 - The Council manages performance against budgets. KLOE 3.1 - The Council manages its spending within available resources.
Sickness absence is high and arrangements to manage sickness need improvement	Council is taking action on a range of issues, as highlighted in a recent IA report.	No		
Implementing the Local Government White Paper	Council is already thinking about the implications.	No		

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
Schools rebuilding programme	All are being actively project managed but three schemes running concurrently places pressure on the departmental capacity.	No		
Admin accommodation project	Among other measures the Council is responding positively to our previous reports on project management.	No		

Appendix 2 – Audit and inspection fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

Table 4

Audit area	Planned fee 2007/08 £	Planned fee 2006/07 £
Audit		
Financial statements	72,000	69,000
Use of resources (including BVPP)	99,505	138,400
Data quality	21,600	17,600
Whole of government accounts	2,500	0
National Fraud Initiative	1,050	0
Total audit fee	196,655	225,000
Inspection		
Relationship management	11,063	10,000
Direction of Travel	11,062	10,000
Corporate assessment	103,750	0
Total inspection fee	125,875	20,000
Total Audit & Inspection fee	322,530	245,000
Certification of claims and returns	50,000	50,000

- 2 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 3 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

- 4 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

Specific audit risk factors

- 5 In setting the audit fee we have taken into account the risk factors set out in Appendix 1.

Assumptions

- 6 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by the time the draft statements are available;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 7 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.
- 8 Changes to the plan will be agreed with you. These may be required if:
 - new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Specific actions the Council could take to reduce its audit and inspection fees

- 9 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. We have not identified any specific actions the Council could take at this stage. Our audit & inspection fee is based on our current understanding of risks and the assurance we need to issue the audit opinion and value for money conclusion.

Process for agreeing any changes in audit fees

- 10 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Chief Executive and Director of Resources. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit & Governance committee.

Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee.
 - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
 - The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

This page is intentionally left blank



Audit and Governance Committee

25 June 2007

Report of the Assistant Director (Audit and Risk Management)

Annual Report of the Chief Internal Auditor

Summary

- 1 This report details the outcome of audit and fraud work undertaken in 2006/07 and provides an opinion on the overall adequacy and effectiveness of the Council's internal control arrangements.

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 (issued in 2006). In accordance with the Code of Practice, the Chief Internal Auditor is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Statement on Internal Control.
- 3 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 based on a detailed risk assessment and five year strategic plan. The 2006/07 Plan also included details of planned counter fraud activities. The total number of planned audits days was 1,340, with a further 1,200 days allocated to counter fraud activities. As in previous years, there were insufficient resources in the Audit team to allow all the systems or areas identified through the strategic planning process to be audited. 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.

2006/07 Internal Audit Plan – Outturn

- 4 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 Comprehensive Performance Assessment (CPA) - Use of Resources evaluation.

- 5 Internal Audit successfully delivered 92% of the 2006/07 Plan (compared to 91.3% in 2005/06 and 90% in 2004/05). Details of the audits completed and the reports issued are given in Annex 2.
- 6 Variations were made to the Audit Plan through the year as a result of new and changed priorities or as new risks were identified. Variations were also necessary to address a 90 day shortfall between the available resources in the Audit team and the original Plan. The variations were approved by the Assistant Director (Audit and Risk Management) in accordance with the scheme of delegation. Apart from one variation which was approved in March 2007, all the other variations were reported to this Committee on 31 January 2007. Details of all the approved variations are given in Annex 3.
- 7 One investigation into a suspected financial irregularity within Neighbourhood Services was completed in the year. However, further allegations have since been received relating to this investigation and further audit work is now underway. During the year, Internal Audit also investigated four minor thefts and frauds, and undertook two preliminary investigations following complaints received through the Council's Whistleblowing Policy. Annex 4 provides a summary of the audit findings for all the completed investigations.
- 8 In addition to the planned audit work, Internal Audit also worked in conjunction with Legal Services to strengthen the Council's arrangements for preventing, detecting and reporting suspected money laundering activities, and with Human Resources to strengthen the arrangements for recording officer declarations of interest and the Council's Whistleblowing Policy. Internal Audit also undertook an exercise to identify and recover duplicate creditor payments. Total duplicate payments of £33,196 were identified, of which £9,254 had been recovered by 31 March 2007. A further £13,618 has been recovered to date in 2007/08.

