



Notice of meeting of

Audit & Governance Committee

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| To: | Councillors Pierce (Chair), Brooks, Crisp, Holvey, Moore, B Watson and R Watson |
| Date: | Monday, 24 September 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. Exclusion of Press and Public

To consider the exclusion of the press and public from the meeting during consideration of the following:

Annexes 1-3 to Agenda Item 8 (Annual Monitoring Report: Breaches and Waivers of Financial Regulations 2006/07) on the grounds that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information). This information is classed as exempt under paragraph 3 of Schedule 12A to Section 100A of the Local Government Act 1972 (as revised by The Local Government (Access to Information) (Variation) Order 2006).

3. Minutes (Pages 3 - 8)

To approve and sign the minutes of the meeting of the Audit & Governance Committee held on 25 June 2007.

4. 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 21 September at 5:00 pm.

5. Statement of Accounts 2006/07

This report sets out the changes that have been made to the Statement of Accounts since their approval at Council on 28 June 2007, explains the reasons for the changes and seeks recommendation for the revised Statement of Accounts to be referred to Urgency Committee for approval.

6. Annual Governance Report of the District Auditor (Pages 9 - 44)

This report summarises the key messages, findings and conclusions set out in the Annual Governance Report of the District Auditor in respect of the 2006/07 audit year and advises Members of the action plan arising from the report for forward monitoring and reporting purposes.

7. Review of Internal Audit (Pages 45 - 58)

This report informs Members of the results of the recent Audit Commission review of Internal Audit.

8. Annual Monitoring Report: Breaches and Waivers of Financial Regulations 2006/07 (Pages 59 - 86)

This report informs Members about unauthorised breaches of the Council's Financial Regulations during the 2006/07 financial year and any waivers of Financial Regulations approved by the S151 Officer during the year. The report also includes a summary of

progress made in addressing breaches of Financial Regulations identified and reported in earlier years.

9. Follow Up of Internal Audit Recommendations (Pages 87 - 90)

This report sets out the progress made by departments in implementing those agreed audit recommendations which were due to have been implemented by 31 July 2007. It also includes a summary of the progress made in addressing the implementation of recommendations which have been escalated previously.

10. Risk Management Mid-term Report 2007/08 (Pages 91 - 122)

This report informs Members of the progress made by the Risk Management Team during 2007/08. It considers the achievements in relation to developing and embedding the risk management agenda and framework, and in particular the key deliverables of the 2007/08 work plan, progress against the Comprehensive Performance Assessment (CPA) Key Lines of Enquiry, risk in committee reports and development of a corporate risk management policy.

11. Training Plan Proposals for Audit & Governance Committee Members

To receive a verbal briefing from the Assistant Director (Audit & Risk Management) on training plan proposals for Audit & Governance Committee Members.

12. 2006/07 National Fraud Initiative - Update (Pages 123 - 126)

This report informs Members of the work completed to date in respect of the Audit Commission's National Fraud Initiative (NFI) 2006/07.

13. The Local Code of Corporate Governance (Pages 127 - 152)

This report presents a draft Local Code of Corporate Governance, for consideration by Members. The report also provides Members with details of the new requirement to prepare an Annual Governance Statement, to be published as part of the Statement of Accounts.

14. 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
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Contact details are set out above.

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Further information about what's being discussed at this meeting

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Scrutiny Committees

The purpose of all scrutiny and ad-hoc scrutiny committees appointed by the Council is to:

- Monitor the performance and effectiveness of services;
- Review existing policies and assist in the development of new ones, as necessary; and
- Monitor best value continuous service improvement plans

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| City of York Council | Committee Minutes |
|----------------------|---|
| MEETING | AUDIT & GOVERNANCE COMMITTEE |
| DATE | 25 JUNE 2007 |
| PRESENT | COUNCILLORS PIERCE (CHAIR), BROOKS, CRISP, MOORE, R WATSON (FROM 6PM, FOR PART OF AGENDA ITEM 4 AND AGENDA ITEMS 5-8) AND B WATSON |
| APOLOGIES | COUNCILLOR HOLVEY |

1. DECLARATIONS OF INTEREST

Members were invited to declare at this point in the meeting any personal or prejudicial interests they might have in the business on the agenda.

Councillor Brooks declared a personal non-prejudicial interest in agenda item 4 (Statement of Accounts 2006/07) as a member of the Teachers' Pension Agency.

Councillor Pierce declared a personal non-prejudicial interest in agenda item 4 (Statement of Accounts 2006/07) as a member of the North Yorkshire Pension Fund.

Councillor Richard Watson declared a personal prejudicial interest in agenda item 4 (Statement of Accounts 2006/07), regarding the related parties section of the statement of accounts, as one of the parties listed. He left the room and took no part in the discussion of that section of the document.

Councillor Brian Watson declared a personal non-prejudicial interest in agenda item 7 (Annual Report of the Chief Internal Auditor) as his mother in law lived at Lovell House, which was referred to in Annex 2 of the report.

2. MINUTES

RESOLVED: That the minutes of the Audit & Governance Committee held on 3 April 2007 be approved and signed by the Chair as a correct record.

3. PUBLIC PARTICIPATION

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

4. STATEMENT OF ACCOUNTS 2006/07

Members received a report which enabled them 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 provided 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 allowed the Committee to fulfil the Comprehensive Performance Assessment (CPA) requirement that the accounts had been given a 'robust' scrutiny by Members prior to being approved.

Copies of the Statement of Accounts had been circulated to Members.

The Assistant Director (Strategic Finance) and Principal Accountant explained that the accounts were still undergoing validation and that additional information would be added to some sections when this process was completed.

Members undertook a lengthy, detailed and robust discussion of the Statement of Accounts, in the presence of the District Auditor. The discussion covered a range of issues, including the Pension Fund deficit, depreciation of assets, Housing Revenue Account (HRA) expenditure, school balances, outstanding loans and equal pay liabilities.

RESOLVED: (i) That the questions and issues raised by Members in relation to the 2006/07 financial accounts be noted.

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

5. THE ACTION PLAN ARISING FROM THE ANNUAL AUDIT LETTER 2005/06

Members received a report which set 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.

The District Auditor was present at the meeting to answer Members' questions.

Members discussed a range of issues relating to the draft action plan at Annex B of the report, including use of resources, benefits performance, affordable housing provision, partnership arrangements and sickness absence. They noted that the timescales for the first two actions relating to direction of travel issues were listed as "to be agreed" and requested that an update be circulated to them providing definite timescales for completion, and they queried whether the planned action for the third direction of travel issue was acceptable to the District Auditor. They also requested an update on whether the last of the actions relating to service improvement issues arising from service inspection reports was on schedule for completion in June 2007 as indicated.

RESOLVED: (i) That the issues raised by the District Auditor in the annual Audit Letter and reported to the

Executive on 27 March 2007, attached as Annex A of the report, be noted;

- REASON: (ii) That the draft action plan arising from the Letter, attached as Annex B of the report, be endorsed.
- (i) To advise Members of the scope and content of the Audit Letter;
- (ii) To agree the action plan for subsequent in-year monitoring and follow up purposes by the Audit & Governance Committee during 2007/08.

6. THE ANNUAL AUDIT PLAN 2007/08 & OUTTURN 2006/07

Members received a report which introduced the Audit & Inspection Plan of the District Auditor for 2007/08 and reported performance against the 2006/07 plan for final outturn purposes.

The District Auditor presented the Annual Audit Plan and answered Members' questions.

Members discussed issues relating to the measurement and management of sickness absence.

- RESOLVED: (i) That the Annual Audit Plan, attached as Annex A of the report, be approved;
- (ii) That the outturn issues on last year's audit, included at paragraph 6 of the report, be noted.
- REASON: (i) To advise Members of the scope and content of the plan;
- (ii) To advise Members of the progress of the audit in 2006/07.

7. ANNUAL REPORT OF THE CHIEF INTERNAL AUDITOR

Members received a report which detailed the outcome of audit and fraud work undertaken in 2006/07 and provided an opinion on the overall adequacy and effectiveness of the Council's internal control arrangements.

Significant control weaknesses detailed in the report related to non-compliance and inconsistencies in observing European Union procurement legislation and the Council's Financial Regulations when tendering for goods and services, lack of clearly defined roles and responsibilities for reporting and monitoring of sickness absence and unsatisfactory timing and accuracy of information, and inclusion of a material misstatement in the 2005/06 Statement of Accounts.

With regards to Annex 2 of the report, which set out the audits completed and reports issued in 2006/07, Members requested that future reports include the wording of high priority recommendations.

Members noted that audit opinions on elderly people's homes were not particularly good and queried if this was a result of generic issues and what the Housing & Adult Social Services (HASS) directorate could do to address these. The Chief Internal Auditor agreed to raise this issue with the HASS Finance Manager.

In relation to the audit of building cleaning services, Members highlighted the need to ensure that staff were subject to a Criminal Records Bureau (CRB) check and also expressed the view that these should be reviewed periodically.

With regards to Annex 6 of the report, which detailed investigations, prosecutions and sanctions, Members requested that the number of prosecutions pending be included in future reports.

- RESOLVED:
- (i) That the results of the audit and fraud work undertaken in 2006/07 be noted;
 - (ii) That the opinion of the Chief Internal Auditor on the adequacy and effectiveness of the Council's internal control environment be accepted;
 - (iii) That the significant control weaknesses identified during the year and their inclusion in the 2006/07 Statement of Internal Control be noted.
- REASON:
- (i) To enable Members to consider the implications of audit and fraud findings;
 - (ii) To enable Members to consider the opinion of the Chief Internal Auditor;
 - (iii) To enable the annual Statement of Internal Control to be prepared.

8. 2006/07 STATEMENT OF INTERNAL CONTROL

Members received a report which presented the draft 2006/07 Statement on Internal Control (SIC) for consideration.

A copy of the draft SIC was attached at Annex 1 of the report and included nine significant control issues, identified by the Officer Governance Group (OGG) using the criteria set out in paragraph 6 of the report.

It was reported that responsibility for each significant control issue had been assigned to a named director. The directors concerned had also been required to prepare more detailed action plans even if the full details were not included in the published version of the SIC. Directorates were

also preparing action plans to address any control weaknesses identified in their directorate self assessments. Progress to deliver these action plans would be monitored by Internal Audit, and reported to OGG on a quarterly basis.

RESOLVED: (i) That the content of the draft 2006/07 SIC, particularly the significant control issues identified and the action plan to address those weaknesses, be noted;

(ii) That the monitoring arrangements for the overall SIC action plan and the individual action plans for each Directorate be noted.

REASON: (i) To enable Members to consider the contents of the draft SIC, and in particular the significant control issues identified;

(ii) To enable Members to comment on the proposed monitoring arrangements.

R Pierce, Chair

[The meeting started at 5.30 pm and finished at 8.00 pm].

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Audit & Governance Committee

24 Sept 2007

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

Annual Governance Report of the District Auditor

Summary

- 1 This paper summarises the key messages, findings and conclusions set out in the Annual Governance Report of the District Auditor in respect of the 2006/07 audit year and advises Members of the action plan arising from the report for forward monitoring and reporting purposes.

Background

- 2 The Audit Commission nationally introduced a revised reporting requirement in the summer of 2006 that included a new requirement for an annual governance report to those 'charged with governance' at the Council. The report replaces the previous SAS610 report which had formerly focused principally on matters arising from the audit of the statement of accounts. The scope of the new report has been extended and must be considered by the Council before a statutory deadline of the 30 September each year. This report is made in addition to the Annual Audit Letter rather than replacing it. As a consequence the Annual Audit Letter is now reported later in the reporting cycle than in previous years, slipping from January to March.
- 3 The report focuses on:
 - a) the opinion given on the Council's annual Statement of Accounts and any matters relating to the audit of the accounts that the District Auditor considers appropriate to raise with Council Members;
 - b) the conclusion reached by the District Auditor on the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (the VFM conclusions);
 - c) any other matters specifically required by auditing standards such as non-compliance, fraud & corruption, or any inconsistencies in reporting the financial affairs of the Council;
 - d) any other matters of governance interest.

- 4 In addition, the new International Standards on Auditing (which have applied from 2005/06) now require a 'letter of representation' to be signed by those charged with Governance (in effect the Chair of this Committee) in addition to the S151 Officer.

Key issues

- 5 In summary, the key matters arising from the report are that the District Auditor:
- a) anticipates issuing an unqualified opinion on the accounts by the 30 September 2006 in accordance with the statutory deadline subject to the satisfactory conclusion of the audit work still on-going at the time of this report (*paragraphs 6&7 & Appendix 6*);
 - b) notes a number of significant matters relating to their audit of the final accounts for the Committee's attention, including:
 - an outstanding matter arising from this year's audit of the accounts of material concern to the District Auditor (*paragraph 14*);
 - a number of agreed adjustment to the financial statements following the audit (*paragraphs 18-22*);
 - matters of concern to the District Auditor regarding certain qualitative aspects of the Council's accounting practices and financial reporting arrangements (*paragraphs 24-31*);
 - c) identifies one matter of general governance interest in respect of the internal control environment to high-light for Members' attention (*paragraphs 32&33*);
 - d) has concluded that the Statement of Internal Control has been prepared in accordance with proper practice as specified by CIPFA and accords with the Audit Commission's findings from audit (*paragraph 8*);
 - e) has concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in the use of its resources for the year ending 31 march 2006 (*paragraph 9*);
 - f) work is on-going in respect of the Use of Resources assessment for 2007. The outcomes of this will be reported to Members at the December meeting of A&G.
- 6 In addition, the District Auditor has not had any reason to exercise his statutory powers to issue any reports in the public interest, make written recommendations to the Council requiring public response or refer the Council for best value inspection to the Audit Commission or direction by the Secretary of State further to the provisions of the Local Government Act 1999.

Next steps

- 7 The report has been discussed with officers and an action plan drawn up taking account of officers comments as set out in Appendix 1 to the District Auditor's report. A letter of representation has been prepared for signature by the Chair of this Committee following Members consideration of this item. This has been drafted in accordance with the template provided by the Audit Commission, attached as Appendix 5 to the District Auditor's report and will be brought to the meeting for the Chair to sign. The letter also needs to be signed by the Acting Chief Executive as he was the S151 Officer at the date when the accounts were approved. Unfortunately he is unable to attend Committee and therefore the letter will be pre-signed. This arrangement has been agreed in advance with the auditor.

Consultation

- 8 The report of the District Auditor has been discussed with the relevant responsible officers and has been approved in draft by the S151 Officer. It is reported here for due consultation with those Members charged with governance at the Council.

Options

- 9 Not relevant for the purpose of the report.

Analysis

- 10 Not relevant for the purpose of the report.

Corporate Priorities

- 11 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

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

Risk Management Assessment

- 13 The Council will fail to comply with legislative and best practice requirements to provide for the proper audit of the authority if it does not consider this report or approve and sign off the letter of representation now required by International Auditing Standards . Any failure to do so would be unlawful and adversely impact on the Council's CPA score for

the Use of Resources in 2007 that would in turn adversely impact on the Council's overall CPA score in 2008.

Conclusions

- 14 The Annual Governance Report is generally positive and importantly concludes that the Council arrangements for the Statement of Internal Control (SIC) and for securing Value for Money (VFM) are satisfactory and that the District Auditor anticipates issuing an unqualified opinion on the accounts. Clearly, these matters are crucial to the Council scoring well in these respect in relation to the annual Use of Resources Comprehensive Performance Assessment (CPA) refresh exercise for 2007 (the full results of which will be reported in the Annual Audit Letter). The specific matters raised by the District Auditor at paragraphs 12-31 in relation to the final accounts audit are of immediate concern however and Members will wish to seek the necessary assurances from the relevant officers (who will be attending Committee on the 24 September) that all due remedial work has been and/or will be undertaken in accordance with the action plan set out in Appendix 1 of the District Auditor's report.

Recommendations

- 15 Members are asked to:

- a) note and discuss the matters set out in the Annual Governance Report presented for discussion by the District Auditor and in particular to consider:
 - the matters raised in the report before the amended Statements of Account re-submitted for discussion and approval elsewhere on the agenda for this Committee on the 24 September are approved;
 - the letter of representation to be signed by the Chair of this Committee on behalf of the Council and those charged with governance.

Reason

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

- b) consider the action plan arising from the report as set out in Appendix 1 to the District Auditor's report.

Reason

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

- c) approve the letter of representation for signature by the Chair of this Committee, having first considered whether it sufficiently reflects the views and beliefs of the Committee as those charged with governance at the Council.

