

Notice of meeting of

Audit & Governance Committee

To:	Councillors Pierce (Chair), Brooks (Vice-Chair), Crisp, Scott, Kirk, Moore and R Watson
Date:	Thursday, 26 June 2008
Time:	5.30 pm
Venue:	The Guildhall, York

AGENDA

Note:

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

1. Declarations of Interest

At this point Members are asked to declare any personal or prejudicial interests they may have in the business on this agenda.

2. Minutes (Pages 3 - 14)

To approve and sign the minutes of the meeting of the Audit & Governance Committee held on 13 May 2008.

3. Public Participation

At this point in the meeting members of the public who have registered their wish to speak regarding an item on the agenda or an issue within the Panel's remit can do so. Anyone who wishes to register or requires further information is requested to contact the Democracy Officer on the contact details listed at the foot of this agenda. The deadline for registering is Wednesday, 25 June 2008 at 5:00 pm.

4. Statement of Accounts 2007/08 (Pages 15 - 22)

This report invites the Audit and Governance Committee to review and comment upon the Council's financial accounts for the financial year 2007/08 prior to their presentation to Full Council on 30 June 2008.

5. Review of the Effectiveness of the System of Internal Audit (Pages 23 - 32)

This report advises Members of the outcome of the annual review into the effectiveness of the Council's system of internal audit.

6. Annual Report of the Chief Internal Auditor (Pages 33 - 54)

This report details the outcome of audit and fraud work undertaken in 2007/08 and provides an opinion on the overall adequacy and effectiveness of the Council's internal control arrangements.

7. 2007/08 Annual Governance Statement (Pages 55 - 72)

This report invites Members to consider and comment upon the draft 2007/08 Annual Governance Statement (AGS), which is to be published with the Statement of Accounts.

8. Urgent Business: The New Council HQ – response to questions posed by the Audit and Governance Committee (Pages 73 - 78)

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

The Chair has agreed to consider under this item a report which responds to a number of questions raised by the Committee in relation to the contract management arrangements for a major Council project to create a new headquarters building at Hungate. The matter is urgent because Members need to be satisfied with these arrangements as soon as possible, and before the project proceeds to the planning application stage.

Democracy Officer:

Name: Fiona Young

Contact details:

- Telephone – (01904) 551027
- E-mail – fiona.young@york.gov.uk

For more information about any of the following please contact the Democracy Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details are set out above.

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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	13 MAY 2008
PRESENT	COUNCILLORS PIERCE (CHAIR), BROOKS, CRISP, MOORE, R WATSON AND BOWGETT (SUBSTITUTE)
APOLOGIES	COUNCILLORS HOLVEY AND B WATSON

34. 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. No interests were declared.

35. MINUTES

RESOLVED: That the minutes of the Audit and Governance Committee meeting held on 15 January 2008 be approved and signed by the Chair as a correct record.

36. PUBLIC PARTICIPATION

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

37. ETHICAL GOVERNANCE AUDIT REPORTS

Members considered a report which presented details of progress made on the Ethical Governance Audit carried out on the Council by the Audit Commission. This information had already been brought to the Standards Committee, as the proper reporting body for the Audit.

Copies of the reports received by members of the Standards Committee at their meetings on 9 November 2007 and 25 January 2008 were attached as Annexes 1 and 2. These presented the Audit Commission's summary reports on Stages 1 and 2 of the Audit. Stage 3, which involved the delivery of Officer and Member workshops to deal with issues arising from the first two stages was due for completion in June.

In respect of the findings from Stage 1 (a review of the documentation in place to support the Council's governance framework), Members raised concerns about the process of appointing parish council members to the Standards Committee, in terms of the role of the Yorkshire Local Councils Association and the lack of information provided to new members. In respect of the findings from Stage 2 (an assessment of the awareness of

ethical governance issues by way of a questionnaire to Members and Officers), they expressed concern about some of the negative responses to the 'Leadership' section of the questionnaire. However, it was noted that these were in the minority.

RESOLVED: That the reports at Annexes 1 and 2, and the progress made on the Ethical Governance Audit, be noted.

REASON: To ensure the maintenance of high standards of ethical conduct in the Council, and in view of this Committee's overall role to review and monitor Corporate Governance arrangements.

38. BUILDING SUPPLIES: A REPORT FROM THE DISTRICT AUDITOR

Members considered a report which presented the summary report of the Audit Commission (AC) on the Council's procurement arrangements for the provision of building supplies by Neighbourhood Services.