2006/07 Counter Fraud Activity Plan – Outturn

- 9 Counter fraud work has been undertaken in accordance with the approved Plan. Annex 5 provides a summary of the work completed. The majority of the work undertaken by the Fraud team during the year related 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 investigations detailed in paragraph 7 above. In addition, a number of other external fraud investigations have been conducted in the year, 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 6.
- 10 The Fraud team participated in 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 2006/07 exercise included new datasets such as creditors and taxi driver licences, and a number of the existing datasets were also expanded to include new categories of data. The Audit Commission identified 919 data matches relating to York (excluding creditors), although responsibility for investigating many of these cases rested with other local authorities or public bodies. The data matches were made available on 29 January 2007. As in previous years, many of the initial data matches were found to be caused by erroneous data or simply timing differences. Work is ongoing to complete the review of the initial data matches. To date, 30 matches have required further detailed investigation. 18 of these investigations have been completed, resulting in £692 in fraudulent benefit overpayments being identified.

Review of the Effectiveness of Internal Audit

- 11 The Accounts and Audit Regulations 2003 were amended in 2006, with the changes coming into effect from 2006/07 onwards. As a result of these changes, Regulation 6 now requires each local authority to conduct an annual review of the effectiveness of its system of internal audit, and for an appropriate committee to consider the findings of this review. The process is intended to form part of the wider review of the effectiveness of the system of internal control (required to prepare the Statement on Internal Control). The Chartered Institute of Public Finance and Accountancy (CIPFA) is currently preparing guidance on how such a review of Internal Audit should be conducted. This guidance is expected to be published shortly. In the meantime, it is considered appropriate to compare current internal audit practices against the CIPFA Code of Practice for Internal Audit in Local Government (2006), and for the results of the review to be reported to this Committee. The internal audit function has recently been reviewed by the external auditors. This review included an examination of compliance against the CIPFA Code of Practice. The draft report is still subject to management discussion, but concludes that the external auditors can rely on the work being carried out by Internal Audit. The final report will be presented to this Committee in the Autumn.

External Assessment of the Fraud Team

- 12 The last full inspection conducted by the Benefit Fraud Inspectorate (BFI) was in 2004, at which time they concluded that the quality of counter fraud work being undertaken was effective. Counter fraud activities form part of the 'security' assessment under the revised CPA process which was introduced by the BFI in 2005. The 2006 CPA self assessment process scored 'security' as a 4 (excellent), which in turn contributed to the overall Benefits Service CPA score of 3. The BFI concluded that the council demonstrated a clear commitment to detecting fraud and undertaking appropriate sanctions.

Opinion of the Chief Internal Auditor

- 13 The audit and fraud work undertaken during the year is designed to provide assurance to members and officers on the adequacy of the control environment as an essential part of the Council's corporate governance framework. Audit testing has also been undertaken so as to provide assurance to the S151 Officer, to help him discharge his responsibility for ensuring that proper arrangements exist for the administration of the Council's financial affairs.
- 14 The reports detailed in Annex 2, together the results of investigations into suspected fraud and corruption, have been sent to the relevant directors, service managers, and where necessary to the S151 Officer. All audit reports include recommendations and actions plans agreed with the relevant parties aimed at remedying identified weaknesses in control. In addition, follow up reviews are conducted on a 6 monthly basis to track the progress made by managers in implementing agreed recommendations. Details of significant control weaknesses and any other issues of note identified through the audit process in 2006/07, together with the results of the follow up reviews, are shown in annex 2.
- 15 The opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment is given in Annex 1. The opinion is based on the results of the audit and fraud work completed during the year. In giving this opinion attention is drawn to the following significant control weaknesses which are considered relevant to the preparation of the 2006/07 Statement of Internal Control;
 - a) Continuing evidence of non-compliance and inconsistencies in observing EU procurement legislation and the Council's Financial Regulations across the Council when tendering for goods and services, as reported in the annual Breaches and Waivers report – presented to Audit and Governance Committee on 4 October 2006;
 - b) The levels of sickness across the Council remain higher than for comparable local authorities. Continuing weaknesses exist in the Council's procedures for monitoring and reporting sickness absence. Roles and responsibilities are not clearly defined and the timing and accuracy of sickness information is also not satisfactory. These weaknesses in control are hindering the effective management of staff absence. Although progress has been made during the year to address the underlying control weaknesses, there is still insufficient evidence that the improved arrangements are properly embedded;
 - c) The 2005/06 Statement of Accounts included a material misstatement. The misstatement was caused by a change in government guidance on the valuation of social housing. The change was however not being reflected in the Council's annual valuation exercise. Although this was a technical accounting issue, controls should have existed to identify the error before the final valuation figures were included in the approved Statement of

Accounts. Internal Audit has also made recommendations to strengthen reconciliation procedures for the main control accounts.

Consultation

16 Not relevant for the purpose of the report.

Options

17 Not relevant for the purpose of the report.

Analysis

18 Not relevant for the purpose of the report.

Corporate Objectives

19 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

20 The implications are;

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

Risk Management Assessment

21 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 and the annual statement and opinion of the CIA is not considered by 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.