Reason

To ensure compliance with International Auditing Standards and relevant legislative requirements

| | |
|--|---|
| Author: | Chief Officer Responsible for the report: |
| Liz Ackroyd Assistant Director of Resources (Audit & Risk Management) Resources Ext 1706 | Liz Ackroyd Assistant Director of Resources (ARM) |
| | Report Approved <input type="checkbox"/> Date 13 September 2006 |

Specialist Implications Officer(s) Not applicable

Wards Affected Not applicable

All

For further information please contact the author of the report

Background Papers

None

Annexes

Annex A The Annual Governance Report of the District Auditor

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Annex A

The Annual Governance Report of the District Auditor

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Annual Governance Report

Date

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- Audit Commission descriptor to be inserted by Publishing-

Document Control

Author Mark Kirkham

Filename Annual governance report draft4.doc

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Contents

| | |
|---|----|
| Purpose of this document | 4 |
| Key messages | 5 |
| Audit status | 6 |
| Accounts and Statement on Internal Control | 7 |
| Unadjusted mis-statements | 7 |
| Adjustments to the financial statements | 7 |
| Accounting practices | 8 |
| Systems of internal control | 10 |
| Use of resources | 12 |
| Work performed | 12 |
| Use of resources assessment | 12 |
| Data quality work | 12 |
| Best value performance plan | 12 |
| Audit fee update | 13 |
| Appendix 1 – Action plan | 14 |
| Appendix 2 – The Audit Commission's requirements in respect of independence and objectivity | 15 |
| Appendix 3 – Audit reports issued | 16 |
| Appendix 4 – Proposed auditor's report | 17 |
| Independent auditor's report to the Members of City of York Council | 17 |
| Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources | 19 |
| Best Value Performance Plan | 20 |
| Certificate | 20 |
| Appendix 5 – Management representation letter | 21 |
| Appendix 6 – Summary of adjusted misstatements | 23 |
| Appendix 7 – Value for money conclusion | 24 |

Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the Audit & Governance Committee).
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Audit & Governance Committee on 24 September. Members attention is drawn to the need to:
 - consider the matters raised in the report before the financial statements are approved;
 - approve the representation letter on behalf of the Council and those charged with governance before we issue our opinion;
 - consider amending the financial statements for unadjusted misstatements;
 - consider the significant qualitative aspects of financial reporting; and
 - consider any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that we presented to you in April 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

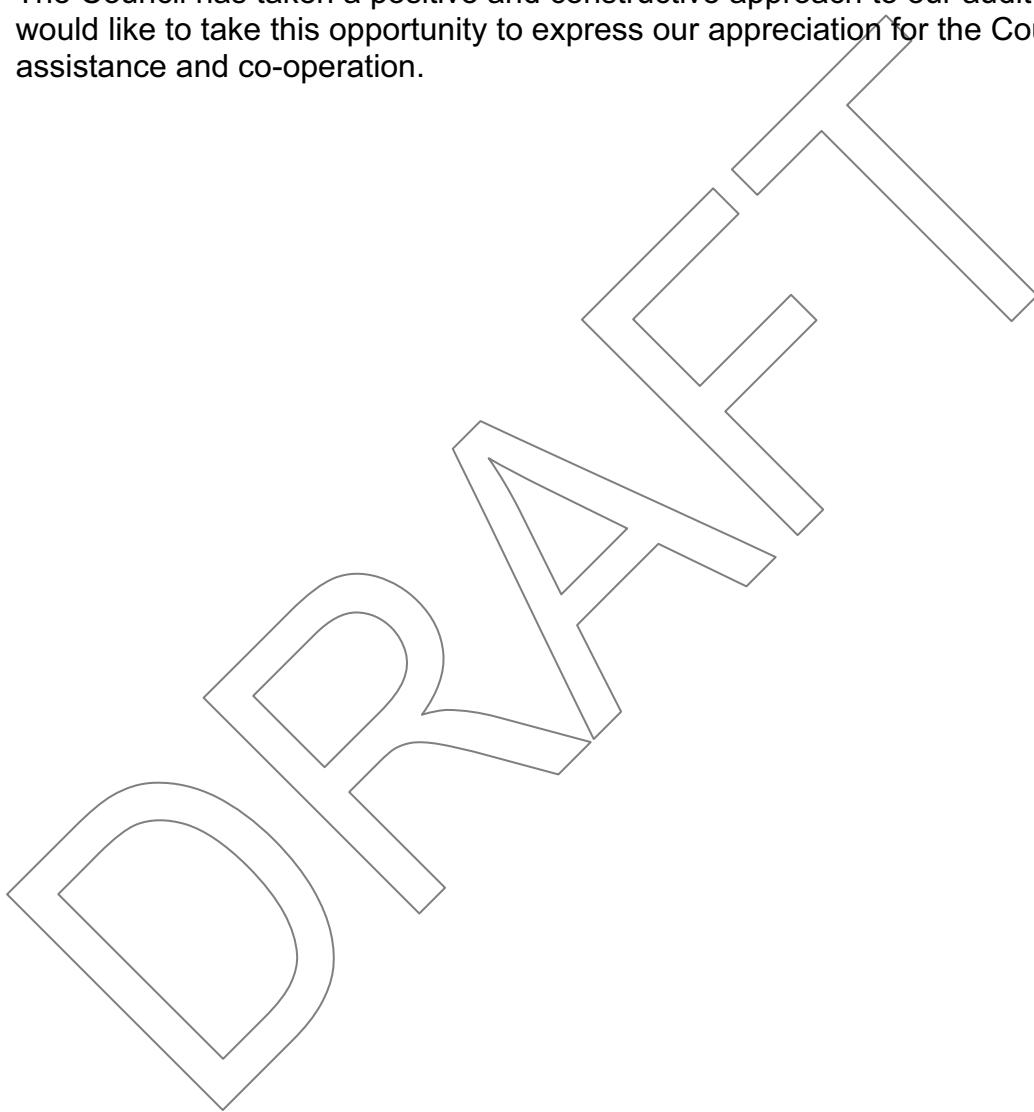
Key messages

- 6 Our work on the financial statements is substantially complete, although there are some outstanding issues to be resolved. In particular, our work on the fixed assets and related capital accounting entries, the cash flow statement and the Council's reserves has yet to be completed. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Director of Resources and the Chair of the Audit & Governance Committee.
- 7 Based on the work completed to date, and assuming that officers amend the accounts for the mis-statements identified later in the report, we intend to issue an unqualified audit opinion on 28th September 2007 (a draft report is attached at Appendix 4).
- 8 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 9 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We intend to issue an unqualified conclusion on 28 September (a draft report is attached at Appendix 4).



Audit status

- 10 At the date of issue of this report our detailed audit is substantially complete. There are a number of issues outstanding, and there are three significant misstatements in the accounts. Officers have agreed to make the necessary amendments to the accounts and for these to be resubmitted for Member approval.
- 11 The Council has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.



Accounts and Statement on Internal Control

- 12 Our work on the financial statements is substantially complete, although there is still some work to be completed and there are some issues to be resolved.
- 13 Our work on the fixed assets and related capital accounting entries has yet to be completed, as has our work on the cash flow statement, and some minor items on the Income and Expenditure Account.
- 14 The most significant matter outstanding relates to the Council's sheltered accommodation which is valued in the financial statements using a formula that was derived many years ago. Officers are currently obtaining further evidence to support the accounting treatment adopted, so this issue is still outstanding.
- 15 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 16 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. The final draft of the letter of representation has been attached as Appendix 5, and this should be signed by the Director of Resources and the chair of the Audit & Governance Committee.

Unadjusted mis-statements

- 17 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. Discussions with officers have indicated that they will amend the accounts for the mis-statements identified in this report and consequently we are not reporting any issues in this section.

Adjustments to the financial statements

- 18 We are also required to bring to your attention mis-statements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. These are recorded in full at Appendix 6 but we provide an analysis of the most significant items below for your attention.

- 19** There is a mis-statement in the 2005-06 comparators in the Statement of Total Recognised Gains & Losses (STRGL). The STRGL is a new statement in 2006-07 and officers have had to retrospectively produce comparative figures for 2005-06. This mis-statement does not affect last year's statement of accounts. The total value of the mis-statement is £10.4M and this will impact on several of the 2005-06 comparator entries in the Statement. Officers report that they will correct the accounts, but they are still finalising the accounting entries to achieve this.
- 20** The Statement of the Movement on the General Fund Balance contains an entry which, while being in accordance with the requirements of the CIPFA Statement of Recommended Practice (SORP), is not in accordance with the CIPFA SORP Practitioners Guidance Notes. The entry relates to the Employers Pensions Contributions (£12.7M). While there is no effect on the general fund balance., in our view the accounts should be amended to comply with the Guidance Notes for Practitioners in order to provide a more transparent and comprehensive analysis of the Council's financial position.
- 21** The Council has included an amount in the Tangible Fixed Assets balance relating to the Hob Moor School. The school was financed by the Private Finance Initiative, and should not be included in the Council's balance sheet. The value on the balance sheet includes an element for the land, and an element for the buildings. Officers report that they intend to remove the element relating to the buildings (valued at £4.12M), but intend to leave the value of the land on the Council's balance sheet (valued at £4.57M). We have not yet completed our consideration of this proposed amendment, and this item is therefore not yet fully resolved.
- 22** Cumulatively these adjustments significantly affect the financial statements so the Council will need to amend the accounts and re-approve them.

Recommendations

- R1 Amend the financial statements to correct the significant mis-statements.*
- R2 Resubmit the accounts for approval.*

Accounting practices

- 23** We are also required to report to you our view on the qualitative aspects of the Council's accounting practices and financial reporting and have set out below our observations on key issues affecting the Council.

Supporting working papers

- 24** Supporting working papers should be produced for all entries in the statement of accounts, and these should be available for audit at the same time as the statement of accounts, i.e., 30th June.

- 25 The background to this year's closedown of the financial statements is that there were difficult staffing issues and significant changes to the format of the accounts. These factors have impacted on the Council's arrangements to produce accurate supporting papers in a timely manner, but even allowing for these factors, we have experienced a number of difficulties with supporting working papers this year.
- 26 We began our audit in mid July, and although some working papers were provided to us at that time, there were a number of key working papers that weren't available until the end of July or early August, and some that were received in early September. For example, the bank reconciliation, one of the fundamental working papers, was not provided to us until early August, and the full breakdown of the Assets Under Construction, balance was provided to us in early September. Similar delays also occurred elsewhere, especially in relation to the fixed asset balances and related capital accounting entries, and officers had to carry out additional work to reconcile the working papers to the accounts.
- 27 Working papers should be referenced to the accounts and cross referenced to other supporting working papers. While many working papers presented for audit were satisfactorily referenced/cross referenced, the evidence suggests that this is not routinely done to the required standard.
- 28 As aspects of financial control are devolved to service departments, it is important for there to be strong channels of communication between the relevant finance staff. We have found examples where the communication could be improved, both between devolved finance staff and within corporate accountancy. Improving such communication is of key importance if the Council is to deliver an effective closedown process in future years.
- 29 It is important that auditors and Council officers share a common understanding on our audit requirements and the expected standards for working papers. The staffing issues and changes to the accounting framework, mentioned in paragraph 25, along with staff changes in the audit team, has led to breakdown in that common understanding this year, and that improvements can be made. To assist officers next year we will provide a list of the key working papers that we will require to conduct our audit, and will engage in a dialogue with officers leading up to the production of the accounts to agree the required standards for the working papers. Additionally, officers should improve the project planning, by producing a more detailed project plan for the production of the 2007-08 financial statements, providing the mechanism to identify slippage against deadlines and to ensure that all key deliverables are completed.

Recommendations

R3 Produce comprehensive supporting working papers to the required timetable.

R4 Improve communication between the Council's finance staff.

R5 Agree working paper requirements, including the required standards, before the start of the closedown process.

R6 *Produce a detailed project plan to manage the closedown process in 2007-08.*

Senior officer review

- 30 In response to our recommendations last year, senior officers reviewed the financial statements before they were submitted for audit. The purpose of this review is to provide assurance to the Director of Resources that the accounts are free from material mis-statement and supported by comprehensive working papers. Our experience of the key working papers suggests that this review should be enhanced to cover the working papers supporting the entries in the key financial statements.

Recommendations

R7 *Enhance the senior officer review of the financial statements to incorporate a review of key working papers.*

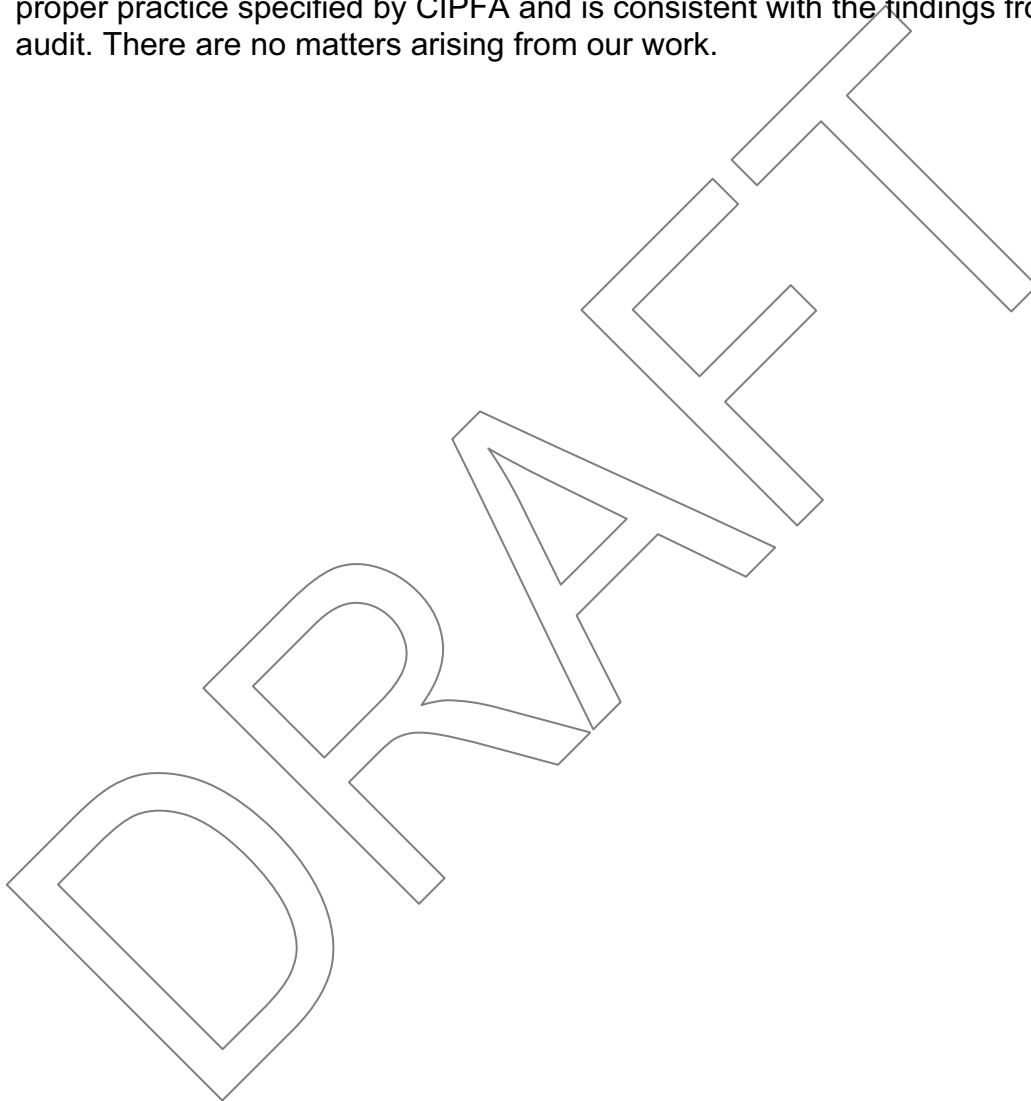
Whole of Government Accounts

- 31 A related part of the Council's closedown process is the production of the Whole of Government Accounts consolidation pack. We have to provide our audit opinion on this consolidation pack by the 1st October, which is also the government's deadline for the Council to produce such details. Officers report that they are in the final stages of completing this work, and expect to submit these for audit by mid-September. As a result we are yet to receive the consolidation pack and working papers.

Systems of internal control

- 32 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. In setting out the weaknesses below, it is important to set these in context. We have reviewed ten of the Council's financial systems in 2006-07. In the majority of these we have found controls to be operating satisfactorily to prevent and detect material mis-statements in the accounts. Additionally we have carried out a review of Internal Audit, and concluded that the Council's Internal Audit service is meeting the requirements of the CIPFA Internal Audit Standards.
- 33 Our review of the financial systems has identified the following weaknesses, which although not likely to lead to material mis-statements, are still significant:
- Within the car parking system:
 - there is no formal reconciliation between the income recorded by each car park machine and the income that is counted by the cashiers and is banked, and

- there is no control to ensure that all the boxes collected from the car park machines are delivered to the cashiers, as the cashiers have no record of which boxes to expect.
- 34** We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 35** We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising from our work.



Use of resources

Work performed

- 36 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- use of resources assessment;
 - data quality work; and
 - the best value performance plan.
- 37 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 7.

Use of resources assessment

- 38 We are currently finalising our report arising from our use of resources assessment. When finalised, we will discuss this with the relevant officers.

Data quality work

- 39 We are currently finalising our data quality review and will report our findings to the relevant officers.

Best value performance plan

- 40 Our work in respect of the Council's 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Audit fee update

- 41 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan:

| | Plan 2006/07 | Actual 2006/07 |
|--|----------------|----------------|
| Financial statements and Statement on Internal Control | 69,000 | 69,000 |
| Use of Resources | 156,000 | 156,000 |
| Total Audit Fees | 225,000 | 225,000 |
| Grants certification work | 50,000 | Work ongoing |
| Other work | 0 | 16,780 |

- 42 The analysis above shows that our audit fee has been contained within the totals you have already agreed, with the exception of the other work. This other work comprises our ethical governance audit, and our review of the arrangements relating to the Moor Lane roundabout.
- 43 The outturn on inspection fees will be reported in the annual audit and inspection letter.