The AC's report had arisen from the recent standard regularity audit of the Servitor Building Maintenance System. This had identified some control issues relating to the operation of the Council's new contract with Jewson Ltd. for the purchase of building supplies, specifically in the areas of invoicing and pricing arrangements. The AC had chosen to report these matters to the Audit and Governance Committee, prior to a full review of arrangements by Internal Audit in 2008/09. Officers had already accepted the recommendations, as detailed in the action plan contained in the summary report at Annex A.

Officers confirmed that building supplies procurement was a particularly difficult area to control, as it involved large numbers of low value items. A balance must be struck between the cost of control and the value of the items. There were now more controls in place than at the time of the audit and a programme of review had been built into the Council's annual Internal Audit Plan for the current year.

RESOLVED: That the recommendations of the Audit Commission, as set out in the report at Annex A, and their acceptance by Council Officers, be noted.

REASON: To ensure the maintenance of an effective internal control environment at the Council.

39. THE ANNUAL EXTERNAL AUDIT PLAN 2008/09

Members considered a report which invited them to comment upon and approve the Audit Commission's Audit and Inspection Plan for the year 2008/09. The Plan was attached as Annex A to the report.

In preparing the Plan, the Audit Commission had taken account of:

- the outcomes of the 2007 CPA Use of Resources work;

- the quality and coverage of work undertaken by Internal Audit;
- the key issues facing the organisation in the coming year;
- their assessment of the inherent audit risks arising;
- the requirements of the Code of Audit Practice.

In presenting the Plan to Members, the District Audit Manager highlighted the financial statements fee detailed in Appendix 2 and the initial risk assessment – use of resources and VFM conclusion in Appendix 3. The fee had risen by £6k but in comparative terms was now close to the average level of fees charged to local authorities by the Audit Commission. Appendix 3 identified those areas in which residual audit risk remained and the actions being taken to address these. Members expressed surprise that job evaluation had been identified as an area without residual risk. Officers confirmed that implementation of the new pay and grading structure would be dependent upon the outcome of the ballot on acceptance. The Chair drew attention to the Administration Accommodation (Hungate) project, which was also listed as a ‘no residual risk’ area in Appendix 3. He asked that steps be taken to enable the Committee to question the Head of Property Services on the contractual arrangements and safeguards associated with this project.

RESOLVED: (i) That the matters set out in the draft Annual Audit Plan be noted.

(ii) That the Plan be approved, as reflecting sufficiently the audit needs and interests of the Council.

REASON: To ensure the effective deployment of scarce external audit resources to best effect.

(iii) That a formal invitation be extended to the Head of Property Services to attend the next meeting of the Committee in order to report and respond to Members’ questions regarding the contractual arrangements and safeguards associated with the Administration Accommodation Project.¹

REASON: So that the Committee can be satisfied that the arrangements in place are sufficient and that the project poses no residual risk to the Council.

Action Required

1. Head of Property Services to report to / attend Committee SA meeting on 26/6/08

40. ANNUAL AUDIT AND FRAUD PLAN FOR 2008/09

Members considered a report which sought their approval for a planned programme of audit and fraud work to be undertaken during 2008/09.

The draft 2008/09 Internal Audit Plan was attached as Annex 1 to the report. This was intended to address the known key strategic risks and challenges facing the Council over the coming year. As in previous years, priority had been given to 'high' and 'medium' risk areas because current staffing levels did not allow all areas to be reviewed in accordance with the required frequency. The Committee would be consulted in the autumn as part of the annual review process for updating the audit risk assessment and 5 year Strategic Plan. Members queried whether any progress had been made in tackling sickness management and asked that a specific audit report on this issue be brought to a future meeting. *(Note: this request is dealt with by way of Resolution (iii) under Minute 41 below).*

The draft 2008/09 Counter Fraud Activity Plan was attached as Annex 2. This set out the main areas of work planned for the coming year, detailing available resources, proposed anti-fraud activities and expected outcomes. Much of the Fraud Team's work continued to involve the identification and investigation of suspected fraudulent Housing and Council Tax benefit claims. It was noted that the caseload for the Benefits Fraud Team was almost twice the national average.

RESOLVED: (i) That the 2008/09 Internal Audit and Counter Fraud Activity plans be approved.

REASON: To enable the Audit and Fraud plans to be delivered effectively.

(ii) That Officers be asked to bring a report to the Committee on the adequacy of staffing levels in the internal audit team.¹

REASON: To address the issues raised by Members in respect of the internal audit plans.