Recommendations

22 Members are asked to;

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

Reason

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

- Accept the opinion of the Chief Internal Auditor on the adequacy and effectiveness of the Council's internal control environment;

Reason

To enable Members to consider the opinion of the Chief Internal Auditor.

- Consider the significant control weaknesses identified during the year and their inclusion in the 2006/07 Statement of Internal Control.

Reason

To enable the annual Statement of Internal Control to be prepared.

Contact Details

Author:

Max Thomas
Audit and Fraud Manager
Audit and Risk Management
Telephone: 01904 552940

Chief Officer Responsible for the report:

Liz Ackroyd
Assistant Director (Audit and Risk Management
Telephone: 01904 551706

Report Approved



Date 6/6/07

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

Internal Audit Risk Assessment and Strategic Audit Plan

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

Annexes

- Annex 1 - Opinion of the Chief Internal Auditor
- Annex 2 - 2006/07 Audits Completed and Reports Issued
- Annex 3 - Variations to the Audit Plan
- Annex 4 - Completed Investigations into suspected financial irregularities
- Annex 5 - Counter Fraud Activity
- Annex 6 - Investigations, Prosecutions and Sanctions

This page is intentionally left blank

Opinion of the Chief Internal Auditor

I have evaluated the results of the audit and fraud work undertaken during the year. In my opinion the overall adequacy and effectiveness of the Council's control environment is acceptable.

Signed

Liz Ackroyd
Assistant Director – Audit and Risk Management

DATE

This page is intentionally left blank

Annex 2

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;

Opinion	Assessment of internal control
“High standard”	Few or no weaknesses
“Good”	Some weaknesses, but mostly insignificant
“Acceptable”	A number of weaknesses.
“Weak”	A number of weaknesses, some 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.

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

Opinion	Number
“High standard”	7
“Good”	4
“Acceptable”	2
“Weak”	7
“Not acceptable”	2
“Not given”	0

45 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.
Barstow House Social Care Scheme	24/1/07	Good	4	0	No significant weaknesses identified.
Lovell House Sheltered Housing Scheme	24/1/07	Weak	6	0	Controls over the administration of the amenity fund needed to be improved.

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
Fordlands Road Elderly Persons Home	8/1/07	Acceptable	5	0	There was insufficient segregation of duties when handling residents' monies. Controls over the use of the amenity fund also needed to be improved.
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.
Windsor House Elderly Persons Home	27/2/07	Weak	10	0	Controls over budget monitoring and the handling of residents' money needed to be improved. Controls over the administration of the amenity fund also 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.

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
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.
Future Prospects	23/5/07	Weak	7	1	The organisational status and associated governance arrangements of the service needed to be confirmed. Controls over ordering, income processing and inventory records also needed to be improved.
Nursery Education Grants	11/5/07	High Standard	0	0	No significant weaknesses identified.
Individual School Budgets	26/2/07	High Standard	0	0	No significant weaknesses identified.
Recoupment	10/5/07	High Standard	2	0	No significant weaknesses identified.
Private Finance Initiative	8/1/07	High	2	0	No significant weaknesses identified.

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
(PFI)		Standard			
Clifton Family Centre	9/5/07	Good	3	0	A formal agreement was needed between the teams using the site, covering how the site will be managed in the future and, where appropriate, how costs will be shared.
Adult Education – Huntington Area	27/3/07	Good	3	0	No significant weaknesses identified.
All Saint's RC Secondary School	19/4/07	High Standard	4	0	The school needed to improve controls over the raising of debtor invoices.
Archbishop Holgates' CE Secondary School	9/2/07	High Standard	2	0	The school fund needed to be registered with the Charity Commission.
Copmanthorpe Primary School	1/5/07	High Standard	2	0	No significant weaknesses identified.
Fulford Secondary School	9/2/07	High Standard	3	0	The school needed to improve controls over lettings and the raising of debtor invoices.
Huntington Secondary	9/5/07	High	4	0	The school needed to improve controls

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
School		Standard			over lettings and income collection.
Joseph Rowntree Secondary School	9/5/07	Good	4	0	The school needed to review its budget management policy.
Lakeside	30/5/07	Acceptable	9	0	The school fund needed to be registered with the Charity Commission and be subject to an independent examination. Controls over school meals' income also needed to be improved.
Lowfield Secondary School	2/4/07	High Standard	5	0	The school needed to improve controls over lettings and income collection. A register of gifts and hospitality also needed to be introduced.
Millthorpe Secondary School	2/4/07	High Standard	3	0	A register of gifts and hospitality needed to be introduced.
Scarcroft Primary School	12/9/06	Good	3	0	The school fund needed to be registered with the Charity Commission and the recording of school fund income needed to be improved.
St. Barnabas' CE	9/3/07	Acceptable	9	0	Budget setting and monitoring

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
Primary School					arrangements needed to be improved. The school fund needed to be registered with the Charity Commission. Registers of business interests, and gifts and hospitality also needed to be introduced.
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.
Wigginton Primary School	9/5/07	Acceptable	7	0	The school needed to improve controls over ordering and income processing. The school also needed to approve a budget management policy and terms of reference for its committees.
Yearsley Grove Primary School	29/3/07	High Standard	3	0	No significant weaknesses identified.
Food Safety, Environmental Health and Trading Standards	23/3/07	Good	6	0	Controls over the recording and storage of evidence needed to be improved. A system was also needed to allow court costs received to be reconciled.