Appendix 1 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|---|--|---|--------|----------|--------------|
| 8 | R1 Amend the financial statements for the significant misstatements. | 3 | Head of Finance | Yes | | 28 Sept 2007 |
| 8 | R2 Resubmit the accounts for approval. | 3 | Head of Finance | Yes | | 28 Sept 2007 |
| 9 | R3 Produce comprehensive supporting working papers to the required timetable. | 3 | Head of Finance | Yes | | 30 June 2008 |
| 9 | R4 Improve communication between the Council's finance staff. | 2 | Head of Finance | Yes | | 30 June 2008 |
| 9 | R5 Agree working paper requirements, including the required standards, before the start of the closedown process. | 3 | Head of Finance & AC Audit Manager | Yes | | 29 Feb 2008 |
| 9 | R6 Produce a detailed project plan to manage the closedown process in 2007-08. | 3 | Head of Finance | Yes | | 31 Mar 2008 |
| 10 | R7 Enhance the senior officer review of the financial statements to incorporate a review of key working papers. | 2 | Director of Resources & Head of Finance | Yes | | 30 June 2008 |

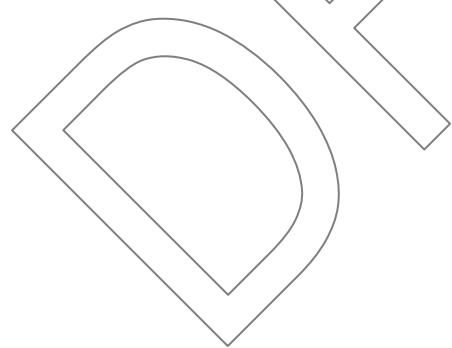
Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Council, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.



Appendix 3 – Audit reports issued

| Planned output | Planned date of issue | Actual date of issue | Addressee |
|---------------------------------|-----------------------|----------------------|--------------------------|
| Audit plan | April 2006 | April 2006 | Council |
| Opinion audit plan | June 2007 | July 2007 | Acting Chief Executive |
| Annual governance report | September 2007 | September 2007 | Audit & Governance Cttee |
| Opinion on financial statements | September 2007 | TBC | Council |
| Use of resources conclusion | September 2007 | TBC | Council |
| Final accounts memorandum | October 2007 | TBC | Director of Resources |
| BVPP report | December 2006 | December 2006 | Council |
| Data quality report | October 2007 | TBC | Chief Executive |
| Annual audit letter | March 2008 | TBC | Council |



Appendix 4 – Proposed auditor's report

Independent auditor's report to the Members of City of York Council

Opinion on the financial statements

- 3 I have audited the financial statements and pension fund accounts of City of York Council for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. The financial statements have been prepared under the accounting policies set out within them.
- 4 This report is made solely to City of York Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

- 5 The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.
- 6 My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
- 7 I report to you my opinion as to 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 2006 the financial position of the Council and its income and expenditure for the year.

- 8 I review whether the statement on internal control reflects compliance with CIPFA's guidance: 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures
- 9 I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

- 10 I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.
- 11 I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

- 12 In my opinion:
 - 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 2006, the financial position of the Council as at 31 March 2007 and its income and expenditure for the year then ended.

Mark Kirkham, District Auditor
Audit Commission

Date

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

- 13 The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.
- 14 Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

- 15 I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.
- 16 I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:
 - certifying that I have done so;
 - stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
 - where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

- 17 I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, City of York Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006

Best Value Performance Plan

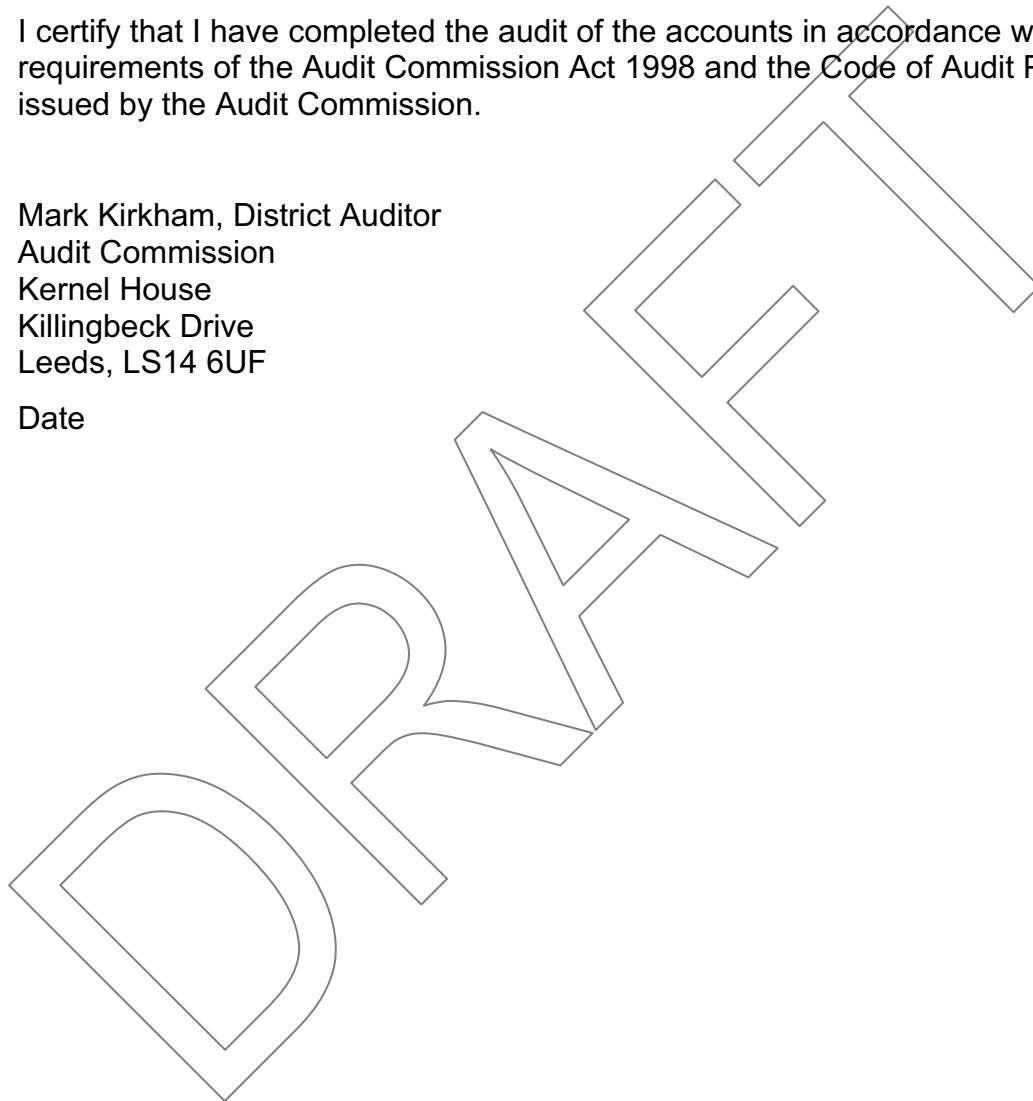
- 18 I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 22 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

- 19 I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mark Kirkham, District Auditor
Audit Commission
Kernel House
Killingbeck Drive
Leeds, LS14 6UF

Date

A large, faint watermark consisting of the letters 'DPA' in a stylized, blocky font, oriented diagonally from bottom-left to top-right across the page.

Appendix 5 – Management representation letter

To:

Mark Kirkham, District Auditor
The Audit Commission
Kernel House
Killingbeck Drive
Killingbeck
Leeds LS14 6UF

City of York Council - Audit for the year ended 31 March 2007

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and members of City of York Council, that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,

- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;
- no financial guarantees have been given to third parties.

Law, regulations and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the PCT.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Council no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

I confirm that the Council adopted the draft accounts at its meeting on 28th June 2007 and that they were prepared on a going concern basis.

Signed on behalf of City of York Council

Signed

Name

Position

Date

Signed

Name

Position

Date

Appendix 6 – Summary of adjusted misstatements

- 1 The following misstatements were identified during the course of our audit and officers report that the financial statements will be adjusted. We bring them to your attention to assist you in fulfilling your governance responsibilities.

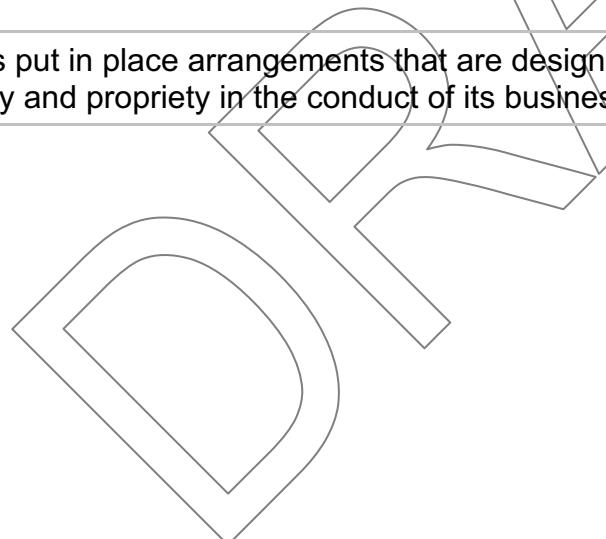
| Adjusted misstatements - Nature of Adjustment | Value of mis-statement £'000 | Entries in the accounts affected |
|---|--|---|
| The 2005-06 comparator value for the Statement of Total Recognised Gains and Losses does not include the capital expenditure that has not added value to the assets | £10,404 | Statement of Total Recognised Gains and Losses - Fixed asset revaluation gain |
| Statement of Movement on General Fund Balance - Pension Cost entry has been recorded net rather than split across two headings within the Statement | £12,738 (though NIL impact on General Fund Balance) | Statement of Movement on General Fund Balance |
| Fixed assets include an amount for Hob Moor School - a school financed under the PFI which should not be on the Council's balance sheet | £4,120 | Balance Sheet - Tangible fixed assets, Fixed asset restatement account. |
| Barbican centre has been included within Tangible Fixed Assets - Operational Assets. Assets that have been earmarked for disposal should be classified as Non-Operational | £765 | Tangible Fixed Assets Other Land & Buildings, and Non-Operational Assets |

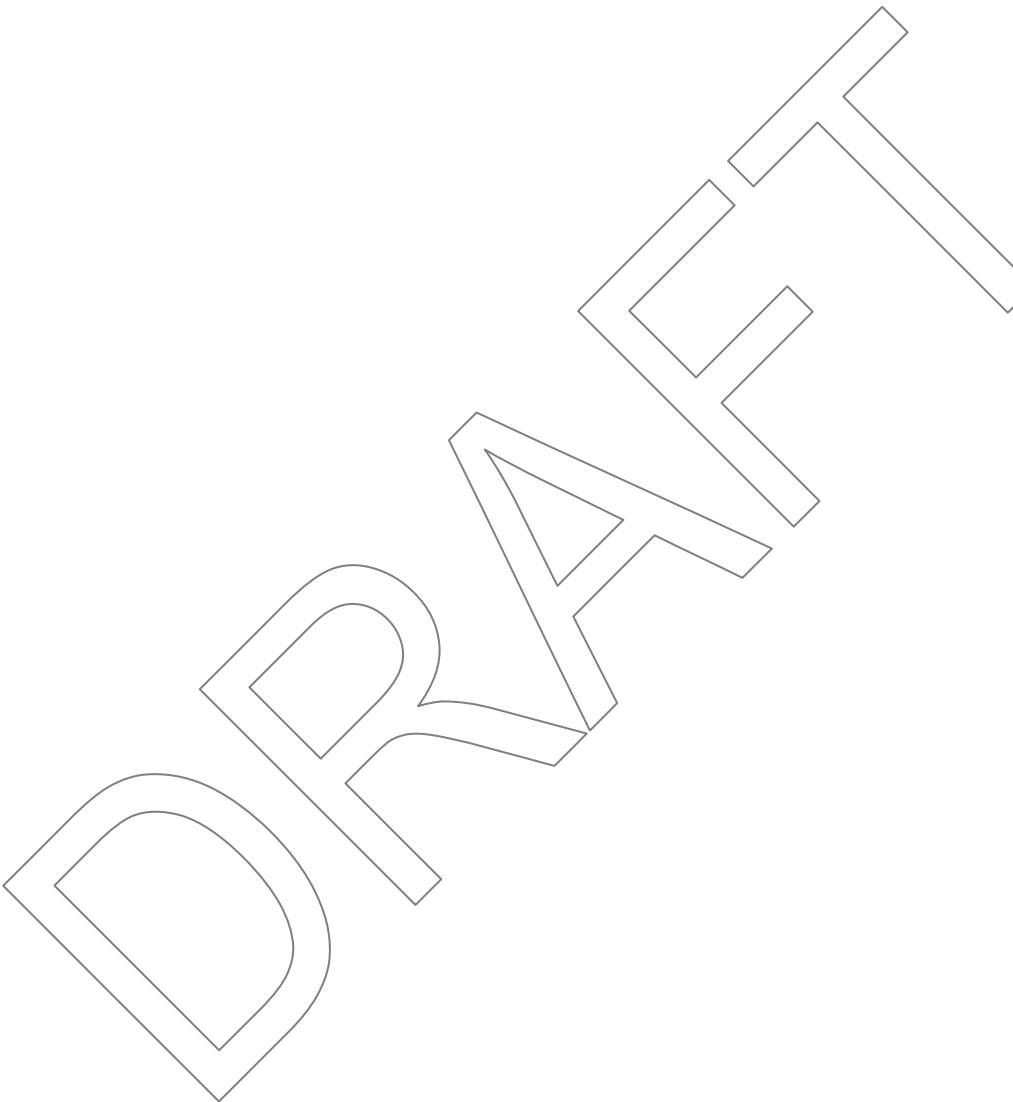
Appendix 7 – Value for money conclusion

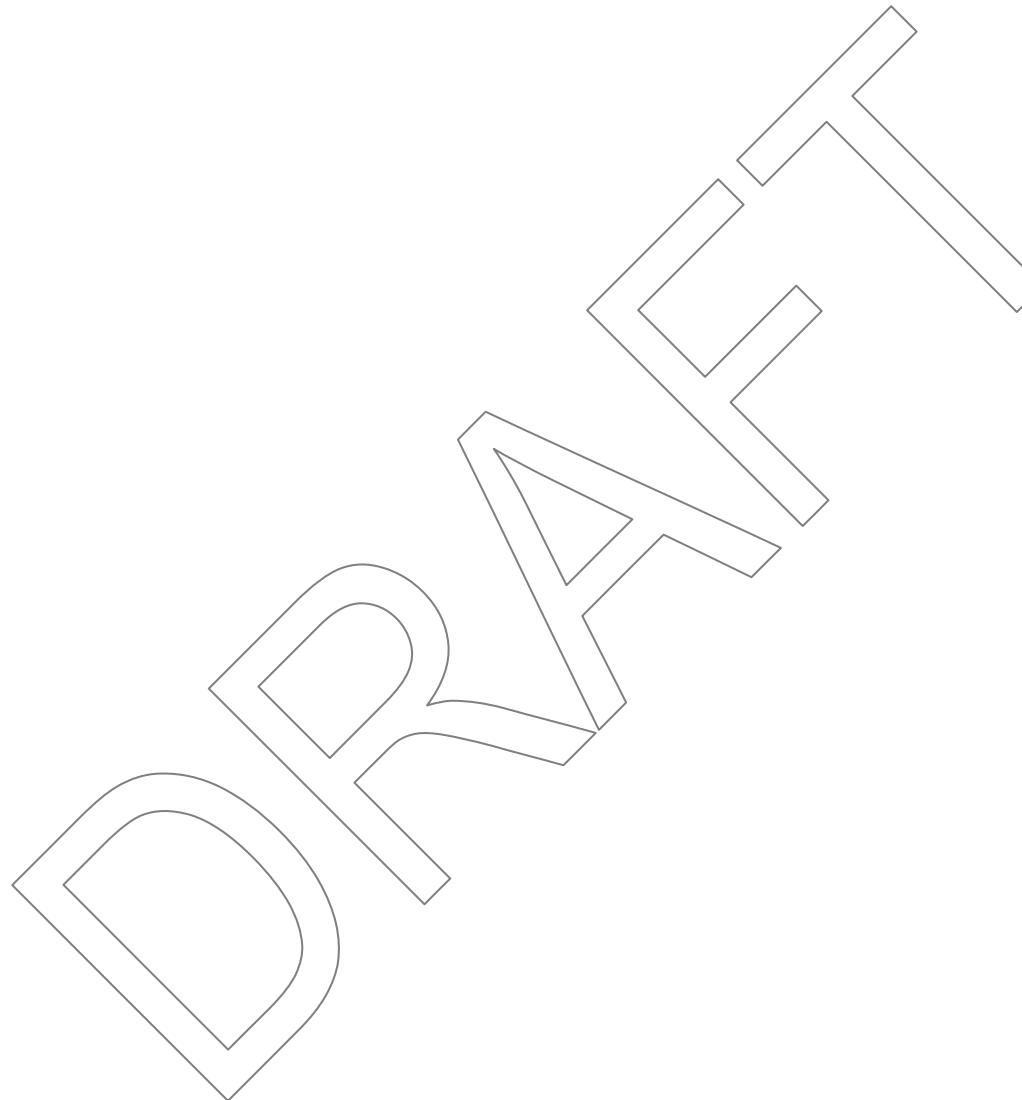
- 2 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.
- 3 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Council has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

| Code Criteria | Description | Associated UoR KLoE | VFM Conclusion (Adequate/ Not adequate) |
|---------------|--|---------------------|---|
| 1 | The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives. | N/A | Adequate |
| 2 | The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account. | N/A | Adequate |
| 3 | The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members. | N/A | Adequate |
| 4 | The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members. | LG DQ KLoEs | Adequate |
| 5 | The body has put in place arrangements to maintain a sound system of | 4.2 | Adequate |

| | | | |
|----|--|-----|----------|
| | internal control. | | |
| 6 | The body has put in place arrangements to manage its significant business risks. | 4.1 | Adequate |
| 7 | The body has put in place arrangements to manage and improve value for money. | 5.2 | Adequate |
| 8 | The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities. | 2.1 | Adequate |
| 9 | The body has put in place arrangements to ensure that its spending matches its available resources. | 3.1 | Adequate |
| 10 | The body has put in place arrangements for managing performance against budgets. | 2.2 | Adequate |
| 11 | The body has put in place arrangements for the management of its asset base. | 2.3 | Adequate |
| 12 | The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business. | 4.3 | Adequate |







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Audit and Governance Committee

24 September 2007

Report of the Assistant Director (Audit and Risk Management)

Review of Internal Audit

Summary

- 1 The purpose of this report is to inform Members of the results of the recent Audit Commission review of Internal Audit.