Action Required

1. Schedule a report on staffing levels in Internal Audit for a SA future Committee meeting.

41. THE ACTION PLAN ARISING FROM THE ANNUAL AUDIT LETTER 2006/07

Members considered a report which presented a plan of the actions required in 2008/09 in response to the issues highlighted by the District Auditor in his annual Audit Letter to the Council, which was reported to the Executive on 25 March 2008.

A copy of the Audit Letter was attached as Annex 1 to the report. As reported to the Executive, the District Auditor had noted many positive achievements and improvements, together with a number of areas for improvement and on-going performance issues to be addressed by the Council. Overall, the trend during 2006/07 was one of improvement. Since the Letter was a retrospective review of matters arising in the

previous audit year, some of the issues identified had already been dealt with or were no longer relevant.

A draft action plan, prepared in consultation with the Council's Corporate Management Team, was attached as Annex 2. This was based upon details of actions taken or proposed, as notified by the responsible Officers. Advice was still awaited from responsible Officers in relation to two areas for action; namely, partnership working (item no. 5 on the plan) and equality of access to services and VFM (item no.15 on the plan). Members also highlighted several other areas on which they would like to receive further information.

RESOLVED: (i) That the issues raised in the Annual Audit Letter and reported to the Executive on 25 March 2008, as set out in paragraphs 5 and 6 of the report and the Letter at Annex 1, be noted.

REASON: So that this Committee is aware of the scope and content of the Audit Letter.

(ii) That the draft action plan arising from the Audit Letter, attached as Annex 2 to the report, be endorsed.

REASON: So that the action plan for subsequent in-year monitoring and follow up purposes by this Committee during 2008/09 is agreed.

(iii) That the responsible Officers be asked to update Members on the actions to be taken in respect of items 1, 2, 3, 5 and 15 on the list at Annex 2, by way of reports to future meetings of this Committee, as follows:

- Item 1 (sickness absence) – report to meeting on 8/9/08¹
- Item 2 (data quality) – report to meeting on 26/6/08²
- Item 3 (equalities strategy) – report to meeting on 13/1/09³
- Item 5 (partnership working) – report to meeting on 8/9/08⁴
- Item 15 (equality of access/VFM) – report to meeting on 26/6/08, the Chair having written to the responsible Officer seeking clarification as to the action to be taken on this item.⁵

(iii) That, in respect of item 9 on the list (action to address customer satisfaction ratings) the Head of Marketing and Communications be asked to circulate a written update via e-mail to all Members of this Committee, prior to the next meeting in June.

REASON: So that Members can be satisfied that the action plan is complete.

Action Required

- | | |
|-------------------------------------------------------------------------------------------------------|----------|
| 1. Provide update report on sickness absence to A&G Committee meeting on 8/9/08. | GR
KS |
| 2. Provide update report on data quality to A&G Committee meeting on 26/6/08. | GR
JB |
| 3. Provide update report on equalities strategy to A&G Committee meeting on 13/1/09/ | GR
SC |
| 4. Provide update report on partnership working to A&G Committee meeting on 8/9/08. | |
| 5. Provide update report on equality of access to services / VFM to A&G Committee meeting on 26/6/08/ | |
| 6. Circulate update report via e-mail to A&G Committee Members before 26/6/08/ | |

42. 2007/08 ANNUAL GOVERNANCE STATEMENT

Members considered a report which provided details of progress made in preparing the 2007/08 Annual Governance Statement (AGS) (formerly the Statement on Internal Control, or SIC), and in addressing the significant control issues identified in the 2006/07 SIC.

As agreed by the Committee, the previous SIC system had been used as the basis for developing the AGS, subject to the changes as listed in paragraph 8 of the report. A copy of the timetable for preparation of the AGS was attached as Annex 1. To date, Internal Audit had reviewed the progress made to address the nine significant control issues identified in the 2006/07 SIC. Work was ongoing to improve the relevant governance arrangements and control framework. Further details of progress in this area were provided in Annex 2.

Internal Audit had also completed the amendments to the Directorate and Corporate control self assessments, to reflect the new requirements of the AGS. Directorates were now reviewing and completing their key control self assessments and Directorate responses were being verified as part of the review of governance arrangements by Internal Audit.

The Officer Governance Group would take account of the results of the follow up exercise prior to preparation of the draft AGS.

Members expressed concern that insufficient progress had been made on the planned action in respect of the mis-statement on the 2005/06 Statement of Accounts, as recorded in Annex 2.

RESOLVED: (i) That the results of the work completed to date by Internal Audit to prepare the 2007/08 AGS be noted.

REASON: So that Members are aware of the adequacy and effectiveness of the Council's control environment.

(ii) That the results of the follow up review of the 2006/07 SIC action plan be noted, with the observation recorded above.