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
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.
Building Cleaning	28/2/07	Acceptable	10	2	As planned, the service needed to ensure that new and existing staff are subject to a CRB check (where appropriate). Specifications needed to be developed for all buildings, listing the frequency and nature of each cleaning task. Controls over timesheets also needed to be improved.
Treasury Management	24/1/07	High Standard	0	0	No significant weaknesses identified.
Registrars	9/1/07	High Standard	0	0	No significant weaknesses identified.
Information Security – Databases	2/2/07	High Standard	2	0	Increased segregation of duty is required for administering access to the payroll system.

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
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.
Oaklands Sports Centre Invoicing Arrangements	6/2/07	Not given	3	0	The sports centre needed to improve segregation of duty in respect of invoicing. A policy and procedure notes were required for debt collection and for raising credit notes.
Follow up report (first) on the implementation of Internal Audit recommendations	4/10/06	Not given	N/A	N/A	A review of the progress made by management to implement previously agreed audit recommendations. A copy of the report was presented to A&G on 4 October 2006.
Follow up report (second) on the implementation of Internal Audit recommendations	3/4/07	Not given	N/A	N/A	A review of the progress made by management to implement agreed audit recommendations, and address previously identified breaches of Financial Regulations. A copy of the report was presented to A&G on 3 April 2007.

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
Travel and subsistence - follow up report	27/10/06	Not given	3	0	Although action had been taken to address the previous control weaknesses, it was found that annual checks on driving licences and insurance documents were still not always being completed.

Other Work Completed

- Statement of Internal Control (SIC) for 2005/06, prepared and published as part of the annual Statement of Accounts. Follow up and monitoring of the SIC action plan and directorate action plans, undertaken during the year.
- Report of the Chief Internal Auditor for 2005/06, prepared and presented to A&G on 6 June 2006.
- Mid-term monitor presented to A&G on 31 January 2007.
- Data collected and submitted to the Audit Commission as part of the National Fraud Initiative (NFI) exercise. Investigations ongoing into suspected fraud and error identified as a result of the data matching exercise.
- Support and advice to Neighbourhood Services regarding the move to the new depot.
- Support and advice to the [easy@york](#) project on the development of appropriate controls
- 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 (FMSiS). Detailed review completed to assess whether the eleven secondary schools in York are at Standard (reported to the Officer Governance Group on 3 April 2007).
- Work undertaken (in conjunction with Legal Services) to strengthen the Council's arrangements for preventing, detecting and reporting money laundering

- Work undertaken (in conjunction with Human Resources) to strengthen the Council's arrangements for reporting and recording officer declarations of interest.
- Support and advice to Human Resources regarding changes to the Council's Whistleblowing Policy.
- 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
- Audit completed of the Museum's Trust – chargeable work
- Audit completed of the North Yorkshire Audit Partnership – chargeable work
- Identification and recovery of duplicate payments - £9,254 recovered in 2006/07.

Annex 3

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 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 were 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	

Audit	Days	Justification For Change
<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.

Audit	Days	Justification For Change
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.
Housing Rents*	- 20 days	Delayed until May 2006/07 at the request of the service manager due to work pressures.
Total deletions	- 172 days	

* Not previously reported to Audit and Governance Committee.

Annex 4

Completed investigations into suspected financial irregularities

Nature of Investigation	Findings and Conclusions
Financial irregularities at an establishment	Although the first investigation by Internal Audit was completed, the case is currently subject to internal disciplinary proceedings. Further separate allegations were received which have meant that a second investigation had to be undertaken. This investigation is still ongoing.

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. Details were passed to the Audit Commission who subsequently undertook a full investigation. This investigation found that there was no wrong doing.
Possible collusion in the award of contracts	Preliminary enquires concluded that there was no evidence of collusion, although there were concerns regarding procedural issues relating to the contract award which justified further work. An audit was therefore undertaken in this area as part of the overall planned work.