Background

- 2 The Accounts and Audit Regulations 2003 (as amended 2006) require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. Proper practices are defined as the Code of Practice for Internal Audit in Local Government 2006, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code of Practice was updated in December 2006. To comply with International Auditing Standards, the Audit Commission is required to periodically review the Council's internal audit function.
- 3 The Audit Commission reviewed the work of Internal Audit and assessed compliance with the standards set out in the Code of Practice. The Audit Commission's work was undertaken in April and May 2007.

Results of the Review

- 4 The Audit Commission has concluded that Internal Audit has met the requirements of all eleven standards set out in the Code of Practice. As a consequence, the Audit Commission has also confirmed that it can continue to rely on the work carried out by Internal Audit. The findings of the review will be used by the Audit Commission to inform their assessment of the Council's 'Use of Resources' for Comprehensive Performance Assessment (CPA) purposes. A copy of the full report is attached as Annex 1.
- 5 The overall conclusion represents a significant improvement on the situation when the last review was conducted four years ago, which was at a time when the District Auditor was expressing concerns about the internal audit function in the Annual Audit Letter, and had done so for a number of years.

- 6 The Audit Commission's continuing reliance on the work of Internal Audit and confirmation of the Council's 'managed audit' status helps to minimises the 'opinion' work which the external auditor has to perform, and hence the annual fee charged.
- 7 The Audit Commission has highlighted the process followed by Internal Audit to follow up on previous audit recommendations as an example of good practice. The report has also identified a few changes and/or developments in working practices which should enhance existing audit arrangements. Details of the recommendations made by the Audit Commission are included in Appendix 2 – Action Plan, of the report.

Consultation

- 8 Not relevant for the purpose of the report.

Options

- 9 Not relevant for the purpose of the report.

Analysis

- 10 Not relevant for the purpose of the report.

Corporate Priorities

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

Implications

- 12 The implications are;
 - **Financial** – there are no financial implications to this report.
 - **Human Resources (HR)** – there are no HR implications to this report.
 - **Equalities** - there are no equalities implications to this report.
 - **Legal** - there is a legal requirement on the Council to maintain an adequate and effective system of internal audit.
 - **Crime and Disorder** – there are no crime and disorder implications to this report.
 - **Information Technology (IT)** - there are no IT implications to this report.
 - **Property** - there are no property implications to this report.

Risk Management Assessment

- 13 The Council will fail to comply with legislative requirements if it does not maintain an adequate and effective internal audit. This in turn could result in criticism by the District Auditor in the Annual Audit Letter, and 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

- 14 Members are asked to;

- Note the results of the Audit Commission's review of Internal Audit.

Reason

To enable Members to consider the adequacy and effectiveness of the Council's internal audit 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 10 September
2007

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers

CIPFA – Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Annexes

Annex 1 – Review of the Council's Internal Audit Function – Audit Commission report

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Review of the Council's Internal Audit Function

City of York Council

Audit 2006/07

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

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

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

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

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

Status of our reports

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

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Contents

| | |
|--|-----------|
| Introduction | 4 |
| Background | 4 |
| Audit approach | 4 |
| Main conclusions | 5 |
| Detailed findings | 5 |
| Appendix 1 – Requirements of the Code of Practice for Internal Audit (2006) | 8 |
| Appendix 2 – Action plan | 10 |

Introduction

- 1 Under the requirements of International Standard on Auditing (ISA) 610 ('Considering the work of Internal Audit'), we are required to review the Internal Audit function. Our review considers whether the Internal Audit function complies with its required standards, and we conclude from this assessment whether we can rely on the work of Internal Audit for our own audit responsibilities.
- 2 This report summarises the main findings and recommendations arising from our recent review.

Background

- 3 The Accounts and Audit Regulations (2003) require that the Council:
'Maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control'.
- 4 Proper practices are defined as the Code of Practice for Internal Audit in the UK (the Code) which was re-issued by CIPFA in December 2006. Under the Accounts and Audit Regulations (2003), the Council's Internal Audit function is therefore required to comply with the Code's requirements.
- 5 Under the Audit Commission's Code of Audit Practice, we are required to give an opinion on the Council's financial statements, which include the Statement of Internal Control (SIC).
- 6 The internal audit function plays a fundamental role in providing assurance to Members that the Council's system of internal control is operating effectively or where weaknesses in the system have been identified.
- 7 Our review has assessed compliance with the proper practice as set out in the Code, and recommends where improvements can be made.
- 8 For the purposes of our Code of Audit Practice audit, this review will:
 - establish whether we can rely on Internal Audit work as part of the 2006/07 audit; and
 - provide us with information that may be relevant in relation to the Use of Resources work.

Audit approach

- 9 Our audit approach included:
 - interviewing key officers;
 - reviewing relevant council documents and policies; and
 - reviewing samples of recent Internal Audit work.

Main conclusions

- 10 We conclude that the Internal Audit function has met the requirements of all eleven standards set out within the Code. Consequently our review has provided assurance that we can rely on work carried out by the Council's Internal Audit function.
- 11 Our work has identified some opportunities to enhance the existing working arrangements under the following standards.
 - Standard 3 - Ethics for Internal Auditors.
 - Standard 5 - Relationships.
 - Standard 7 - Audit strategy and planning.
- 12 More detail on potential improvements and examples of good practice is provided in the detailed findings below. A summary of compliance against each of the standards within the Code is provided at Appendix 1.
- 13 Since our last review of Internal Audit, in 2004, improvements have been made, particularly in terms of resourcing, the structure of the IA function and in planning the audit work. Our review concluded that the way recommendations are followed up demonstrates good practice.

Detailed findings

Standard 3 - Ethics for Internal Auditors

- 14 Standard 3 of the Code requires that auditors are reminded of their responsibilities in terms of ethical behaviour on a regular basis.
- 15 The Council's Internal Audit Manual provides guidance to auditors as to what their responsibilities are in terms of ethical behaviour. During 2006/07, Internal Audit carried out an assessment of each individual auditor's skills against the requirements of their role. This assessment found that all auditors had an adequate understanding of their ethical responsibilities.
- 16 The Standard requires formal reminders to be issued to staff about their ethical responsibilities. Internal Audit plan to incorporate the skills assessments into the biennial staff performance appraisals, and we encourage the Council to take this opportunity to formally remind auditors of their ethical responsibilities.
- 17 Standard 3 of the Code also requires that auditors treat sensitive information in a confidential manner. The Council's Internal Audit Manual provides guidance to auditors in terms of confidentiality which we conclude meets the requirements of the standard. The Council plans to introduce a requirement for all auditors to sign a confidentiality statement and we welcome this as a movement towards best practice.

6 Review of the Council's Internal Audit Function | Appendix 1 – Requirements of the Code of Practice for Internal Audit (2006)

Recommendations

R1 Incorporate formal reminders of auditors' ethical responsibilities into performance appraisals as planned.

R2 Deliver plans to require all auditors to sign confidentiality agreements.

Standard 5 - Relationships

- 18 Standard 5 of the Code requires that the Head of Internal Audit manages its relationships in terms of the following.
- How it will liaise with management, external audit and other regulators with whom they work.
 - The nature of each relationship.
 - The expectations and objectives of each party.
- 19 The Internal Audit terms of reference contain protocols describing the relationship between Internal Audit and management and this represents good practice in this area.
- 20 Officers report that working protocols are in place for liaison with the Audit Commission, North Yorkshire Police and the Department for Work and Pensions.

Recommendation

R3 Ensure that the working protocols are kept up to date.

Standard 7 - Audit strategy and planning

- 21 Standard 7 of the Code requires Internal Audit to produce an audit strategy which outlines the following.
- Internal Audit's objectives and proposed outcomes.
 - How evidence will be gathered to support the Head of Internal Audit's opinion on the Council's control environment.
 - How the service will be provided.
 - How Internal Audit's work will address local and national risks.
 - The resources and skills required in order to deliver the strategy.
- 22 We conclude that the requirements of the Standard are met through documentation in a number of documents: the audit and risk management service plan, the Internal Audit five-year strategic plan and annual plan, and the consultation paper submitted to the Audit Committee to support the strategic plan.

- 23 Although the Standard does not require all the above areas to be contained in a single document, it may improve the clarity and transparency of Internal Audit's strategic purpose, direction and approach, to incorporate a narrative section to the Strategic Plan. This could set out:
- the objectives and proposed outcomes;
 - how the work supports the Chief Internal Auditor's opinion on the Council's control environment;
 - how the service is provided;
 - the risk assessment process; and,
 - the resources and skills that are required to deliver the strategy.

Recommendation

R4 Enhance the existing strategy by including narrative information to set out Internal Audit's strategic purpose, direction and approach.

Standard 10 - Reporting

- 24 In our opinion the Internal Audit function fully meets the requirements of standard 10 in terms of its reporting, both to management, and Members.
- 25 The way in which previous audit recommendations are followed up is an example of good practice, and should ensure that recommendations have significant impact in terms of improving the control environment within specific service areas.

Appendix 1 – Requirements of the Code of Practice for Internal Audit (2006)

| Standard | Summary of requirements within the Code | Have the requirements of the standard been met? |
|---|--|--|
| Standard 1 - scope of Internal Audit | Formally defined terms of reference for Internal Audit should be in place. The scope of Internal Audit should be defined and should extend to reviewing services provided by partners if required, and to the investigation of suspected fraud and corruption. | Full compliance with Standard 1 has been achieved. |
| Standard 2 - independence | Internal Audit should be independent of the activities that it audits. The Head of Internal Audit should have the ability to report to management and those charged with governance, about any matter that he sees fit. The status of the Head of Internal Audit within the Council should be such that he is able to influence audit plans, reports and action plans. Individual auditors should be impartial and unbiased. | Full compliance with Standard 2 has been achieved. |
| Standard 3 - ethics for internal auditors | Head of Internal Audit must regularly remind staff of their responsibilities in terms of maintaining integrity, objectivity, competence and confidentiality. | Full compliance with Standard 3 will be achieved with the adoption of signed Statements of Standards and Values. |
| Standard 4 - Audit Committee | An Audit Committee should be in place within the Council and there should be a close working relationship between that committee and the Internal Audit function. | Full compliance with Standard 4 has been achieved. |
| Standard 5 - relationships | Internal Audit must ensure that it manages its relationships with management, the Audit Commission and other regulators, to ensure that it achieves the most effective audit coverage. | Full compliance with Standard 5 has been achieved. |
| Standard 6 - staffing, training and CPD. | Internal Audit should be staffed with sufficient resources, both in terms of numbers and the skills available, in order to achieve the audit plan. Training needs and continuing development should be regularly reviewed. | Full compliance with Standard 6 has been achieved. |
| Standard 7 - audit strategy and planning | An Internal Audit strategy should be in place which communicates the contribution that Internal Audit will make to the Council. An audit plan to span no more than a year should be implemented which should outline the work to be undertaken. | Full compliance with Standard 7 has been achieved through information in relevant documents. |

| Standard | Summary of requirements within the Code | Have the requirements of the standard been met? |
|---|--|--|
| Standard 8 - Undertaking audit work | Head of Internal Audit should set out the requirements in terms of standards of documentation within the audit manual and should put in place arrangements to ensure that these standards are met. | Full compliance with Standard 8 has been achieved. |
| Standard 9 - due professional care | Head of Internal Audit should develop a monitoring and review programme to ensure that due professional care is achieved and maintained. Arrangements must also be in place for auditors to be able to report any suspicions of fraudulent or corrupt behaviour. | Full compliance with Standard 9 has been achieved. |
| Standard 10 - reporting | Head of Internal Audit should set reporting standards to be upheld within all reports issued by Internal Audit. Appropriate arrangements for following up on recommendations should be in place and an escalation procedure when agreed actions are not carried out also needs to be implemented. | Full compliance with Standard 10 has been achieved. |
| Standard 11 - performance, quality and effectiveness. | The Head of Internal Audit should establish policies and procedures in an audit manual to guide staff in performing their duties. The manual should be regularly reviewed and updated to reflect changes in working practices and standards. The Head of Internal Audit should ensure that internal audit staff at all levels are appropriately supervised and work is reviewed throughout all audits to monitor progress, assess quality and coach staff. | Full compliance with Standard 11 has been achieved. |

Appendix 2 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|--|--|--|--------|---|------------------|
| 5 | R1 Incorporate formal reminders of auditors' ethical responsibilities into performance appraisals as planned. | 2 | Assistant Director (Audit and Risk Management) | Yes | Internal Audit staff are being reminded of their ethical responsibilities as part of the current round of appraisals. All future appraisals will also include this requirement. | Ongoing |
| 5 | R2 Deliver plans to require all auditors to sign confidentiality agreements. | 2 | AD (Audit and Risk Management) | Yes | All staff will be required to sign a statement of standards and values. This statement will include a commitment to safeguard confidential information. | 31 October 2007 |
| 6 | R3 Ensure that the working protocols are kept up to date. | 1 | AD (Audit and Risk Management) | Yes | All protocols with external agencies will be reviewed and updated on an annual basis. | 31 December 2007 |
| 7 | R4 Enhance the existing strategy by including narrative information to set out Internal Audit's strategic purpose, direction and approach. | 3 | AD (Audit and Risk Management) | Yes | This will be done as part of the formal update of the strategic audit plan in the autumn, prior to it being reported to Audit and Governance Committee. | 31 December 2007 |



Audit and Governance Committee

24 September 2007

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

Annual Monitoring Report: Breaches and Waivers of Financial Regulations 2006/07

Summary

1. The purpose of this report is to inform Members about unauthorised breaches of the Council's Financial Regulations during the 2006/07 financial year and any waivers of Financial Regulations approved by the S151 Officer during the year. The report also includes a summary of progress made in addressing breaches of Financial Regulations identified and reported in earlier years. The requirement to report on these matters is specified within the Constitution and Financial Regulations.

Background

2. The Council's Financial Regulations set out the procedures and standards for financial management and control that must be followed by officers and Members. Compliance with the Regulations helps to ensure that:
 - there are robust systems of financial management and control
 - the finances of the Council are safeguarded from unnecessary risk
 - the Council achieves value for money in its procurement of goods and services.
3. As part of its role, Internal Audit is responsible for preparing an annual report to members detailing any known breaches of the Regulations along with any waivers from the Regulations approved by the S151 officer. Breaches are identified through various means including direct notification to the Director of Resources by officers, and routine audit work. In addition, a separate audit review is carried out to identify procurement related breaches. This review compares payments made to suppliers against contract details held by departments.

Consultation

4. Details of the findings set out below and in the annexes have been forwarded to chief officers and other relevant officers for comment, prior to inclusion in the report.

Breaches of Financial Regulations

5. Figure 1 below shows the number of breaches of Financial Regulations reported in 2005/06 and 2006/07.

Figure 1

| Number of breaches of Financial Regulations 2005/06 and 2006/07 | 2005/06 | 2006/07 | Change | |
|--|----------------|----------------|---------------|----------|
| | | | No. | % |
| Total number of breaches reported | 40 | 20 | -20 | -50% |
| Newly reported breaches | 13 | 9 | -4 | -31% |
| No. brought forward from previous year | 27 | 11 | -16 | -59% |

6. The total number of breaches of Financial Regulations reported for 2006/07 is 20 – a reduction of 50% on the total number reported for 2005/06. This is largely due to the resolution of a large number of ongoing breaches reported in previous years, through the development of procurement arrangements that comply with Financial and EU procurement Regulations.
7. Annex 1 lists breaches of Financial Regulations newly identified for 2006/07. There were 9 new breaches for 2006/07, compared to 13 in 2005/06 and 22 in 2004/05. Based on the review carried out in preparing this report, it appears that the majority of the new breaches have been caused by administrative oversight or a lack of awareness of the correct procedures. Eight of these breaches have either been resolved, are in the process of being resolved, or are not recurring issues.
8. Of the 40 breaches of regulations reported in 2005/06, 27 had been resolved by the time of the follow up report to Audit and Governance Committee on 3 April 2007. These issues have not been reported on again as part of the current report. In addition, two of the outstanding issues are no longer being treated as breaches – details of these are included in paragraph 10. Of the remaining 11 breaches, three have now been resolved and work is underway to address a further seven. Time has been allocated as part of the 2007/08 Corporate Procurement Team workplan to support officers in the development of contract arrangements for the remaining area. A summary of the results of this follow up is included in Figure 2 below. Details of the breaches are included in annex 2.

Figure 2 – Follow Up of Outstanding 2005/06 Breaches

| Result of Follow Up | No | Notes |
|----------------------------------|-----------|--|
| Resolved | 3 | New compliant procurement arrangements are in place for these areas. |
| In the process of being resolved | 7 | Action is being taken to resolve these breaches, although there are ongoing issues with tendered bus services (see paragraph 9). |
| Still outstanding | 1 | This breach relates to lifts and lift maintenance. Time has been allocated as part of the 2007/08 Corporate Procurement Team Workplan to support the relevant client officers in the development of appropriate contract arrangements. |
| No longer treated as breaches | 2 | See paragraph 10. |

9. Based on the details reported by departments, it is expected that six of the seven breaches that are in the process of being resolved will be addressed by October 2007. However, the tendering of subsidised bus services remains an issue. Although there is a rolling programme in place to re-tender services, this process will not be complete until 2009.
10. There are a number of cross directorate issues where expenditure is incurred across departments (sometimes with a large number of companies) on related types of supply. In many cases, Financial Regulations have been followed by individual departments in placing contracts. However, the lack of a corporate approach means that it is possible that there have been breaches of the regulations based on aggregation rules. Examples of areas previously reported include non-recruitment advertising and security services. As it is not possible to clearly define the breaches that may have occurred, or what the extent of these may be, the issues have no longer been included in the list of breaches reported to Members. There is however a need for the Council to review these issues to identify what corporate arrangements, if any, are required. The issues have therefore been referred to the Corporate Procurement Team for inclusion in their workplan. Other new areas identified that should be considered for review include telecommunications (expenditure outside of current corporate arrangements), minor building repairs and maintenance work, and catering.