REASON: So that Members are aware of the progress that has been made to address previously reported significant control issues and so that their comments are taken into account.

43. OFFICER GOVERNANCE GROUP 2007/08 WORK PROGRAMME OUT-TURN

Members considered a report which advised them of progress made during 2007/08 in respect of the Officer Governance Group (OGG) work programme, and arrangements for the on-going management of the OGG during 2008/09.

The remit of the OGG was to deliver a corporate governance programme on behalf of the Council, keep implementation under on-going review and report progress to the Corporate Management Team (CMT) and to this Committee. Its work programme for 2007/08 was attached as Annex 1 to the report. It was noted that much of this work had already been achieved or was in hand but that some key work was currently outstanding. This included:

- Sub-section 2 – stakeholder awareness and information work
- Sub-section 4b – financial health
- Sub-section 7 – money laundering
- Sub-section 11 – Audit & Governance training and awareness
- Sub-section 14e – review of Scrutiny.

It was also noted that the planned rollout of the MAGIQUE risk assessment system was still pending, after the IT Development Board rejected the required funding bid. Funding would be sought from contingency in 2008/09.

Arrangements had been made to hand over interim responsibility for the management of OGG to the Acting Head of Finance, with effect from 14 May, in view of the imminent departure of the Director of Resources and the Assistant Director of Resources in June 2008. It was suggested that a mid-term monitoring report be brought to the Committee in September to advise of the OGG's new work programme for 2008/09 and any key developments.

RESOLVED: (i) That the progress made in respect of the OGG's work programme in 2007/08, as set out in Annex 1 to the report, be noted.

REASON: In fulfilment of the delegated responsibilities of this Committee, as set out in Article 13 of the Council's Constitution.

(ii) That the outstanding matters detailed at paragraph 9 of the report be noted.

REASON: To ensure the effective management and follow-up of key action to be taken to support ongoing development and improvement work at the Council.

(iii) That the management arrangements for the OGG, in the light of the imminent departure of the current Director of Resources and Assistant Director (ARM), be noted.

REASON: To ensure the effective management of the key action to be taken to support ongoing development and improvement work at the Council in 2008/09.

(iv) That the need for the OGG to provide a mid-term monitoring report on progress in September 2008 be endorsed.¹

REASON: To ensure the effective management and follow-up of key action to be taken to support ongoing development and improvement work at the Council.

(v) That the importance of the MAGIQUE risk assessment system in embedding the Council's approach to risk management be drawn to the attention of the Executive.²

REASON: So that the significance of this matter can be taken into account when bids for funding from contingency are considered.

Action Required

1. Bring a mid-term monitoring report on the OGG work plan to A&G Committee meeting on 8/9/08 SA SA
2. Bring this matter to the attention of the Executive.

44. RISK MANAGEMENT OUT-TURN REPORT 2007/08

Members considered a report which informed them of progress made during 2007/08 in delivering and embedding risk management arrangements across the Council and set out the key deliverables in the 2008/09 work plan.

The 2007/08 work plan had comprised two key work schemes – development of the corporate risk register, and training and communication. With regard to the first scheme, a comprehensive and robust corporate risk register had been compiled, including details of about 450 risks across all directorates. Eleven Key Corporate Risk focus areas had been identified for corporate monitoring purposes and agreed by the Executive in October 2007. These focus areas would form the basis of the quarterly risk monitors to CMT and Audit and Governance Committee. The first monitor had been due at CMT in April but delays around identifying and scoring key risks associated with the focus areas meant that it would not be presented until June. An example of the agreed format of the monitor was attached as Annex A to the report. With regard to the second

work scheme, the Corporate Risk Management Officer had delivered a comprehensive training programme during 2007/08, details of which were summarised in paragraph 9 of the report. Further sessions, including Member training, were being planned for 2008/09.

Risk management formed one of the key strands of the CPA inspection process. The Audit Commission would shortly be reviewing the documentation and evidence to determine the Council's 2007 refresh score. Much work had been undertaken during 2007/08 to ensure the requirement to score at least a 3 (good) in the 2007 refresh was met. The work plan for 2008/09 was attached as Annex B to the report. This took account of the need to embed risk management into Council processes, continue to raise awareness through further training and align the risk register to corporate priorities.

Members expressed concern at the apparent lack of Member engagement with the risk management training process to date and suggested that efforts be made to improve attendance at future training events.

RESOLVED: That the contents of the report be noted.

REASON: So that the Committee is aware of the progress made to date in respect of the risk management framework at the Council and the 2008/09 work programme.