This page is intentionally left blank

**Annex 5
Counter Fraud Activity**

Activity	Work Completed during 2006/07
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 desktop e-learning training programme was also made available to all staff in Revenues, Benefits, ARM together with relevant teams in Housing.
Public and Internal Fraud Awareness	The service has maintained a good profile in the local press with regular articles following successful court cases. A targeted publicity programme to raise staff and public awareness was delivered in March 2007. The programme included a series of press advertisements and articles, together with the distribution of posters to public buildings and local businesses. Referrals from the public increased by more than 250% during March and April as a result.
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 have also been 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 currently being 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. During

	2006/07, 593 data matches were received from the DWP. These matches were reviewed and 247 were passed for more detailed investigation. In addition, the Fraud team are now 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.
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 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 was 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 6
Investigations, Prosecutions and Sanctions

1,131 fraud referrals were received in the year (2005/06 – 840), which represents an increase of 35% on the previous year. 704 of these cases were passed for investigation (62%).

	2006/07 Actual	2006/07 Target	2005/06 Actual
Number of fraud investigations undertaken	539	520	509
Prosecutions	22	22	35
Administrative Penalties	15	18	11
Cautions	14	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 prosecutions achieved in 2006/07 was less than for 2005/06. Although this was in part due to the Council adopting a new Prosecution Policy from 1 October 2006, the main difference was 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. Performance for 2006/07 was as follows;

	2006/07 Actual	2006/07 Target	2005/06 Actual	Comments
BVPI 76b – Number of investigators per 1000 caseload	0.50	0.51	0.51	There were no changes in the Fraud team establishment during 2006/07. The outturn figure was marginally down due to an increase of 2.9% in the total number of claimants.
BVPI 76c – Number of investigations completed per 1000 caseload	44.59	44.00	43.33	The total number of investigations completed during the year was 539, which represented a 5.9% increase on the previous year. This was offset by the 2.9% increase in the total number of claimants.
BVPI 76d – Number of sanctions/prosecutions per 1000 caseload	4.22	4.90	5.53	Although the total number of cautions and administrative penalties achieved in 2006/07 was similar, the number of prosecutions achieved down. As noted above, this was due to a large backlog of cases with the DWP and the consequential decline in the number of joint prosecutions achieved.



Audit and Governance Committee

25 June 2007

Report of the Assistant Director (Audit and Risk Management)

2006/07 Statement on Internal Control

Summary

- 1 The purpose of this report is to allow consideration of the draft 2006/07 Statement on 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. 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).
- 3 Since the last report was presented to this Committee on 3 April 2007, Internal Audit has completed its review of the Council's governance arrangements and systems of internal control. This has involved each Directorate completing a self assessment of the key controls within their respective areas. Directors have also been required to complete and sign Directorate Assurance Statements, using information obtained from the review of key controls and associated evidence. A similar self assessment of Corporate key controls has been undertaken, and the S151 Officer and Monitoring Officer have been asked to complete and sign disclosure statements. Internal Audit has also gathered and reviewed other documentary evidence to identify possible control weaknesses (for example, the corporate risk register, internal and external audit reports and other inspection reports).
- 4 Group Leaders, the Executive Member and Shadow Executive Member for Corporate Services, the Chairs of Corporate Services EMAP, Standards Committee and the Scrutiny Management Committee, together with Members of the Audit and Governance Committee, were

asked to provide details of any significant control issues which they were aware of, for possible inclusion in the 2006/07 SIC. Details of the control issues which were identified were reported for information to this Committee on 3 April 2007.

- 5 As previously reported, Internal Audit has also reviewed the progress which has been made to address the 10 significant control issues identified in the 2005/06 SIC. In all but one case, work had either been completed or is ongoing to improve the relevant governance arrangements and control framework. The one exception was project and programme management where there was still insufficient evidence to show that key projects are always effectively managed, properly resourced, undertaken in accordance with best practice and deliver the anticipated benefits. In addition, for some of the control issues where work is still ongoing, there was still insufficient evidence that the new or improved control arrangements had been fully embedded across the Council. Where appropriate, the outstanding control issues have been taken forward and included in the draft 2006/07 SIC.

Draft 2006/07 Statement of Internal Control

- 6 Local authorities are required to use judgement in deciding whether control weaknesses are significant and hence require disclosure in the SIC. The Officer Governance Group (OGG) has evaluated the control issues identified through the review process and considered which of these should be disclosed as significant control weaknesses on the basis of the following criteria. A control weakness has been considered significant where;
 - a) the issue has seriously prejudiced or prevented achievement of a principal Council aim or objective;
 - b) the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in a significant diversion of resources from another aspect of the Council's services;
 - c) the issue has led to a material impact on the accounts;
 - d) the Audit and Governance Committee has advised that it should be considered significant for this purpose;
 - e) the Chief Internal Auditor has reported on it as significant in the annual opinion on the Council's internal control environment;
 - f) the issue, or its impact, has attracted significant public interest or has seriously damaged the Council's reputation.
- 7 Corporate Management Team considered the significant control issues which had been identified, together with the draft 2006/07 SIC on 6 June 2007.
- 8 A copy of the draft 2006/07 SIC is attached at annex 1. The draft includes 9 significant control issues. The SIC is scheduled to be signed

by the Leader and the Chief Executive following approval by Council on 28 June. Once approved and signed it then needs to be published as part of the 2006/07 Statement of Accounts.