Waivers

11. A total of 42 applications for waivers of Financial Regulations were received by the S151 officer in 2006/07. This compares to 28 applications for waivers in 2005/06.
12. Of the applications received, 38 were approved and two were ultimately not required. A further two were rejected. Each approved waiver is detailed in

annex 3 to this report for Members to note and question the S151 officer on any of the decisions taken by him in respect of these matters under the Council's scheme of delegation.

Conclusions

13. The number of new breaches of Financial Regulations has continued to fall in 2006/07 (down from 13 in 2005/06 and 22 in 2004/05). In addition, departments have made good progress in addressing outstanding breaches from previous years. There has also been an increase in the number of waiver requests in 2006/07 (42 compared to 28 in 2005/06). The figures confirm that overall awareness of Financial Regulations, and EU procurement rules is increasing, and that departments are taking action to address any issues that arise.

Options

14. Not relevant for the purpose of the report.

Analysis

15. Not relevant for the purpose of the report.

Corporate Priorities

16. This report contributes to the overall effectiveness of the Council's governance and assurance arrangements, and to the corporate priority of improving efficiency and reducing waste so as to free up more resources.

Implications

17. The implications are:

- **Financial** – while there are no specific implications arising from this report, the breaches set out in annex 1 and annex 2 do give rise to financial risks to the Council. Although it is not possible to quantify the risks arising from any individual breach identified by Internal Audit, for the purposes of this report a summary of the typical kinds of risks arising are included in the section on risk management below, for information. In addition, an indication of the possible implications of each breach is included in the annexes.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - while there are no specific implications arising from this report, the breaches set out in annex 1 and annex 2 do give rise to legal risks to the Council. Although it is not possible to quantify the risks arising from any individual breach identified by Internal Audit, for the purposes of this report a summary of the typical kinds of risks arising are included in the section

on risk management below, for information. In addition, an indication of the possible implications of each breach is included in the annexes.

- **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

18. There are a number of risks that arise as a result of breaches of Financial Regulations and EU procurement rules, which are detailed in paragraphs 19 to 24 below.
19. The Council may be subject to scrutiny from central government and may have grant funding withdrawn if it is found to have breached EU purchasing regulations.
20. Third parties may claim to have been disadvantaged by unfair tendering processes and could raise legal challenges to the award of contracts. There is a risk of financial loss if compensation is subsequently awarded or if contracts are overturned. In this case there is also a threat to the provision of services and the reputation of the Council.
21. Any damage to the reputation of the Council caused by inappropriate tendering processes may compromise relationships with existing suppliers and make it more difficult to attract new suppliers in the future. Such a situation could hinder the provision of services and may lead to increased costs.
22. There is an increased risk that the Council will not achieve value for money in its procurement of goods and services.
23. Poor tendering procedures also increase the risk that fraud or other inappropriate actions may occur.
24. External Audit may challenge the legality of the Council's activities, which in turn may result in the publication of reports in the public interest under section eight of the Audit Commission Act (1998).

Recommendations

25. Members of the Audit and Governance Committee are asked to:
 - note the breaches of Financial Regulations identified or otherwise notified to the S151 officer during 2006/07 (paragraph 7 and annex 1 attached).

Reason

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.

- consider the actions taken to address outstanding breaches of Financial Regulations and express a view about further action necessary on those matters that remain outstanding (paragraphs 8 - 10 and annex 2 attached).

Reason

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.

- note the waivers of Financial Regulations approved by the S151 officer under the Council's scheme of delegation (paragraphs 11 - 12 and annex 3 attached).

Reason

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.

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Report Approved

Date 12 September 2007

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

None

Annexes

Annex 1 – Newly Identified Breaches of Financial Regulations for 2006/07 (Confidential)
Annex 2 – Follow Up of Breaches of Financial Regulations from Prior Years (Confidential)
Annex 3 - Applications for Waivers of Financial Regulations 2006/07 (Confidential)

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Audit and Governance Committee

24 September 2007

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

Follow Up of Internal Audit Recommendations

Summary

1. This report sets out the progress made by departments in implementing those agreed audit recommendations which were due to have been implemented by 31 July 2007.
2. The report also includes a summary of the progress made in addressing the implementation of recommendations which have been escalated previously.

Background

3. In June 2006, the Audit and Governance Committee approved the process to be followed in reviewing and reporting on progress made by service departments to implement agreed internal audit recommendations. In accordance with this process, reports are brought to this Committee every six months setting out the progress which has been achieved. Details are also given of any outstanding recommendations that require referral to the Committee for further action. This report is based on follow up work undertaken by Internal Audit. All recommendations are reviewed once their agreed implementation date has passed. The current status of recommendations is confirmed using a combination of questionnaires completed by departments and by further detailed examination by Internal Audit, where appropriate.

Consultation

4. Details of the findings of follow up work have been discussed with the relevant service managers and chief officers.

Follow Up of Recommendations

5. A total of 151 recommendations were followed up as part of this review. A summary of the priority of these recommendations is included in figure 1, below.

Figure 1: Recommendations followed up as part of the current review

| Priority of Recommendations | No. of Recommendations Followed Up |
|-----------------------------|------------------------------------|
| 1 (High) | 10 |
| 2 (Medium) | 91 |
| 3 (Low) | 50 |
| Total | 151 |

6. Figure 2 below provides an analysis of the recommendations which have been followed up, by Directorate.

Figure 2: Recommendations followed up by Directorate

| Priority of Recommendations | No. of Recommendations Followed Up by Directorate | | | | | |
|-----------------------------|---|---------------|------|------|-----------|------------------------|
| | Chief Executives | City Strategy | HASS | LCCS | Resources | Neighbourhood Services |
| 1 (High) | 0 | 1 | 4 | 3 | 0 | 2 |
| 2 (Medium) | 0 | 4 | 36 | 17 | 10 | 24 |
| 3 (Low) | 0 | 1 | 39 | 5 | 2 | 3 |
| Total | 0 | 6 | 79 | 25 | 12 | 29 |

7. Of the 151 recommendations, 19 (13%) had been superseded (for example, as a result of process changes or because of the cessation of service). Of the remaining recommendations, 127 (84%) have been satisfactorily implemented.
8. In 5 cases (3%), the recommendations had not been fully implemented (although progress had been made in some cases). These were referred back to the relevant service manager or assistant director. Following this, revised implementation dates have been agreed in each case. These recommendations will be followed up again after the revised deadline, and escalated in accordance with the approved procedure, if necessary.

Previously Escalated Recommendations

9. In January 2007, it was reported to Members that the escalation process had commenced with regard to four recommendations, because insufficient progress had been made in implementing them. One of the recommendations has since been implemented satisfactorily and another has been reassigned to another Service Manager, and will now be followed up in early 2008. For the remaining two recommendations, audit work has established that satisfactory progress has been made to date. Progress will continue to be assessed during the following months. It has therefore been decided that it will not be necessary to escalate these recommendations further.

Conclusions

10. The follow up testing undertaken by Internal Audit confirms that in general, good progress has been made by directorates to rectify the weaknesses in control identified by Internal Audit. However, there are a number of areas where work is still required to address the recommendations made. This is an ongoing process and therefore progress in implementing these

recommendations will continue to be monitored, and reported as required through the escalation procedure. There are no specific issues that need to be brought to the attention of the Audit and Governance Committee at this time.

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 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

15. The Council will fail to properly comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government if it fails to follow up on audit recommendations and report progress to the appropriate officers and Members. This in turn would adversely impact on the Council's Comprehensive Performance Assessment (CPA) score for the Use of Resources and therefore its overall CPA score when this is re-assessed.

Recommendations

16. Members of the Audit and Governance Committee are asked to:

- consider and note the progress made in implementing audit recommendations as reported above (paragraphs 7 – 10).

Reason

To enable Members to fulfil their role in providing independent assurance on the Council's control environment.

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Report Approved

Date 13/9/07

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

None

Annexes

None



Audit & Governance Committee

24 September 2007

Report of the Assistant Director (Audit and Risk Management)

Risk Management Mid-term Report 2007/08

Overview

1. This paper is to inform Members of the progress made by the Risk Management Team during 2007/08. It considers the achievements in relation to developing and embedding the risk management agenda and framework, and in particular:
 - i) Key deliverables of the 2007/08 work plan.
 - ii) Progress against the CPA Key Lines of Enquiry.
 - iii) Risk in committee reports.
 - iv) Development of a corporate risk management policy

Background

2. Risk management is a business discipline that public and private sector organisations use to better manage potential opportunities and threats to the achievement of corporate objectives. Risk management forms a key part of the Council's corporate governance arrangements, strategic management and performance management processes.
3. Effective risk management should act as an enabler – supporting well-informed decision making and facilitating sustainable improvements in service delivery. It is fundamental to good management practice and should not be viewed as a separate discipline or token paper exercise to be carried out in isolation.

Progress against 2007/08 work plan

4. At the core of the work plan is the necessity to further embed and improve risk consideration within Council processes. It focuses on the need for an effective training and communication programme and active facilitation of risk consideration at all levels of management teams and within partnerships.

5. The risk management work plan for 2007/08 has been developed taking into account the key issues highlighted in the 2006/07 outturn report to Audit and Governance Committee. The work plan attached at Annex A provides in more detail the progress made in 2007/08. The critical deliverables in the work plan are: -
 - Training and communication programme.
 - Embedding the Risk Management framework.
 - Effective use of the corporate risk register.

Training and communication

6. Training is an essential part of ensuring an effective risk management framework is embedding throughout the Authority, ensuring officers have the tools required. The Risk Management Team delivered training to 75 officers in January 2007 and following its success an ongoing in-house programme will be rolled out from October 2007. This will provide an essential introduction to risk management at City of York Council including its framework and the corporate risk register. The training and communication plan attached as Annex B includes an outline of the training course content.
7. Effective communication is key to the overall promotion of the importance of managing risk and published in News & Jobs on 26 June 2007 was the first risk management article. The focus of this was to raise the profile and highlight the benefits of the corporate risk register. In addition to this a dedicated risk management website is under construction, available on the Council's intranet, providing an additional point of reference and level of support for officers involved in risk management.

Embedding the Risk Management framework

8. It is necessary to embed a robust framework throughout the Council to achieve effective risk consideration and a corporate standard approach. One of the minimum requirements to attaining a level 2 in the Comprehensive Performance Assessment (CPA) is to undertake an annual review of the corporate risk register. This review is achieved through risk identification sessions carried out in collaboration with corporate and directorate management teams which informs the service planning process.
9. Corporate Management Team (CMT) undertook a strategic level risk identification session in September 2006, where they identified the key risks to the Council. The next stage of this process is for Corporate Leadership Group (CLG) to take this work forward and consider the use and distribution of this information across the organisation.

10. The Risk Management Team is coordinating a similar risk identification process with all Directorate Management Teams (DMT). This work has started and is ongoing with the Chief Executive's and Neighbourhood Services DMT's and will commence with Resources, City Strategy, Learning, Culture and Children's Services and Housing and Adult Social Services, later this year.

Effective use of the Corporate Risk Register

11. A new corporate risk register was introduced at the beginning of 2006/07, it is an online, web-based system, used for risk documentation, evaluation and action planning. An essential part of embedding good risk management practices into the culture of the Authority is in ensuring officers effectively and consistently use this system. This forms part of the training and communication programme detailed in paragraph 6.
12. Since the introduction of the system distribution of licences for its access and use has continued to increase, with 40 users currently utilising the system. There had been an initial barrier to take up, with services reluctant to use the system due to the £100 cost to them to purchase a licence. To secure funding for 75 additional licences, taking the total to 100, a corporate ITD (Information Technology Development) bid has been made. If successful these funds will allow the purchase and distribution of further licences in 2008/09. An analysis made of the current distribution and use of licences for the first quarter of 2007/08 is in Annex C.
13. There is good evidence in the risk register and from the licence analysis that major projects including the Admin Accommodation Review and easy@york are using the system effectively. The number of Magique licences held within the Resources directorate and the higher level of use in this area, emphasises this.

CPA

14. Risk management forms one of the key strands (Internal Control) of the CPA inspection process. The Audit Commission is currently reviewing the documentation and supporting evidence to determine the 2006 refresh score. The Council's score for this criteria has consistently been 2 (Fair) and much work was undertaken in 2006/07 to ensure that risk management met the minimum requirements to score at least a 3 (Good) in the 2006 CPA refresh. This work has included:
 - Risk identification with management teams.
 - Development of a corporate policy.
 - Partnership reviews.
 - Project & programme support.
 - Officer training.

Risk in committee reports

15. Risk is one of the required sections used to help inform the Member decision-making process in the new report writing protocol, introduced following the review of the constitution.
16. A review of compliance to the protocol has been made for the first quarter of 2007/08. This analysis attached at Annex D shows a moderate improvement since November 2006, however, detailed analysis identified a noticeable move toward better risk consideration. Report authors have made a considered effort to include risk information, but failed to meet the standard of the protocol through the omission of a scoring mechanism, used to estimate and prioritise the Authority's level of exposure.
17. In consultation with report authors a slightly revised format that is easier to understand and implement will be designed. Providing simplification and closer alignment with other essential report criteria, helping to improve compliance.

Corporate Risk Management Policy

18. As part of delivering an effective risk management framework, work has been undertaken throughout 2007 to develop a corporate risk management policy, underpinning the strategy approved by Members in 2003/04. The policy aims to provide a consistent framework to follow in the development of risk management throughout the organisation. This policy, still in draft, is attached in annex E and Prior to receiving the appropriate approval your views and comments on it are welcome.

Options

19. Not applicable.

Corporate Priorities

20. Risk management relates directly to the Council's priority to '*improve leadership at all levels to provide clear, consistent direction to the organisation*' clear and consistent leadership and direction requires a thorough understanding of all the risks and challenges to the organisation. As risk management should be integrated into all the Council's processes and routines it should help contribute to the effective delivery of all 13 corporate priorities. The key development issues raised in this paper support the actions required to improve the Council's CPA score of 2 for Risk Management to 3 as a minimum prior to the next inspection.

Implications

21. There are no financial, legal, HR or other implications arising from this report.

Risk Management

22. In compliance with the Council's Risk Management strategy. There are no risks associated with the recommendations of this report.

Recommendations

23. Audit and Governance Committee are asked to:

- a) note the contents of this report and progress made during 2007/08;

Reason

To raise awareness of the progress made to date in respect of the risk management agenda and framework at the Council.

- b) Comment on the draft risk management policy;

Reason

To achieve Audit & Governance Committee's endorsement prior to submission to Corporate Management Team and the Executive Committee.

Contact Details

Author:

Claire Rogers
Risk Management Officer
Phone No 01904 551156

Chief Officer Responsible for the report:

Liz Ackroyd
Assistant Director of Resources (ARM)

Report Approved

Date 13/9/07

Specialist Implications Officer(s) Not applicable

Wards Affected Not applicable

All

For further information please contact the author of the report

Background Papers

Audit & Governance Committee Outturn Report 2006/07 (3 April 2007)

Annexes

Annex A Work plan for 2007/08.

Annex B Training and communication plan for 2007/08.

Annex C Analysis of Magique licences issued and in use.

Annex D Analysis of risk identified paragraphs in Executive committee reports.

Annex E Policy (draft).