45. FOLLOW UP OF INTERNAL AUDIT RECOMMENDATIONS

Members considered a report which outlined progress made by departments in implementing agreed audit recommendations due for implementation by February 2008. The report also summarised progress in addressing the recommendations relating to Criminal Records Bureau (CRB) checks and the 2007/08 Car Parking audit, for which Members had requested a priority follow-up.

A total of 158 recommendations, of which 5 were classified as high priority, had been followed up. Three had been superseded, 133 had been satisfactorily implemented and 20 had not been implemented. These had been referred back to the relevant service manager or assistant director and a revised implementation deadline agreed in each case. They would be followed up again after the revised deadline.

The follow up of the recommendation to carry out CRB checks on all new and existing staff working with young people had concluded that this recommendation had now been implemented. With regard to the follow up audit of car parking, it was reported at the meeting that action had been taken in respect of both the control issues raised. Officers were satisfied that adequate progress had been made on the reconciliation of income issue and that the control gap had been closed on the issue of delivery of cash boxes to the cashiers.

RESOLVED: That the progress made in implementing the audit recommendations, as reported in paragraphs 7 to 12 and

verbally at the meeting, be noted, with thanks to the relevant Officers.

REASON: To fulfil the role of this Committee in providing independent assurance on the Council's control environment.

46. REVIEW OF THE COUNCIL'S COUNTER FRAUD AND CORRUPTION POLICIES

Members considered a report which advised them of recent changes to the Council's counter fraud and corruption policy framework, including the adoption of a new Counter Fraud and Corruption Policy, and sought approval for a set of proposed monitoring arrangements for the new framework.

Although the Council's working practices in this area were regarded as exemplary, it had been considered appropriate to adopt an over-arching Counter Fraud and Corruption Policy to document the approach being taken and demonstrate its consistency with best practice. In doing so, it had also been considered necessary to review and refresh the existing Fraud and Corruption Prosecution Policy. The new Policy and the revisions to the Prosecution Policy had been approved by the Executive Member for Corporate Services on 18 March 2008. Copies were attached to the report as Annex 1 and Annex 2 respectively.

With regard to monitoring arrangements, it was proposed that an annual report on the application of the two policies be brought to this Committee each January. The report would identify new and emerging fraud and corruption risks and provide summary details of fraud and corruption cases that had been investigated in the previous year. The results would inform future development of the policy framework and assist in preparing the annual audit plan.

RESOLVED: (i) That the new Counter Fraud and Corruption Policy, and the changes to the Prosecution Policy, be noted.

REASON: To ensure that the Council has robust arrangements in place to counter fraud and corruption.

(ii) that the proposed monitoring arrangements for the counter fraud and corruption policy framework be approved.

REASON: To ensure that the Council's Counter Fraud and Corruption policies remain effective.

47. CHAIR'S REMARKS - ASSISTANT DIRECTOR OF RESOURCES (AUDIT AND RISK MANAGEMENT)

The Chair noted that this was the last meeting of the Committee to be attended by the current Assistant Director (Audit and Risk Management), Liz Ackroyd, who was leaving the Council in June. On behalf of Members,

he thanked Liz for her service to the Committee and wished her well in her new post as Director of Finance at the Borough of Poole Council.

R Pierce, Chair

[The meeting started at 5.30 pm and finished at 8.15 pm].

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Audit and Governance**26 June 2008**

Report of the Head of Finance

Statement of Accounts 2007/08**Summary**

1. The purpose of this report is to enable the Audit and Governance Committee to undertake an examination of the Council's financial accounts for the financial year 2007/08 prior to their approval by Full Council on the 30th June. As such this report provides the Audit and Governance with an opportunity to review and comment on the content and presentation of the Accounts prior to their finalisation.
2. The report also allows the Audit and Governance Committee to fulfil the CPA requirement that the accounts have been given a 'robust' scrutiny by Members prior to being approved. It is therefore important that the accounts are looked at in some detail and that such discussions are minuted as evidence of that discussion. Any follow-up issues required by this Committee will be brought back at a later date. In determining which areas they wish to address Members may wish to refer to the key issues and changes identified throughout the rest of this report.
3. The outcomes of this meeting will be reported to the Executive when they meet on the 30 June to consider the statement of accounts and refer them to council. The draft statement of accounts itself is due to be approved by full council on the 30 June.
4. The Committee should note that copies of the statement of accounts are not attached to this agenda but instead are being circulated as part of the council agenda papers.