Monitoring of SIC Action Plans

- 9 As previously agreed by this Committee, responsibility for each significant control issue has been assigned to a named director. The directors concerned have also been required to prepare more detailed action plans even if the full details are not included in the published version of the SIC. Directorates are also preparing action plans to address any control weaknesses identified in their directorate self assessments. Progress to deliver these action plans will be monitored by Internal Audit, and reported to OGG on a quarterly basis.

Consultation

- 10 Not relevant for the purpose of the report.

Options

- 11 Not relevant for the purpose of the report.

Analysis

- 12 Not relevant for the purpose of the report.

Corporate Priorities

- 13 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

- 14 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

- 15 The Council will fail to comply with legislative requirements if it does not publish a Statement on 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 on 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

- 16 Members are asked to;

- Consider the content of the draft 2006/07 SIC, particularly the significant control issues identified and the action plan to address those weaknesses;

Reason

To enable Members to consider the contents of the draft SIC, and in particular the significant control issues identified.

- Note the monitoring arrangements for the overall SIC action plan and the individual action plans for each Directorate.

Reason

To enable Members to comment on the proposed monitoring arrangements.

Contact Details

Author:

Max Thomas
Audit and Fraud Manager
Audit and Risk Management
Telephone: 01904 552940

Chief Officer Responsible for the report:

Liz Ackroyd
Assistant Director (Audit and Risk Management
Telephone: 01904 551706

Report Approved



Date 11 June 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 – 'The Statement on Internal Control in Local Government – Meeting the Requirements of the Accounts and audit Regulations 2003'

Annexes

Annex 1 – draft 2006/07 Statement on Internal Control

This page is intentionally left blank

2006/07 DRAFT STATEMENT ON 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 2007 and up to the date of approval of the Statement of Accounts.

3. The Internal Control Environment

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

STATEMENT ON INTERNAL CONTROL

Policies and Guidance

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

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

Political and Managerial Structures and Processes

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

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

The Council has scrutiny arrangements which include the review of policies, budget and service delivery to ensure that they remain appropriate. Since the approval of the new Constitution in May 2006, the Council has had an Audit and Governance Committee. The purpose of the Audit and Governance Committee is to act as the responsible body charged with governance at the Council. In doing so it provides independent assurance on the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and it oversees the financial reporting process.

Strategic Planning Processes

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

STATEMENT ON INTERNAL CONTROL

Management and Decision Making Processes

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

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

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

Financial Management

The Director of Resources (as the Section 151 Officer) has the overall statutory responsibility for the proper administration of the Council's financial affairs, including making arrangements for appropriate systems of financial control. The Council operates a system of delegated financial management within a corporate framework of standards and financial regulations, comprehensive budgetary control systems, regular management information, administrative procedures (including the segregation of duties) and management supervision.

Compliance Arrangements

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

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

A report is presented to Members on an annual basis detailing compliance with the Council's Financial Regulations. In addition, compliance arrangements are subject to ongoing scrutiny by the District Auditor and other external agencies. The Officer Governance Group also monitors, reviews and manages the development of the Council's corporate governance arrangements. The group comprises the Section 151 Officer, the Monitoring Officer and the Chief Internal Auditor.

Risk Management

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

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

STATEMENT ON INTERNAL CONTROL

The system of risk management includes the maintenance of a risk register, to which all directorates have access. The risk register includes corporate, operational, project and partnership risks, in accordance with best practice in local government. The risk register is used to monitor risks and identify appropriate action plans to mitigate risks. Relevant staff within the Council have also received training, guidance and support in risk management principles.

Internal Audit and Fraud

The Council also operates internal audit and fraud investigation functions in accordance with the Accounts and Audit Regulations 2003 (as amended). The Internal Audit & Fraud Team undertakes an annual programme of review covering financial and operational systems and including systems, regularity, and probity audits designed to give assurance to Members and managers on the effectiveness of the control environment operating within the Council. Through its work the team also provides assurance to the Section 151 Officer in discharging his statutory review and reporting responsibilities. In addition the team provides:

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

Performance Management

The Council recognises the importance of effective performance management arrangements and has been working to secure improvements. The service planning process now incorporates full consideration of actual and planned performance. Each directorate reports performance to Members on a regular basis.