Risk Management Work Plan 2007/08

Annex A

| Work stream | Progress | Target Date |
|--|---|-------------|
| Development of Corporate Risk Register (Magique) | | |
| Conduct annual review of corporate risk register, to ensure quality of risk information and their regular review | Work in progress with Directorate Management Teams | 31/03/08 |
| Ensure corporate risks are linked to corporate priorities and assign ownership for each | To be completed after the refresh/review of the corporate priorities | 31/03/08 |
| Evaluate key partnership risks using partnership governance questionnaire | Questionnaire for 2007/08 under review in consultation with City Strategy Partnership Officer | 31/11/2007 |
| Complete comprehensive review of partnership risks | To follow issue of revised questionnaire | 31/11/2007 |
| Issue questionnaires to qualify controls for all risks using Magique | Cannot be completed until new release on corporate risk register is in effect | 30/01/08 |
| Develop a more integrated approach to risk management within service planning | New templates to be designed with lead officer for service planning and issued in the first phase of service planning | 30/09/07 |
| Submit an ITD bid for additional licences for Magique for distribute throughout the organisation | Submission complete - awaiting outcome | 30/09/07 |
| Continue and build on embedding work with Directorate Champions | Currently liaising with each directorate champion to coordinate DMT risk identification sessions | ongoing |
| Update home and risk assessment pages within Magique | To be undertaken ASAP. | 30/06/07 |
| Develop simple user manual for Magique | In progress - slippage due to late implementation of corporate risk register upgrade | 15/06/07 |
| Develop available & new reports for customers within Magique | Flex reports tailored for Admin Accom project | ongoing |
| Input into user group to influence new releases for our requirements | User group attended | 30/05/07 |

| Support to Key Projects | | |
|---|---|-----------------------|
| Admin Accom | Development of individual Admin Accom reports | ongoing |
| Easy@york | Support and advice given in respect of use of corporate risk register | ongoing |
| Waste PFI | Support and advice given in respect of use of corporate risk register | ongoing |
| Highways PFI | | on hold |
| Pay & Grading | Support and advice given in respect of use of corporate risk register | ongoing |
| FMS replacement | Support and advice given in respect of use of corporate risk register | ongoing |
| Business Continuity | | |
| Review all Resources Divisional plans and collate them in the directorate plan. | In progress - revised target date 30/09/07 | 31/10/07 |
| Ensure all Resources plans are reviewed and updated at least bi-annually | First review complete | 31/07/07 & 31/01/2008 |
| Exercise Resources plan | Not yet started | 31/03/08 |
| Decision Making | | |
| Develop a more integrated approach to risk management within the financial planning process | In current consultations with lead officer for financial planning | 30/11/07 |
| Monitor use of Risk Management Section within committee papers | Complete and ongoing | 30/08/07 |

| Training & Development | | |
|---|--|----------|
| Develop a risk management training programme to be rolled out corporately to Members & officers | | 30/06/07 |
| Provide RM training to all relevant staff and members | Training dates booked for 02 & 03/10/07 | 31/12/07 |
| Risk Management Communication | | |
| Provide annual risk management report to Executive | In progress | 18/09/07 |
| Develop relationship with Member risk champion | First meeting | 30/12/07 |
| Develop and fully embed monitoring routines at CMT and DMT level | In progress | 30/08/07 |
| Write & publish RM policy | In progress - completed draft out for consultation | 30/06/07 |
| Deliver bi-annual risk management progress reports to A&G and OGG | In progress | ongoing |
| Deliver annual risk management benchmarking exercise | Not yet started | 30/10/07 |
| Develop a risk management communication strategy using News & Jobs etc | 2007/08 T&C programme devised, 1st article completed and published | ongoing |
| Update Resources risk management sub-site with current RM info | In progress - site under construction/development | 31/07/07 |



Risk Management Training and Communication
Programme 2007/08

Introduction

1. Risk management is a key organisational responsibility and a vital component to improving our effectiveness and it is necessary to this in our day-to-day work. It supports and underpins the aspirations of the Corporate Priorities, with links to the four Leadership and Management Standards.
2. There is a need to ensure that risk management has been embedded throughout the organisation and provide evidence of this to help maintain and improve our CPA assessment. This will be achieved through a comprehensive training programme and active communication of the risk management agenda and framework throughout the organisation.
3. Risk management specifically supports the aspirations of the following standards:-

Delivering What Our Customers Want

- Minimises risks and makes the most of opportunities.
- Works effectively with others to solve problems and achieve objectives.
- Anticipates and evaluates opportunities and threats.

Providing Strong Leadership

- Anticipates, identifies and evaluates current and future business opportunities and threats.
- Recommendations include a realistic assessment of the actions and resources needed to achieve objectives.
- Holds people to account for their plans, scheduled actions and delivery.
- Monitors and reviews progress to fine tune projects.

Encouraging Improvement in Everything We Do

- Identifies future obstacles and takes appropriate action to address these.
 - Identifies and manages risks, developing contingency plans for areas of particular uncertainty.
4. A risk management strategy has been adopted by Members that requires the Council to identify and profile corporate and operational risks and for these to be considered in decision making. The development and implementation of a risk management training programme and communication strategy will help to achieve this as well as facilitate the desired outcome of the 'Supporting and Developing People' standard to share information promptly with all those who need it.

Purpose and Objectives

5. Better understanding of the benefits of risk management and making sure that an effective system is in place, the organisation will be able to provide assurance that it is making the most of the opportunities available by minimising the associated risks. This will be achieved through the communication of the risk management framework, ensuring its effectiveness and correct use across the organisation.
6. An effective risk management process will enable the consideration of strategic risks in relation to the Council's priorities and objectives and operational risks in relation to directorate priorities and objectives, including partnerships, programmes and projects.
7. There is often a tendency for risk management to be viewed as a separate function and process, whereas, in practice it should be embedded into everything that we do, becoming part of the culture. The development and implementation of the training programme and communication strategy is intended to overcome this.
8. The training programme and communication strategy will aim to:-
 - Raise awareness and interest in risk management.
 - Support the embedding of risk management in the organisation.
 - Educate on risk management principles.
 - Provide an appreciation of the role of effective deployment of risk management.
 - Ensure everyone is fully aware of their responsibilities.

Training Programme & Communication Strategy

9. A risk management policy will be published, setting out the framework and approach the organisation will have towards managing risk. This will identify the responsibilities and approach to be taken within each service area and business process in the organisation.
10. The availability of a risk management guidance manual will aim to help and support those involved with managing risk with following and implementing the risk management cycle.
11. Currently each directorate management team reviews its risks on an annual basis with operational risks identified as part of the annual Service Planning process. Risk management is an ongoing process and therefore additional support will be offered to all management teams (directorate, divisional and service) to aid their continuous effort to identify, evaluate and monitor risks. The aim will be to facilitate active participation in workshops and/or open discussion to help encourage an ongoing risk management cycle. Also presentations will be available to management teams to give a taster of what is involved in the training programme. It is

important that projects and those working in partnership with other bodies consider risk as part of their management processes. Individual help and support will be offered to these groups with a comprehensive review of partnership working, with a view to identifying any gaps which need to be addressed.

12. The Resources sub-site will be reviewed and updated to include all available and required risk management information.
13. The publication of 'promotion' and 'good practice' articles in News and Jobs will be undertaken to further promote risk management as a good management tool.
14. We will aim to provide a high quality training programme in line with the needs of delegates and the organisation. The training will be delivered to those officers responsible for risk management, including members, directors, assistant directors, service managers and any other officers who require it. The recording, evaluation and action planning in relation to risks is carried out using risk management software (Magique) and an introduction to the use of this system will be included in the programme.
15. The training programme will consist of a range of learning methods including; the provision of necessary documentation for referral, a formal presentation, open discussion, work groups and a demonstration of the Magique software.
16. The specific objectives of the training programme will be to:-
 - Enable participants to become more familiar with risk management principles through active participation and practical exercises.
 - Provide the background and detail of the organisations strategy and framework.
 - Encourage the systematic consideration of risk in everything that the Council does.
 - Promote the view that good governance means taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
 - Ensure that risk management is embedded into the culture of the Council, with Members and managers at all levels recognising that risk management is part of their job
 - Provide examples of current and future risks facing the council.
 - Ensure its relevant to the authorities needs.
 - Promote active participation.
 - Encourage the consideration of opportunity as part of the risk identification process.
 - Familiarise delegates with the use of Magique (corporate risk register).

| Risk Management Training Programme & Communication Strategy Timetable | | | | | | | | | | |
|---|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Work Stream | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar |
| Publish risk management policy | • | | | | | | | | | |
| Update Magique guidance pages | | | • | | | | | | | |
| Produce simple user manual for Magique | | • | | | | | | | | |
| Design risk management training workshops | | • | • | | | | | | | |
| Deliver risk management training workshops to Officers & Members | | | | • | | | • | | | |
| Annual Directorate Management Team risk workshops | | • | • | • | • | • | | | | |
| Embed monitoring routines at management teams | | • | • | • | • | • | | | | |
| Review & update Resources sub-site | | • | | | | | | | | |
| Publish News & Jobs articles | | | • | | | • | | | • | |
| Evaluate partnership risks | | | | | | • | | | | |

Outline Programme

| Agenda Item | Outline course/workshop content | Approx Time (mins) |
|--|--|--------------------|
| Introduction | <ul style="list-style-type: none"> Participants introduction & objectives Training programme aims & objectives Risk management definitions | 10 |
| Risk Management in the Public Sector | <ul style="list-style-type: none"> Risk management changes and drivers Strategic objectives and planning Corporate Governance & CPA Service delivery Projects Partnerships | 10 |
| Risk Management Framework and principles in City of York Council | <ul style="list-style-type: none"> Risk management framework & cycle Policy, strategy & procedures Corporate risk register – Magique Links to corporate strategy & service planning | 10 |
| Break | Coffee/Tea | 10 |
| Workshop 1 | <ul style="list-style-type: none"> Risk identification and assessment | 30 |
| Risk Treatment | <ul style="list-style-type: none"> Options and action planning | 10 |
| Workshop 2 | <ul style="list-style-type: none"> Risk treatment & action planning | 30 |
| Embedding Risk Management | <ul style="list-style-type: none"> Building risk into the planning and budget process etc Monitoring & reporting | 10 |
| Workshop 3 | <ul style="list-style-type: none"> Magique demonstration | 20 |
| Questions & Answers | <ul style="list-style-type: none"> General discussion Complete evaluation form | 10 |
| Close | Elapsed time | |
| | | 150 |

**Analysis of number of Magique licences issued and in active use
Quarter One 2007/08**

| Directorate | No. Licences Held | % of Total Issued | No. In Active Use (Q1) | % In Active Use | % Active of Total Issued |
|---|-------------------|-------------------|------------------------|-----------------|--------------------------|
| Resources | 16 | 40.00% | 10 | 62.50% | 25.00% |
| City Strategy | 7 | 17.50% | 2 | 28.57% | 5.00% |
| Chief Executives | 11 | 27.50% | 2 | 18.18% | 5.00% |
| Neighbourhood Services | 2 | 5.00% | 0 | 0.00% | 0.00% |
| Learning Culture & Children's Services | 2 | 5.00% | 0 | 0.00% | 0.00% |
| Housing & Adult Social Services | 2 | 5.00% | 0 | 0.00% | 0.00% |
| Total | 40 | 100.00% | 14 | | 35.00% |

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Analysis of Risk Management Paragraphs in Executive Committee Reports

| November 2006 | Exec | Executive |
|---|-------------|------------------|
| "Risk Identified" Paragraph complies with the Risk Management Policy for Committee Reports | 6 | 32% |
| "Risk Identified" Paragraph gives some detail information in relation to the risks, however does not comply with the Risk Management Policy | 12 | 63% |
| "Risk Identified" Paragraph not included or does not detail the risks | 1 | 5 % |
| Total Number of Reports Reviewed | 19 | |

| Quarter One 2007/08 | Exec | Executive |
|---|-------------|------------------|
| "Risk Identified" Paragraph complies with the Risk Management Policy for Committee Reports | 1 | 10% |
| "Risk Identified" Paragraph gives some detail information in relation to the risks, however does not comply with the Risk Management Policy | 8 | 80% |
| "Risk Identified" Paragraph not included or does not detail the risks | 1 | 10% |
| Total Number of Reports Reviewed | 10 | |

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Risk Management Policy

2007/08

City of York Council Risk Management Policy

| Contents | Paragraph |
|--|-----------|
| Introduction | 1 - 3 |
| Policy & Framework Objectives | 4 & 5 |
| Risk Management Overview | 6 - 9 |
| Risk Management Cycle | 10 |
| Guiding Principles | |
| Overview | 11 - 13 |
| Service Planning | 14 & 15 |
| Performance Management | 16 |
| Reports & Decision Making | 17 - 20 |
| Projects | 21 - 23 |
| Partnerships | 24 - 28 |
| Magique | 29 - 31 |
| Internal Audit | 32 & 33 |
| External Inspection | 34 & 35 |
| Risk Management Responsibilities | |
| Overview | 36 & 37 |
| Risk Owners Responsibilities | 38 |
| Champions | 39 & 40 |
| Table of Champions | 39.1 |
| Reporting Process | |
| Overview | 41 - 43 |
| Identification and Reporting Table | 41.1 |
| Help & Guidance | |
| Table of Risk Management useful links | 44 & 45 |
| Training & Support | 46 & 47 |

Introduction

1. Risk Management is inherent to good management practice and essentially; it is concerned with establishing what could go wrong (risks), the potential for success (opportunities), and achieving the right balance between the two.
2. The outcome from proper risk consideration ensures that proper managed controls are in place and can help in the effective prioritisation and allocation of potentially scarce resources to the most appropriate area (high risk), ensuring service continuity and constant improvement.
3. Many officers will already be making these considerations in their day-to-day operations and in long-term planning, but not necessarily under the title of risk management. This policy along with other key risk management documents are designed to provide the consistent and concise guidance necessary to put into place an effective consideration of risk. (The help and guidance table in paragraph 44 provides links to all key risk management documentation).

Aims & Objectives

4. This policy document is designed to provide practical advice and guidance for implementing risk management practices within all activities of the organisation. The policy aims to: -
 - fully integrate and embed risk management into the culture of the Authority, and its day-to-day business.
 - raise awareness and the profile of risk management in all areas, including partnerships.
 - achieve appropriate consideration of risk within all reviews of service performance and improvement plans.
 - maintain a robust framework of procedures for the identification, assessment, evaluation and management of risk.
5. The development and embedding of risk management within our existing frameworks will help to facilitate the following outcomes: -
 - Achieving the corporate plan and priorities.
 - Enabling the Authority to anticipate and respond to changing social, environmental, and legislative conditions.
 - Minimising the risk of damage, loss, injury, and inconvenience to citizens, staff, and service users.
 - Maximising the potential for taking advantage of opportunities.
 - Ensuring the Authority's assets both tangible and intangible are protected against loss and damage.

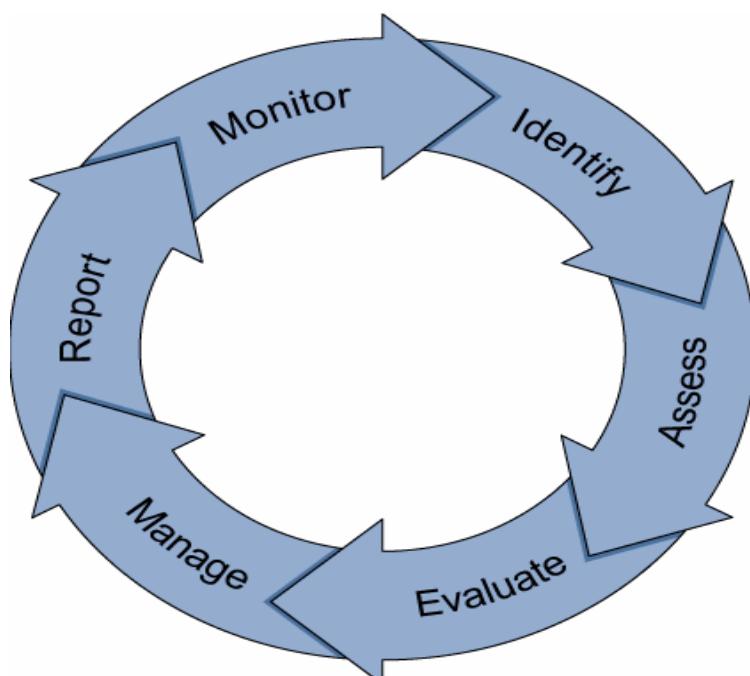
Overview

6. Risk management is a key organisational responsibility and a vital component to improving our effectiveness that supports and underpins the aspirations of the Corporate Priorities.
7. Risk can be defined as ‘the uncertainty of outcome’ or ‘the combination of the probability of an event and its consequences’.
8. Risk management is a proactive and systematic approach to identifying, understanding and managing those risks inherent to the organisation and is increasingly recognised as being concerned with both positive (opportunity) and negative (threat) aspects of risk.
9. Good risk management allows the Authority to have increased confidence in achieving its desired objectives and priorities, through the effective consideration and exploitation of opportunities and the active management and mitigation of the associated threats.

Risk Management Cycle

10. Exhibit 1 shows the standard risk management cycle that has been adopted by City of York Council. This framework details a generic process starting from identification through to monitoring, which can be easily applied in all areas of the business. Specific information and support on the various elements of the process and how to apply it are available in the risk management guidance manual; please refer to the help and guidance table in paragraph 44 for the link.

Exhibit 1.



Guiding Principles

11. This section describes how the integration of risk management into the strategic decision making and routine day-to-day business processes of the Authority is a key priority. It is through the effective embedding of robust risk management into the existing processes that the organisation will be confident it has achieved a balance between the opportunities available to it, against the threats they present.
12. Particular consideration should be given within the following areas: -
 - Service Planning.
 - Performance Management.
 - Reports & Decision Making.
 - Projects.
 - Partnerships.
13. The effective use of the corporate risk register (Magique) in capturing, analysing and managing risks identified through these processes is key to the success of this policy. The following paragraphs set out the various components, drivers and processes that form the risk management framework.

Service Planning

14. Service planning provides a medium to long-term view of the direction of a service. This is a document setting out the framework for delivering services, taking into account opportunities and drivers relevant to objectives. Risk management forms an integral part of this, where the consideration of risk in relation to the services objectives is key.
15. As part of the service planning process, the relevant management team should conduct a risk identification and assessment session. Please refer to the risk management guidance document in paragraph 44 or the risk management department for help and advice on how to do this. The output from this session is then used to update the corporate risk register and high level risks are then included in section six of the service plan.

Performance Management

16. Improved performance is a key deliverable of better risk management, and the tracking of performance against targets and identifying opportunities for improvement is a major focus of the risk management process. It provides a way of measuring the added value, impact and opportunity of a well-embedded and mature framework.

Reports & Decision Making

17. Since the introduction of the new constitution in 2006 and the associated report writing protocols, all formal committee reports must consider risk and include the appropriate ‘risk identified’ paragraph. This is to assist Members in understanding the implications of any recommendations being made. Refer to the help and guidance table in paragraph 44 for ‘A Simple Guide to Risk Entry’.
18. Risk management is already integrated into some elements of the authorities decision making processes, such as officer decision making. This is to demonstrate that reasonable steps have been taken to consider and evaluate associated risks, ensuring that they are addressed at the point decisions are taken. Thus providing for the assurance that all of our decisions are clear and transparent. Refer to the help and guidance table in paragraph 44 for ‘A Simple Guide to Risk Entry’.
19. Risks that are identified and assessed at a rating of 16 or above should be recorded in the corporate risk register. An action plan then needs to be devised to reduce the risk to at least medium and if practicable low within 12 months. Responsibility is assigned to the relevant officer and the action plan is attached to the report as annex.
20. Effective risk management will allow strategic decision makers to ensure that key risks are recognised and dealt with effectively. This includes assigning appropriate accountability, ensuring improvement in performance, and leading to satisfying stakeholders' interests.