Background

5. The 200/08 final account process has again been difficult. This is the second year when the format of the accounts is presented in line with Generally Accepted Accounting Practice (GAAP) and as indicated last year the standards are designed for business accounting purposes eroding some of the connectivity between the accounts and the council's business.
6. In addition the Council is required to follow standard accounting practice as agreed by CIPFA; this is set out in 'Statements Of Recommended Practice' (SORP). The changed requirements as they related to City of York are as follows:
7. **Minimum Revenue Provision (MRP)** It is now required that authorities make a prudent provision for debt, compared to previous years where a standard 4%

standard provision was applied. For 2007/08 Authorities have the choice of continuing to use the previous methodology or of adopting the options in the guidance. A statement as to the methodology used by the Council is being presented to the Executive on 30 June as part of the outturn reports for 07/08, covering the methodology to be used for 07/08 and 08/09 on.

8. **Revaluation Reserve and Capital Adjustment Account.** The Fixed Asset Replacement Account (FARA) and Capital Financing Account are being replaced with the Revaluation Reserve and Capital Adjustment Account respectively. This requires that the balance sheet at 31 March 07 is restated and that this treatment is to be disclosed in the accounts. The balance on the Revaluation Reserve as at 31 March 07 is set to zero. The balances on the Fixed Asset Restatement Account and the Capital Financing Account have been transferred to the new Capital Adjustment Account as at 31 March 07. From April 07 it is no longer possible to write off revaluation decreased to the FARA. Any revaluation loss will therefore be charged to the Income and Expenditure Account.
9. **Financial Instruments.** In addition, as a result of CIPFA adopting new requirements and guidance there have been changes to recommended accounting practice in relation to financial instruments. In York's case the key impacts have been the need to make prior period adjustments in relation to the treatment of premia and discount on the early repayment (restructure) of debt and the need to show accrued interest on borrowing associated with a loan as part of the ongoing value of the loan.
10. In relation to premia and discounts, they now have to be charged directly to the Income and Expenditure account, unless it can be demonstrated that the debt restructure is insignificant enough to warrant the replacement loan as being a modification. On certain premia and discounts held on the Council's Balance Sheet some have been determined to be modifications and as a result the ongoing value of the replacement loan has been modified..
11. The challenge that all of the above has presented has meant that at the time of publication of this agenda the statement of accounts were still being finalised.
12. To aid in their deliberations members will be briefed on the statement of accounts at the meeting. This presentation will highlight the significant issues or changes that the Committee may wish to discuss; alternatively members may have other issues they wish to query. To assist with their discussions, Members are requested to bring their set of the draft financial accounts to the meeting, which will be distributed separately
13. It is a statutory requirement that this year Members approve the Statement of Accounts before 30 June and following this the accounts must be 'on deposit' and for the District Auditor to be available for interrogation by any member of the public. It has been agreed that the Audit Commission will be available on the 11th August, and the accounts will be 'on deposit' for public inspection between 14th July and 8th August. The deposit period will be advertised in the York Press.

14. A provisional out-turn report will be presented to the Executive on 30th June 2008. That report will concentrate on the performance against the revenue budgets and will make recommendations for use of the overall underspend for carry forward items where budgeted work could not be completed by 31st March. As the accounts need to fully represent the financial position of the Council these recommendations will be incorporated into the Foreword to the Statement of Accounts. Any changes will have to be approved by Council when the accounts are presented to them for final approval on 30th June 2008.
15. Members should note that the Audit Commission has not yet started the audit of the Statement of Accounts. If the Audit Commission does insist on any significant changes to the accounts, they will be reported to the Executive following the completion of the audit.
16. To assist members understanding the following sections set out information on the constituent parts of the Statement of Accounts in the order in which they are produced.

Foreword

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

Audit Commission Report

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

Statement of Accounting Policies

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

Statement of Responsibilities

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

Annual Governance Statement

21. In the absence of a Director of Resources at this time, the council at its urgency meeting on 12 May 2008 has temporarily appointed the Head of Finance as the Acting s151 officer until the arrival of the replacement Director of Resources.

22. It is a requirement this year that the AGS is considered separately to the Statement of Accounts, and for that reason there is a separate report on this agenda. If there are any changes to the AGS they will be substituted for the version that is in the draft accounts as necessary when the Accounts are placed on deposit

Income and Expenditure Account

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

Statement of the Movement on the General Fund Balance

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

Statement of Total Recognised Gains and Losses

25. This statement is a new requirement which attempts to analyse changes in the council's asset base due to:

- Surplus or deficits on income and expenditure
- The revaluation of the council's fixed assets
- Changes in pension liabilities due to actuarial revaluation

26. In many instances these revaluations impact primarily on the council's balance sheet.

Balance Sheet

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

Cash Flow Statement

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

Housing Revenue Account Income and Expenditure

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

Council activities.