4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its systems of internal control. In preparing this Statement a review of corporate governance arrangements and the effectiveness of the Council's systems of internal control has been undertaken. This review has been co-ordinated by the Officer Governance Group, which comprises the Director of Resources (the Section 151 Officer) and the Head of Legal, Civic and Democratic Services (the Monitoring Officer) and the Head of Audit and Risk Management (the Chief Internal Auditor). The review included consideration of:

- the adequacy and effectiveness of key controls, both within individual Directorates and across the Council
- any control weaknesses identified and included on the Corporate Governance Assurance Statements signed by each Director
- any control weaknesses or issues identified and included on the Disclosure Statements signed by the Section 151 Officer and Monitoring Officer
- any control weaknesses or issues identified and included in the annual report of the Chief Internal Auditor, which was presented to the Council's Audit and Governance Committee
- significant issues and recommendations included in reports received from the District Auditor and other inspection agencies
- the results of internal audit and fraud investigation work undertaken during the period
- the views of those Members and officers charged with responsibility for governance, together with managers who have responsibility for decision making, the delivery of services and ownership of risks
- the Council's risk register and any other issues highlighted through the Council's risk management arrangements
- the outcomes of service improvement reviews and performance management processes
- those control issues identified in the 2005/06 Statement of Control.

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

STATEMENT ON INTERNAL CONTROL

5. Significant Internal Control Issues

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

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Health and Safety			
The Council has a Health and Safety Team within the Human Resources Department which provides professional health and safety advice to all service areas. The 2005/06 SIC identified the need to develop greater consistency in health and safety performance and a more robust corporate framework in order to drive improvement and ensure compliance with legislation and best practice. It was also recognised that the Council needed to satisfy itself that adequate resources were available to provide professional advice and meet statutory requirements. Although some progress has been made there is still insufficient evidence that the required processes are fully embedded across the Council.	During 2006/07 progress was made to develop appropriate Corporate health and safety policies. In January 2007, the new post of Director for People and Improvement was created with a specific role of Council Health and Safety Champion. In March 2007, an additional Health and Safety Advisor post was created to increase the capacity within the team to provide professional advice. Council Officers met with the Health and Safety Executive (HSE) to discuss a proposed management model and associated work plan. These included an emphasis on performance improvement and an audit programme. The management arrangements and work plan were positively received by the HSE. These documents were presented to the Health and Safety Steering Group in May 2007, and are to be presented to Directorate Management Team meetings before the end of July 2007 for their formal acceptance. Responsibility – Director of People and Improvement	September 2007	2005/06 SIC * H&S Prohibition Notices

STATEMENT ON INTERNAL CONTROL

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

STATEMENT ON INTERNAL CONTROL

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Competition and Procurement			
<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 2005/06 SIC identified continuing weaknesses in the Council's competition and procurement arrangements. New Financial Regulations, encompassing comprehensive procurement rules were adopted by Full Council in May 2006, and a training programme to raise awareness was undertaken across directorates. The Corporate Procurement Strategy has however been delayed. During the period the procurement of goods and services across the organisation has also not always complied with EU procurement legislation and the Council's procurement rules and procedures.</p>	<p>The Corporate Procurement Strategy will be adopted in June 2007. The Strategy will include a Competition Policy and a strategic plan for developing the use of procurement by the Council. It will also cover the function of procurement as a whole at the Council over the next three years. In addition, the overall competition and procurement framework will be strengthened by the adoption of a;</p> <ul style="list-style-type: none"> a) Strategic Procurement Programme - this is a programme of strategic procurements that will take place across the Council over the next five years. b) Thin-client methodology. c) Procurement practitioner guidance manual. <p>Responsibility – Director of Resources</p>	December 2007	<p>2005/06 SIC *</p> <p>Annual Breaches and Waivers report *</p> <p>Annual report of the Chief Internal Auditor *</p> <p>Corporate and Directorate Assurance Statements</p>
Accounting Misstatement			
<p>The 2005/06 Statement of Accounts included a material misstatement. The misstatement was caused by a change in government guidance on the valuation of social housing, with the change not being reflected in the annual valuation exercise. Although this was a technical accounting issue, controls should have existed to identify the error before the final valuation figures were included in the approved Statement of Accounts.</p>	<p>For the closing of the 2006/07 accounts, the Head of Finance has carried out a case file review for each department/finance manager. In addition, the Director of Resources has met with the Head of Finance and the accountancy manager to review the draft accounts and question key elements, in particular those related to the balance sheet.</p> <p>In future, steps will be taken to concentrate this work around the identification and review of key changes to the accounts compared to previous years.</p> <p>Responsibility – Director of Resources</p>	June 2006	<p>Annual Governance Report 2006 (External Audit) *</p> <p>2006 Annual Audit and Inspection Letter (External Audit) *</p> <p>Annual report of the Chief Internal Auditor *</p>