Projects

21. The Authority uses the PRINCE2 (an established risk management methodology) approach to project management, as recommended by the Office of Government Commerce (OGC). Further guidance on this methodology is available via the OGC website, a link to which is available in paragraph 44.
22. The Project Manager is responsible for identifying, monitoring, and controlling risks, ensuring their documentation and regular review.
23. Regular reporting is an essential part of any project’s monitoring and progress. The Project Board notifies the Project Manager of any external risks and makes decisions on the Project Manager’s recommendations. The board balances the risks and benefits of the project, and informs more senior/corporate management of any project risks which may affect corporate or programme objectives.

Partnerships

24. Partnerships can be defined as any internal or external body (individuals or groups) with which a department works to deliver their objectives. Increased Government focus on the shared services agenda and collaborative working for the delivery of services emphasises the need to work in partnership and/or collaboration with other organisations. It is through good risk management and in turn the effective governance of these arrangements that we can deliver a successful partnership.
25. The successful delivery and embedding of risk management in partnerships will help to achieve objectives, consistent service levels, effective performance monitoring, and collaborative working.
26. A shared risk management process and risk register is a fundamental part of this success, and should be established within all partnerships.
27. A regular reporting cycle needs to be implemented for reporting risks to the partnership board and in turn the Corporate Management Team may also consider these on a regular basis.
28. A partnership governance questionnaire is available to assist in the evaluation of a partnerships governance arrangements. This is available via the link in the help and guidance table in paragraph 44.

Magique

29. Magique is the corporate risk register used to evaluate, document, monitor and report key organisational risks. There is a hierarchy of access, documentation and monitoring, to enable identified risks to sit and be reviewed at the appropriate level. It has capability to cascade significant risks to the level most appropriate to address and manage them.
30. A significant benefit of this system is the ability to monitor progress and trends of identified risks and action plan the effective control of these. It is a real-time, on-line system, with access available to Members and those with risk management responsibilities. Paragraph 44 provides a link to Magique, and contact information to arrange access.
31. It is through the proper evaluation of identified risks that you should be better able to determine those that need to be recorded within the risk register. It is not necessary to record all identified risks within the corporate risk register, only those considered to be key organisational risks that could possibly present the greatest threat to the organisation.

Internal Audit

32. The Council designs and executes an annual risk-based audit plan in line with the CIPFA code of practice for Internal Audit.
33. Finalised audit reports categorised as 'weak' or 'not acceptable' are forwarded to the risk management department who work with the service manager, to arrange for the recommended actions to be recorded in Magique. This is undertaken within two months of the issue of the final report, to ensure the correct documentation of significant risks and the effective use of Magique to action plan the implementation of mitigating controls.

External Inspection

34. The Comprehensive Performance Assessment (CPA) key line of enquiry (KLOE) clearly states that risk management consideration should be embedded in the business processes. It is therefore important we can show consideration and have documentary evidence to support this, within all of the Authorities processes.
35. Further to this, the CPA is to be replaced with the Comprehensive Area Assessment (CAA) from April 2009. This is likely to contain a forward-looking assessment of risk, which does not rely solely on judgments of past performance.

Risk Management Responsibilities

36. Elected members, staff, and our partners must all accept the management of risks as one of their fundamental management duties, with commitment to identifying and minimising, potential and existing risks.
37. Risk owners are identified individuals best positioned to manage a specific risk, a risk owner is assigned to every identified risk, and recorded in the risk register.
38. Risk Owners Responsibilities: -
 - Identifying, recording, monitoring and managing the risks that will directly affect their service.
 - Ensuring the information contained in the risk register about their risks is kept up to date.
 - Recording and monitoring identified risks in Magique (the corporate risk register).
 - Overseeing the actions set out in the risk register to manage the risks that they own.
 - Reporting all high level risks, to the next level up management team for their review, see 'identification and reporting cycle' in table 40.1.

Champions

39. A Risk Management Champion has been appointed within each directorate and a responsible Member appointed, to help deliver the risk management agenda and develop good practice across the organisation.

39.1 Table of Risk Management Champions

| Area of responsibility | Who | Position |
|--|------------------|--|
| Elected Members | Cllr Paul Healey | Member Champion |
| Resources | Claire Rogers | Risk Management Officer |
| City Strategy | Sian Hansom | Assistant Director of Resource & Business Management |
| Chief Executive's | Sandra Herbert | Business & Performance Manager |
| Neighbourhood Services | Sarah Kirby | Finance Manager |
| Learning, Culture & Children's Services | Kevin Hall | Assistant Director of Resource Management |
| Housing, Adult & Social Services | Graham Terry | Head of Corporate Services |

40. The risk management champion role includes: -

- Providing leadership.
- Playing an active role in the development of the risk management agenda.
- Promoting and championing risk management.
- Ensuring risks are managed, and opportunities are identified.
- Assisting in building capacity and capability.
- Working collaboratively with other directorate champions.
- Monitoring progress and performance.
- Promote the potential for taking advantage of opportunities.

Reporting Process

41. In order to manage risk the Authority must understand what risk it faces, the table below sets out the responsibilities for identifying, monitoring and reporting risks. Identified risks are monitored at the appropriate management team and ****significant risks (those evaluated with a net rating of 16 or above) should be reported to the appropriate senior management team**.**

41.1 Identification and Reporting Cycle

| Risk Level | Identification | Monitoring | Reporting | Frequency |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------|
| Corporate | Corporate Management Team | Corporate Management Team | Executive Members | Annually (September) |
| Directorate | Directorate Management Team | Directorate Management Team | Corporate Management Team | Quarterly |
| Division/ Group/ Arm | Service Planning | Management Team | Directorate Management Team | Biannually |
| Service | Manager | Manager & Team | Management Team | Quarterly |
| Project | Project Manager | Project Leader | Project Board | Ad Hoc |
| Partnership | Client Officer | Directorate Management Team | Partnership Board | Ad Hoc |

42. The above table illustrates a recommended minimum review frequency, and as part of the reporting and monitoring process consideration should be given to the need, where appropriate, for intermediate review.
43. Regular risk reporting is essential to ensure key operational and strategic risks are visibly being considered, addressed and reviewed. To comply with this, high level risks should be included in either existing reporting arrangements or if necessary brought to the attention of the appropriate management team by means of a separate report, highlighting any urgent issues.

Help & Guidance

44. Table of Risk Management links

| Contents | Link |
|---|---|
| Risk Management Department | Resources sub-site |
| Risk Management Guidance | Guidance Manual (available from September 2007) |
| Risk Entry in Committee Reports & Officer Decision Logs | A Simple Guide to Risk Entry |
| Corporate Risk Register | Magique |
| Magique User Guide | Guidance Manual (available from September 2007) |
| Risk Management Champion | Description of Role |
| Partnership Questionnaire | Questionnaire (2007/08) |
| Officer Training Programme | Outline Programme |
| Project Methodology | OGC - PRINCE2 |

45. Please note access to Magique is arranged via the risk management department on ext 1156.

Training & Support

46. To assist with the development of a positive risk management culture appropriate training will be provided to all staff involved with the management of risks, including members, to better equip them in making risk based decisions. A formal risk management training programme exists, details of which are available through the hyperlink in the above table (paragraph 44).

47. Risk Management Department – who to contact

Claire Rogers Corporate Risk Management Officer Ext 1156

This policy will be reviewed annually to ensure its continued relevance and to assess its performance against its aims and objectives as set out above.

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Audit and Governance Committee

24 September 2007

Report of the Assistant Director (Audit and Risk Management)

2006/07 National Fraud Initiative - Update

Summary

- 1 The purpose of this report is to inform Members of the work completed to date in respect of the Audit Commission's National Fraud Initiative (NFI) 2006/07.

Background

- 2 The Audit Commission organise a national data matching exercise every two years. The exercise 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 bodies. The previous NFI exercise in 2004/05 identified over £111 million in fraud and error nationally.
- 3 All local authorities are legally obliged to participate in the NFI exercise, as it forms part of the annual statutory audit. To ensure appropriate safeguards are built into the exercise, and to ensure compliance with the Data Protection Act 1998 (DPA), participating authorities also need to follow the Code of Data Matching Practice 2006. The Code sets out the requirements for ensuring that the data used in the exercise has been appropriately collected and disclosed.
- 4 The Audit Commission specify the required data records, some of which are mandatory. The 2006/07 exercise included new datasets such as creditors and taxi driver licences. A number of the existing datasets, for example payroll, were also expanded to include new categories of data. The data was submitted to the Audit Commission by the due date of 13 October 2006.

Results of the NFI Exercise to date

- 5 The NFI data matches were made available by the Audit Commission on 29 January 2007, via a secure web site. To assist with investigation, the data was grouped into high, medium and low risk categories. A total of 919 data matches were identified for York (excluding creditors), although responsibility for investigating many of these cases rested with other local authorities.

- 6 633 data matches (69%) related to housing benefit claimants. Each of the claims was reviewed by Internal Audit and 31 were found to require more detailed investigation. 11 of these investigations are still ongoing. Benefit overpayments of £4,259 have been identified to date, although none of the investigations so far completed has resulted in a prosecution or sanction.
- 7 Due to apparent discrepancies with certain data matches, the Home Office was requested to confirm the immigration status of 18 people (housing benefit claimants, tenants, taxi drivers and employees). All the matches were found to be the result of timing differences and/or erroneous data.
- 8 A member of staff was found to owe the Council £1.3k in respect of rent arrears for a former tenancy. Arrangements have now been made to recover this debt.
- 9 28 completed and ongoing Right to Buy applications were reviewed for apparent discrepancies. No fraud or error was found with the cases investigated.
- 10 Joint investigations are ongoing with the NHS into a number of apparent discrepancies relating to payroll records.
- 11 A significant number of apparent data matches were found with the creditors data. These matches have been investigated. Apart from 3 duplicate payments which had already been identified by Internal Audit through other work, no fraud or error has been found. It is evident that the large number of matches has been caused by erroneous data, and problems with the way in which the original data was downloaded and subsequently matched by the Audit Commission. Further work is being undertaken by the Audit Commission to refine the matching criteria so as to improve future creditor data matches.

Future Developments

- 12 The 2006/07 NFI exercise included a pilot exercise in four London boroughs designed to identify potential fraudulent Council Tax Single Persons' Discounts (SPD). The pilot has already identified over £2 million of incorrectly awarded discounts. The Audit Commission are planning to extend the pilot to all local authorities in December 2007. The data matches will be made available to local authorities in January/February 2008. If the results from the London pilot exercise are replicated here then we would expect to receive a significant number of matches, which will require investigation.
- 13 Future NFI data matching exercises will include new areas, including residents' parking permits, blue badge parking permits, concessionary travel passes, insurance claims, market traders and private care home residents. Internal Audit have been working with the relevant departments to ensure that the appropriate disclosures are included on

application and renewal forms, so as to ensure compliance with the DPA should the data be used for data matching purposes.

Consultation

14 Not relevant for the purpose of the report.

Options

15 Not relevant for the purpose of the report.

Analysis

16 Not relevant for the purpose of the report.

Corporate Priorities

17 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

18 The implications are;

- **Financial** – there are no financial implications other than the time required to collect and submit the data to the Audit Commission, and to investigate the subsequent data matches.
- **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 participate in the NFI exercise. There is also a requirement to comply with the Data Protection Act.
- **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

19 The Council would be criticised by the external auditor if it did not participate in the NFI. This in turn would adversely impact on the Council's Comprehensive Performance Assessment (CPA) score for the Use of Resources and therefore its overall CPA score when it is re-assessed.

Recommendation

20 Members are asked to;

- Note the results of the 2006/07 NFI exercise to date, and future developments in the scope of data matching;

Reason

To enable Members to consider the results of data matching work undertaken by Internal Audit.

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Report Approved

Date 10 September
2007

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers

None

Annexes

None



Audit and Governance Committee

24 September 2007

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

The Local Code of Corporate Governance

Summary

1. The purpose of this report is to present a draft Local Code of Corporate Governance, for consideration by Members. The report also provides Members with details of the new requirement to prepare an Annual Governance Statement, to be published as part of the Statement of Accounts.

Background

2. In June 2007, the Chartered Institute for Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) published a revised Framework on Corporate Governance. The new Framework replaces the previous CIPFA/SOLACE and is intended to build on the Good Governance Standard for Public Services drawn up by the Independent Commission on Good Governance in Public Services. The Framework represents best practice in local government and is designed to help local authorities develop and maintain appropriate governance arrangements. Under the terms of the new Framework all local authorities are encouraged to review their existing corporate governance arrangements, prepare a local code of corporate governance (based on the Framework) and publish an annual statement.
3. The Accounts and Audit Regulations 2003 (as amended 2006) imposed a legal requirement on all local authorities to publish an annual Statement on Internal Control (SIC) as part of their Statutory Accounts. The new Annual Governance Statement recommended by the Framework will satisfy the legal requirement to publish a SIC.

The Draft Code of Corporate Governance

4. The CIPFA/SOLACE Framework identifies six core principles necessary to support good governance, as follows;
 - a) Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
 - b) Members and officers working together to achieve a common purpose with clearly defined functions and roles;

- c) Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- d) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- e) Developing the capacity and capability of Members and officers to be effective;
- f) Engaging with local people and other stakeholders to ensure robust public accountability.

The Framework document in turn, outlines a series of supporting principles and provides examples of best practice. Local authorities are recommended to develop and maintain a local code of governance, and to report publicly on the extent to which the code has been complied with.

5. A draft Local Code of Corporate Governance has been prepared, detailing the arrangements which the Council currently has in place. It has been structured around the six core principles outlined in the CIPFA/SOLACE Framework. For each principle, the draft Code details the Council's existing governance arrangements. These arrangements take various forms including policies, structures, processes and procedures. The overall responsibility for each element of the governance framework is identified. Furthermore, the draft Code identifies the arrangements for monitoring ongoing compliance with, and the effectiveness of these arrangements. A copy of the draft Code is attached as annex 1 for information.

The Annual Governance Statement

6. From 2007/08, local authorities will be required to prepare and publish an Annual Governance Statement in accordance with the revised Framework. The preparation of this Statement will ensure that the Council meets the requirements of the Accounts and Audit Regulations, as outlined at paragraph 3.
7. As with the preparation of the SIC, Internal Audit will be responsible for conducting an annual review of the Council's governance arrangements and internal control environment. Any areas of significant control weakness which are identified will be published in the Annual Governance Statement and the Code of Governance will be updated, as necessary.
8. Members of the Audit and Governance Committee will be required to scrutinise the content of the Annual Governance Statement prior to its publication.

Actions Required

9. In preparing the draft Code of Governance, it is evident that a few areas may need to be strengthened to ensure that the Council complies fully with the requirements of CIPFA/SOLACE Framework. Further work is however needed to identify the specific actions, if any, which are required to achieve

compliance. A further report will be brought to Members once this work is complete

10. In the 2006/07 SIC, partnership governance arrangements were identified as a significant control weakness. The Code highlights the importance of partnerships in respect of each of the six core principles, and particularly the need to:
 - a) ensure that partnerships provide value for money;
 - b) clarify the legal status of each partnership and the respective responsibilities of partner organisations;
 - c) agree shared values as the basis for decision-making.
11. Work is ongoing to improve partnership governance arrangements, with progress being monitored by the Officer Governance Group.

Conclusions

12. In preparing a Local Code of Corporate Governance, the Council is formalising its commitment to demonstrate good governance. Furthermore it will enable the Council to meet current legislative requirements.

Options

13. Not relevant for the purpose of the report.

Analysis

14. Not relevant for the purpose of the report.

Corporate Priorities

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

Implications

16. The implications are:
 - **Financial** – there are no financial implications to this report.
 - **Human Resources (HR)** – there are no HR implications to this report.
 - **Equalities** – there are no equalities implications to this report.
 - **Legal** – 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

17. The Council will fail to properly comply with the requirements of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.
18. 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 Comprehensive Performance Assessment (CPA) score for the Use of Resources and therefore its overall CPA score when it is re-assessed.

Recommendations

19. Members of the Audit and Governance Committee are asked to:
 - Consider and endorse the draft Code of Corporate Governance as presented at Annex 1.
 - Note the intention to prepare an action plan to address any identified weaknesses in the Council's existing governance arrangements.

Reason

To enable the Council to comply with best practice in respect of corporate governance.