Statement of Movement on the Housing Revenue Account Balance

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

Collection Fund

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

Consultation

32. In line with the approval process agreed in 2005 the statement of accounts and statement of internal control were considered by the audit and governance committee on the 25th June. The Executive will be updated with the results of those discussions at that meeting. This report has been produced to enable the executive to request further information on any matters included within the Accounts, or to request further information to be presented to them at a later date. The outcome of this meeting will be reported to the Council as part of their decision taking process.

Options

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

Analysis

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

Corporate Priorities

35. When determining the CPA score to issue for the Council consideration is given to whether or not the Statement of Accounts has undergone a full scrutiny by Members prior to being approved by Council. The statement of accounts provides a technical financial summary of the activities of the council. This is explained in terms of service activities as part of the provisional outturn reports being presented to the Executive on 30th June. This report identifies all key drivers and links to the corporate priorities of the Council.

Implications

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

- Other - there are no other implications to this report

Risk Management

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

Conclusion

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

39. Bringing the Statement of Accounts to the Executive provides an opportunity for Member led debate and compliance with defined best practice.

Recommendations

40. The Executive is recommended to:

41. Members are requested to ask questions or raise issues in relation to the 2007/08 financial accounts

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

Contact Details

Author:

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Chief Officer responsible for the report:

Sian Hansom
Head of Finance

Report approved ✓ Date 16/6/08

Specialist Implications Officer(s) None

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

For further information please contact the author of this report

Background Working Papers

Statement of Accounts 2007/08

Closure of Accounts files held in the City Finance Centre

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Agenda Item

Audit and Governance Committee

26 June 2008

Report of the Assistant Director (Audit and Risk Management)

Review of the Effectiveness of the System of Internal Audit

Summary

- 1 To advise Members of the outcome of the annual review into the effectiveness of the Council's system of internal audit.

Background

- 2 The Accounts and Audit Regulations 2003, as amended, now require each local authority to conduct an annual review of the effectiveness of its system of internal audit, and to report the findings of this review to an appropriate committee. The changes came into effect from 1 April 2006 onwards. The process is intended to form part of the wider review of the effectiveness of the system of internal control which is necessary to prepare the Annual Governance Statement (which is a later item on this agenda).
- 3 All local authorities have a statutory requirement to make provision for internal audit in accordance with proper standards of professional practice, as set out in the CIPFA Code of Practice for Internal Audit in Local Government. Internal Audit is defined as an assurance function that provides an independent and objective opinion to the organisation on the effectiveness of the control environment. As such Internal Audit forms an essential part of the Council's corporate governance arrangements.
- 4 The principal functions of Internal Audit are to:-
 - (a) provide assurance to Members, Chief Officers, other key stakeholders and the wider community on the effectiveness of the governance arrangements and internal controls at the Council;
 - (b) provide advice and make recommendations to improve controls and/or address the poor or inappropriate use of the Council's resources;
 - (c) examine and evaluate the probity, legality and value for money of the Council's activities;
 - (d) act as a visible deterrent against all fraudulent activity, corruption and other wrong doing;

- (e) respond to and investigate any instances of suspected fraud or corruption.
- 5 The CIPFA Code of Practice for Internal Audit in Local government sets out eleven standards (or principles) for the establishment of a professional service. Each principle is supported by detailed guidance. The principles cover the following areas:-
- (a) Scope of Internal Audit (Terms of Reference)
 - (b) Independence
 - (c) Ethics for Internal Auditors
 - (d) Audit Committees (including Internal Audit's relationship with the Audit Committee)
 - (e) Relationships (with management, elected Members and other auditors)
 - (f) Staffing, Training and Continuing Professional Development
 - (g) Audit Strategy and Planning
 - (h) Undertaking Audit Work
 - (i) Due Professional Care
 - (j) Reporting
 - (k) Performance, Quality and Effectiveness
- 6 To comply with International Auditing Standards, the external auditors are required to periodically review the Council's internal audit function. The Audit Commission last reviewed the work of Internal Audit and assessed compliance with the standards set out in the Code of Practice, in April and May 2007. To support the review, the Internal Audit Service completed a self assessment checklist to assess compliance against each of the eleven standards.
- 7 The Audit Commission concluded that the audit function met the requirements of all eleven standards. As a consequence, the Audit Commission also confirmed that it could continue to rely on the work carried out by Internal Audit. The results of the review were reported to this Committee on 24 September 1997. A small number of areas were identified where there was scope to enhance the existing working arrangements. Four recommendations for improvement were made.