STATEMENT ON INTERNAL CONTROL

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Equalities			
<p>Although the Council has an equalities strategy there is insufficient evidence that the Council's policies and procedures are fully embedded within each directorate. Equalities monitoring arrangements need to be strengthened. Staff awareness also needs to be improved so as to ensure compliance with equalities legislation.</p>	<p>The Council's Equality Strategy and action plan is currently being reviewed and updated. The Corporate Equalities Leadership Group has also recently been established to promote the equalities agenda. Four key areas for improvement have been identified;</p> <ul style="list-style-type: none"> a) Monitoring in respect of employment procedures and service users. b) Training for staff. c) Community engagement – there is a need to build stronger links with minority groups. There is also a need to encourage greater involvement by minority groups in the Council's decision making processes. d) Awareness of the equalities agenda and Equalities Unit's work programme - with service users, stakeholders and staff. <p>Responsibility – Director of People and Improvement</p>	March 2008	Corporate and Directorate Assurance Statements

STATEMENT ON INTERNAL CONTROL

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Recruitment and Selection Procedures			
<p>As identified in the 2005/06 SIC, the Council's Recruitment and Selection Policy is not always followed. Although good progress has been made to address the underlying control weaknesses, there is still insufficient evidence that the improved arrangements have been fully embedded.</p>	<p>Directorate Management Teams have been briefed on the revised Recruitment and Selection Policy and processes. Staff have also been made aware of the new requirements. A further follow up audit to examine compliance with the revised policy and procedures, will be undertaken in 2007/08.</p> <p>Responsibility – Director of People and Improvement</p>	September 2007	2005/06 SIC *
Business Continuity			
<p>Business continuity plans and procedures are required to enable the Council to respond effectively to any major events which may impact on the city and/or the ability of the Council to maintain its services. The 2005/06 SIC identified continuing weaknesses in the Council's business continuity arrangements. Although the Council has approved a Business Continuity Policy and Strategy and each directorate has appointed a business continuity champion, the quality of individual directorate plans is still not at the required standard.</p>	<p>A review has been undertaken of the progress made to complete business continuity plans throughout the Council. As a result of the review, the format of the plans has been significantly amended to meet new national guidance. An exemplar document has been prepared together with a template for use by all groups and directorates. This exemplar and template is currently being implemented across the Council with a view to completing group plans by mid autumn. Further work on business continuity has included the preparation of an information document, which has been distributed to businesses in the city. Staff are currently working with a number of businesses to assist them with the preparation of their plans.</p> <p>Responsibility – Director of City Strategy</p>	April 2008	2005/06 SIC * Corporate and Directorate Assurance Statements

STATEMENT ON INTERNAL CONTROL

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Sickness			
<p>The levels of sickness across the Council remain higher than for comparable local authorities. The 2005/06 SIC identified continuing weaknesses in the Council's procedures for monitoring and reporting sickness absence. Although good progress has been made to address the underlying control weaknesses, there is still insufficient evidence that the improved arrangements have been fully embedded.</p>	<p>A corporate Attendance Management Policy was implemented in October 2006. Work has also been undertaken to improve the Council's management information on sickness. The following actions are planned;</p> <ul style="list-style-type: none"> a) Revised procedures and guidelines to support the implementation of the Policy will be issued to staff. b) Revised corporate management reporting arrangements will commence in October 2007. c) A strategic review of the Council's Occupational Health arrangements will be undertaken. This will include consideration of the benefits of proactive health promotion and early interventions designed to minimise the occurrence of unavoidable sickness absence. Any changes will be closely aligned with the Council's well-being agenda and participation in the Health & Safety Executive's Strategic Intervention Programme. <p>Responsibility – Director of People and Improvement</p>	October 2007	<p>2005/06 SIC*</p> <p>Performance and Financial Monitoring Reports *</p> <p>Annual report of the Chief Internal Auditor *</p>

STATEMENT ON INTERNAL CONTROL

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Project Management, Programme Management and Benefit Realisation			
As identified in the 2005/06 SIC, some progress has been made to develop in-house management skills and capacity. However, there was still a need to ensure consistency across the Council. As a result major projects do not always realise the anticipated benefits to the Council. The resources to support key projects also remain limited. Only limited progress has been made to address these issues during 2006/07.	Improving project and programme management is a key action within the Organisational Effectiveness Programme (OEP). Specific improvement work in conjunction with the Audit Commission and the OEP Board has been started. Initially this work is using the OEP as a pilot area, and will continue, building on learning from other key projects (for example, easy@york) during the first part of 2007/08. Once this phase of work is completed (September 2007), it is proposed that the approach and key principles will be applied to other projects during the second half of the year. Responsibility – Director of People and Improvement	March 2008	2005/06 SIC * Corporate risk register * Review of Project Management and Programme Management Arrangements – report (External Audit)

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

Signed

D. N. Atkinson
Chief Executive

Dated

Signed

Clr S. F. Galloway
Leader of the Council

Dated