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Report Approved

Date 7/9/07

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

Delivering Good Governance in Local Government – Framework 2007 (CIPFA/SOLACE)
The Good Governance Standard for Public Services 2004 (Independent Commission on Good Governance in Public Services)

Annexes

Annex 1 – Draft Code of Corporate Governance

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Annex 1

City of York Council

Draft Code of Corporate Governance



Contents

| SECTION | | PAGE |
|---------|---|------|
| 1 | Introduction | 3 |
| 2 | The Six Principles of Good Corporate Governance | 4 |
| 3 | The Council's Corporate Governance Arrangements | 6 |
| 4 | Monitoring, Review and Reporting | 10 |
| 5 | Key Documents and Activities | 12 |
| 6 | Contacts and Further Information | 19 |



1.0 Introduction

- 1.1 Corporate governance is the system by which local authorities direct and control their functions and relate to the communities they serve. This extends to how the organisation accounts to, engages with and, where appropriate, leads their community. Good corporate governance requires local authorities to carry out their functions in a way that demonstrates accountability, transparency, effectiveness, integrity and inclusivity.
- 1.2 The City of York Council is committed to demonstrating good corporate governance and has therefore established the necessary arrangements to meet this standard. This Code sets out what the Council's governance arrangements, and who within the Council is responsible for them. It also explains how the arrangements will be kept under review and monitored for compliance.
- 1.3 The Code is intended to demonstrate to all the Council's stakeholders;
 - **Openness and Inclusivity.** Necessary to ensure that stakeholders can have confidence in the decision-making and management processes of local authorities, and in the approach of the individuals within them. Being open through genuine consultation with stakeholders and providing access to full, accurate and clear information leads to effective and timely action and lends itself to necessary scrutiny. Openness also requires an inclusive approach, which seeks to ensure that all stakeholders and potential stakeholders have the opportunity to engage effectively with the decision-making processes and actions of local authorities. It requires an outward focus and a commitment to partnership working, and it encourages innovative approaches to consultation and to service provision.
 - **Integrity.** Necessary for trust in decision making and actions. It is based upon honesty, selflessness and objectivity, and high standards of propriety and probity in the stewardship of public funds and the management of the Council's affairs. It is dependent on the effectiveness of the control framework and on the personal standards and professionalism of Members and officers. It is reflected in the Council's decision-making procedures, in its service delivery and in the quality of its financial and performance reporting.
 - **Accountability.** Necessary to show that Members and officers within the Council are responsible for their decisions and actions, including



their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure.



2.0 The Principles of Good Corporate Governance

- 2.1 The CIPFA/SOLACE Framework defines six core principles that should underpin governance arrangements within local authorities¹. These principles are defined as follows:
1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
 2. Members and officers working together to achieve a common purpose with clearly defined functions and roles
 3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
 4. Taking informed and transparent decisions which are subject to effective and managing risk
 5. Developing the capacity and capability of members and officers to be effective
 6. Engaging with local people and other stakeholders to ensure robust public accountability
- 2.2 The Code addresses the six core principles and the systems and processes that the Council has in place to support these.
- 2.3 The Code also explains how the Council intends to monitor and review its corporate governance arrangements.

¹ These principles are taken from *The Good Governance Standard for Public Services* (2004) developed by the Independent Commission on Good Governance in Public Services.



3.0 The Council's Corporate Governance Arrangements

Principle 1: Focussing on the Council's Purpose and Community Needs

- 3.1 The Council will develop a clear vision and purpose, identify intended outcomes and ensure that these are clearly communicated to all stakeholders of the organisation, both internal and external. In doing so, the Council will report regularly on its activities and achievements, and its financial position and performance. The Council will publish annually;
- The Council Plan, including externally verified performance information;
 - Service Plans;
 - The Statement of Accounts, incorporating the Annual Governance Statement.
- 3.2 In addition, the Council will keep its corporate strategies, objectives and priorities under constant review, so as to ensure that they remain relevant to the needs and aspirations of the community.
- 3.3.1 In undertaking all its activities, the Council will aim to deliver high quality services which meet the needs of service users. Delivery may be made directly, in partnership with other organisations or by a commissioning arrangement. Measurement of service quality will also be a key feature of service delivery. In addition, it will be necessary to measure whether value for money has been achieved in service delivery, and the Council will therefore continue to review this.
- 3.5 The Council will also seek to address any concerns or failings in service failure by adhering to and promoting its Complaints Procedure.

Principle 2: Having Clear Responsibilities and Arrangements for Accountability

- 3.6 To ensure accountability, the Constitution determines the roles and responsibilities of both the Council's executive and non-executive functions. In particular, the Council's Constitution;
- Clearly defines the statutory roles of Head of Paid Service, Section 151 Officer and Monitoring Officer;



-
- Sets out a protocol to address the working relationship between the Leader and the Chief Executive which enables each to negotiate and fulfil their respective roles;
 - Includes schemes of Member and officer delegations;
 - Includes protocols for partnership working that help to ensure that responsibilities are clearly defined and that relationships work effectively for the benefit of service users;
 - Requires appropriate governance arrangements for partnerships, which define the legal status of the entity and also the extent to which decisions taken by the partnership will be binding for each organisation.

The Council's Constitution will be reviewed annually.

- 3.7 In preparing the Annual Governance Statement, the Council will review its involvement in current partnerships and the effectiveness of the governance arrangements in place for each one. The Council will also seek to establish a best practice toolkit for partnership working across the Council.

Principle 3: Good Conduct and Behaviour

- 3.8 The Council will conduct its activities in a manner which promotes high ethical standards and good behaviour. The following policies and protocols have been established and will be kept under review to assist the Council in fostering this culture:

- Member Code of Conduct
- Officer Code of Conduct
- Employee Code of Conduct
- Protocol on Officer/Member Relations
- Staff and Member Registers of Interest
- Whistleblowing policy
- Fraud and Corruption Response Plan

- 3.9 The aim is to develop a set of shared values which will underpin an ethos of good governance. This will be further supported by compliance with legalisation and all relevant professional standards.
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- 3.10 The Council has also established a Standards Committee to discharge its responsibilities for promoting and maintaining high standards of Member conduct. The Standards Committee will meet every two months and monitor compliance against the national code of conduct for councillors.
 - 3.11 Where the Council works in partnership it will continue to uphold its own ethical standards, as well as acting in accordance with the partnership's shared values and aspirations.

Principle 4: Informed, Transparent Decision Making and Managing Risk

- 3.12 The Council observes this principle through the;
 - establishment of an effective scrutiny function;
 - recording of all decisions taken and the reasons for those decisions;
 - maintenance of registers to record potential conflicts of interest;
 - operation of the independent Audit and Governance Committee;
 - existence of an effective and transparent complaints procedure;
 - provision of timely and relevant information to all interested parties;
 - involvement of proper professional legal and/or financial expertise to inform decision-making;
 - existence of an embedded risk management culture;
 - existence of effective whistle blowing procedures;
 - observation of all specific legislative requirements placed upon the Council.
- 3.13 The Council has established an scrutiny framework that enables decisions to be made which reflect the Council's strategic objectives and priorities. Members will be supported in decision making by ensuring that they are properly informed of all legal and resource considerations.
- 3.14 Risk management processes within the Council will be maintained so as to ensure that the risk and impact of decisions can be fully assessed.



Principle 5: Developing Skills and Capacity

- 3.15 The Council is continually seeking to develop the capacity and capability of both its Members and officers in recognition that the people who direct and control the organisation must have the right skills to do so. This is achieved through a commitment to training and development, as well as recruiting people with the right balance of knowledge and experience.
- 3.16 The Council will achieve this by:
- Operating Member and employee induction programmes;
 - Providing career structures to encourage development;
 - Regularly reviewing job descriptions and using these as the basis for recruitment;
 - Working to a Training and Development Plan;
 - Maintaining an effective performance management system;
 - Encouraging a wide variety of individuals to participate in the work of the Council.

Principle 6: Engaging Stakeholders to Ensure Robust Accountability

- 3.17 The Council will seek the views of its stakeholders and respond appropriately. The Council will achieve this by:
- Publishing an annual Statement of Accounts and Council Plan to inform stakeholders and services users of the previous year's achievements and outcomes;
 - Setting a balanced budget;
 - Clearly identifying its stakeholders, in order to ensure that relationships with these groups continue to be effective;
 - Maintaining effective channels of communication which reach all groups within the community and other stakeholders as well as offering a range of consultation methods;
 - Producing an annual report on the performance of the scrutiny function
 - Providing a variety of opportunities for the public to engage effectively with the Authority including attending meetings;



-
- Continuing to operate the Talkabout Citizen's Panel;
 - Presenting itself in an open and accessible manner to ensure that Council matters are dealt with transparently, in so far as the need for confidentiality allows;
 - Developing a consultation policy which will outline how staff and their representatives are consulted and involved in decision-making.



4.0 Monitoring, Review and Reporting

4.1 The Council has two Committees that are jointly responsible for monitoring and reviewing the Council's corporate governance arrangements:

- The Audit and Governance Committee;
- The Standards Committee.

The two committees will liaise on any issue, principally matters relating to corporate governance that may be of common concern to both.

4.2 The Audit and Governance Committee is independent of the Council's Executive and Scrutiny and has various powers and responsibilities in relation to audit and governance issues, as detailed in the Constitution.

4.3 The Standards Committee meets every two months to promote and maintain high standards of conduct by Councillors and co-opted Members of the Council. The Committee also assists Councillors to observe the Code of Conduct adopted by City of York Council under section 51 of the Local Government Act 2000 and provides advice to the Council on issues relating to Member/officer relations. The Committee includes independent members.

4.4 Further to the two Member committees outlined above, the Council has also established an Officer Governance Group which is responsible for overseeing the delivery of an integrated programme of work to support the development of robust corporate governance arrangements, and to keep implementation of such arrangements under on-going review.

4.5 The Council is required to annually review the effectiveness of its system of internal control². This review will seek to:

- Identify principal risks to the achievement of Council objectives;
- Identify and evaluate key controls to manage principal risks;
- Obtain assurances of the effectiveness of key controls;
- Evaluate assurances and identify gaps in control/assurances.

² As required by Regulation 4 of the Accounts and Audit Regulations (2003), as amended 2006.



The Annual Governance Statement

- 4.6.1 Following the annual review by Internal Audit, an Annual Governance Statement (AGS) will be published as part of the Council's Statement of Accounts. This will provide an overall assessment of the Council's corporate governance arrangements. In publishing the AGS, the Council will be fulfilling its duties to publish a Statement on Internal Control³.
- 4.8 Action plans will be drawn up in response to any significant control weakness identified in the AGS. A follow up process will be overseen by the Officer Governance Group to ensure continuous improvement of the system of corporate governance.

³ As required by regulation 4 of the Accounts and Audit Regulations (2003), as amended 2006

5.0 Key Documents and Activities

| Document/ Activity | Key Governance Principle | | | | | |
|--|--|---|----------------------------|---|--------------------------------|---|
| | Focussing on the Council's purpose and Community Needs | Having Clear Responsibilities and Arrangements for Accountability | Good Conduct and Behaviour | Informed, Transparent Decision Making and Managing Risk | Developing Skills and Capacity | Engaging Stakeholders to Ensure Robust Accountability |
| <i>Overall Responsibility: Chief Executive (Head of Paid Service)</i> | | | | | | |
| <i>Lead Officer: Director of People & Improvement</i> | | | | | | |
| Constitution | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Corporate Strategy | ✓ | ✓ | | | | ✓ |
| Constitutional arrangements for Statutory Officers (Head of Paid Service, Monitoring Officer, Section 151 Officer) | ✓ | ✓ | | ✓ | | |
| Council and Executive Procedure Rules | ✓ | ✓ | ✓ | ✓ | | |
| Member Code of Conduct | | | ✓ | | ✓ | |
| Officer Code of Conduct | | | ✓ | | ✓ | |
| Overview and Scrutiny Function | ✓ | ✓ | | ✓ | | ✓ |
| Council Plan / Best Value Performance Plan | ✓ | ✓ | | ✓ | | ✓ |
| Comprehensive | ✓ | ✓ | | ✓ | | |

| Document/ Activity | Key Governance Principle | | | | | |
|---|--|---|----------------------------|---|--------------------------------|---|
| | Focussing on the Council's purpose and Community Needs | Having Clear Responsibilities and Arrangements for Accountability | Good Conduct and Behaviour | Informed, Transparent Decision Making and Managing Risk | Developing Skills and Capacity | Engaging Stakeholders to Ensure Robust Accountability |
| Performance Assessment | | | | | | |
| | | | | | | |
| <i>Overall Responsibility: Director of People and Improvement</i> | | | | | | |
| <i>Lead Officer: Director of People and Improvement</i> | | | | | | |
| Service Plans | ✓ | | | | | |
| Equal Opportunities Policy | ✓ | | ✓ | ✓ | | |
| Performance Management | | | ✓ | ✓ | ✓ | |
| Talkabout Citizens Panel | ✓ | ✓ | | ✓ | | ✓ |
| | | | | | | |
| <i>Overall Responsibility: Director of People and Improvement</i> | | | | | | |
| <i>Lead Officer: Head of Civic, Democratic and Legal Services (Monitoring Officer)</i> | | | | | | |
| Member Allowances Scheme | | ✓ | ✓ | | | |
| Standards Committee | | ✓ | ✓ | ✓ | | |
| Monitoring Officer Protocol | | ✓ | ✓ | ✓ | | |
| Members Induction Scheme | | | ✓ | | ✓ | |
| Schedule of Council | | ✓ | | ✓ | | ✓ |

| Document/ Activity | Key Governance Principle | | | | | |
|---|--|---|----------------------------|---|--------------------------------|---|
| | Focussing on the Council's purpose and Community Needs | Having Clear Responsibilities and Arrangements for Accountability | Good Conduct and Behaviour | Informed, Transparent Decision Making and Managing Risk | Developing Skills and Capacity | Engaging Stakeholders to Ensure Robust Accountability |
| Meetings | | | | | | |
| Members Scheme of Delegation | | ✓ | ✓ | ✓ | | |
| Protocol on Officer/Member Relations | | ✓ | ✓ | ✓ | | |
| Procedure Rules of Standing Orders | | ✓ | ✓ | ✓ | | |
| Decision Making Protocols | | ✓ | ✓ | ✓ | | |
| Complaints Procedure | | ✓ | ✓ | ✓ | | ✓ |
| | | | | | | |
| <i>Overall Responsibility: Director of City Strategy</i> | | | | | | |
| <i>Lead Officer: Director of City Strategy</i> | | | | | | |
| Local Area Agreement | ✓ | | | | | ✓ |
| Community Strategy | ✓ | | | | | ✓ |
| Corporate Business Continuity Plan | ✓ | | | | | |
| Local Strategic Partnership | ✓ | | | | | ✓ |
| Partnership working and governance | ✓ | | | | ✓ | |

| Document/ Activity | Key Governance Principle | | | | | |
|--|--|---|----------------------------|---|--------------------------------|---|
| | Focussing on the Council's purpose and Community Needs | Having Clear Responsibilities and Arrangements for Accountability | Good Conduct and Behaviour | Informed, Transparent Decision Making and Managing Risk | Developing Skills and Capacity | Engaging Stakeholders to Ensure Robust Accountability |
| arrangements | | | | | | |
| | | | | | | |
| <i>Overall Responsibility:</i> Director of Learning Culture and Children's Services | | | | | | |
| | | | | | | |
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| <i>Overall Responsibility:</i> Director of Housing and Adult Social Services | | | | | | |
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| | | | | | | |
| <i>Overall Responsibility:</i> Director of Neighbourhood Services | | | | | | |
| | | | | | | |
| | | | | | | |
| <i>Overall Responsibility:</i> Director of People and Improvement | | | | | | |
| <i>Lead Officer:</i> Head of Human Resources | | | | | | |
| HR Procedure Rules | | | ✓ | ✓ | ✓ | |
| Recruitment and Selection Policy | | | ✓ | | ✓ | |
| Whistle Blowing Policy | | | ✓ | ✓ | | |
| Staff Induction Programme | | | ✓ | | ✓ | |
| Employee Training and Development | | | ✓ | | ✓ | |

| Document/ Activity | Key Governance Principle | | | | | |
|--|--|---|----------------------------|---|--------------------------------|---|
| | Focussing on the Council's purpose and Community Needs | Having Clear Responsibilities and Arrangements for Accountability | Good Conduct and Behaviour | Informed, Transparent Decision Making and Managing Risk | Developing Skills and Capacity | Engaging Stakeholders to Ensure Robust Accountability |
| Register of Staff Interests/ Conflicts of Interest | | | ✓ | ✓ | | |
| Health and Safety Policy | | | ✓ | | ✓ | |
| Employee Code of Conduct | | | ✓ | | | |
| <i>Overall Responsibility: Director of Resources (S151 Officer)</i> | | | | | | |
| <i>Overall Responsibility: Head of Finance</i> | | | | | | |
| Budget Process and Budget Management | ✓ | ✓ | | ✓ | ✓ | |
| Medium Term Financial Strategy | ✓ | ✓ | | ✓ | ✓ | |
| Capital Programme | ✓ | ✓ | | ✓ | | |
| Annual Statement of Accounts | ✓ | | | ✓ | | |
| Officers Scheme of Delegation | | ✓ | ✓ | ✓ | | |
| <i>Overall Responsibility: Director of Resources</i> | | | | | | |
| <i>Lead Officer: Assistant Director Resources, Audit & Risk Management (Chief Internal Auditor)</i> | | | | | | |

| Document/ Activity | Key Governance Principle | | | | | |
|---|--|---|----------------------------|---|--------------------------------|---|
| | Focussing on the Council's purpose and Community Needs | Having Clear Responsibilities and Arrangements for Accountability | Good Conduct and Behaviour | Informed, Transparent Decision Making and Managing Risk | Developing Skills and Capacity | Engaging Stakeholders to Ensure Robust Accountability |
| Audit and Governance Committee | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Role of Officer Governance Group | | ✓ | ✓ | ✓ | | |
| Annual Governance Statement (incl. Statement on Internal Control) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Internal Audit Reports | | ✓ | ✓ | ✓ | | |
| Annual Audit Letter | ✓ | ✓ | | ✓ | | |
| Liaison with External Audit | | ✓ | | | | ✓ |
| Fraud and Corruption Response Plan | ✓ | ✓ | ✓ | ✓ | | |
| Financial Regulations | | ✓ | ✓ | ✓ | | |
| Contract Procedure Rules | | ✓ | ✓ | ✓ | | |
| Procurement Strategy | | ✓ | ✓ | ✓ | | |
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6.0 Contacts and Further Information

- 6.1 Further details of the Council's Corporate Governance arrangements can be obtained on the Council's website www.york.gov.uk or by contacting:

Name, position
City of York Council
The Guildhall,
York
YO1 9QN

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