Review of the Effectiveness of the System of Internal Audit

- 8 For the purposes of this review, the following work has been completed:-
- (a) A review has been undertaken to assess the progress which has been made to address the recommendations for improvement arising from the Audit Commission's report.
 - (b) the Code of Practice self assessment checklist has been refreshed so as to identify any significant changes in the degree of compliance against the Code, since the Audit Commission's review

- (c) a detailed customer survey has been undertaken to seek the views of chief officers and senior management within the Council.
- (d) The results of the latest benchmarking data compiled by CIPFA, have been reviewed, so to establish how cost effective the service is compared to other unitary councils.

Review of Internal Audit – Follow Up

- 9 The actions taken to address the four recommendations for improvement made by the Audit Commission are detailed below:-

Agreed Recommendation	Action Taken to Date
Incorporate formal reminders of auditors' ethical responsibilities into performance appraisals as planned.	Auditors have been reminded of their ethical responsibilities at team meetings during the year, and as part of the going performance appraisals.
Deliver plans to require all auditors to sign confidentiality agreements.	A statement of standards and values has been prepared and discussed with staff. The statement incorporates a commitment to safeguard confidential information.
Ensure that the working protocols are kept up to date.	All the protocols with external agencies are being reviewed and updated. This work will be complete by 30 September 2008. The protocols will then be subject to an annual review.
Enhance the existing strategy by including narrative information to set out Internal Audit's strategic purpose, direction and approach.	Work is ongoing to review and update the Internal Audit Strategy, so that it includes the required information. This work will be complete by 30 September 2008.

Code of Practice Self Assessment Checklist

- 10 The self assessment checklist has been updated. Since the date of the Audit Commission's review, the Council has entered into a shared service arrangement with North Yorkshire County Council for the delivery of audit and fraud services. Work is ongoing to integrate working practices and systems. This work also includes the preparation of consolidated audit and fraud procedure manuals, and the development of standard audit programmes. Whilst there has therefore been some changes in operational arrangements, adherence with the professional standards set out in the Code has been maintained.

Customer satisfaction Survey

- 11 The recipients of the survey were asked to judge the relative importance (low to high) and the current performance of the service (poor to excellent) in the following main areas:-
 - (a) The scope of audit work undertaken
 - (b) The objectivity and professionalism of the audit staff
 - (c) The conduct of individual audits
 - (d) Audit reporting
 - (e) Customer service
- 12 The recipients of the survey were also asked to provide an overall score for internal audit and identify any specific service improvements. The results of the survey are summarised in Annex 1. 9 surveys were returned from a total of 59 issued. Whilst the response rate was low, the exercise has identified a number of areas where further improvements to the service are considered necessary. The Audit and Fraud Manager will be preparing an action plan to address these areas. In the future, a similar survey will be conducted on an annual basis, to enable trends in service delivery to be assessed.

Benchmarking

- 13 The latest benchmarking data available from CIPFA relates to the exercise undertaken in May 2007. This exercise included a comparison between unitary authorities of the 2007/08 budget estimates for internal audit. The results of the latest benchmarking exercise (which includes the actual outturn figures for 2007/08) are expected to be received shortly. A summary of the results is given in annex 2. This shows that compared to other unitary councils, the internal audit function at York remains cost effective.

Conclusion

- 14 Based on the results of this review, the Council's system of internal audit is considered to be operating in accordance with accepted professional best practice, and it remains effective. The Council can therefore continue to place reliance on its internal audit arrangements when preparing the Annual Governance Statement.

Consultation

- 15 Not relevant for the purpose of the report.

Options

- 16 Not relevant for the purpose of the report.

Analysis

17 Not relevant for the purpose of the report.

Corporate Priorities

18 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

19 The implications are;

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

Risk Management Assessment

20 The Council will fail to comply with the Accounts and Audit Regulations if it does not undertake an annual review of the effectiveness of internal audit, as part of the wider review of the effectiveness of the system of internal control. The Council could be criticised by the external auditor, and this in turn would adversely impact on the Council's CPA score for the Use of Resources.

Recommendation

21 Members are asked to;

- note the results of the review of the effectiveness of the Council's system of internal audit.

Reason

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

Contact Details

Author:

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Audit and Risk Management
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Chief Officer Responsible for the report:

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

Report Approved



Date 12 June 2008

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

- Accounts and Audit Regulations 2003 (as amended)
- CIPFA – Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Annexes

Annex 1 – Results of Internal Audit Customer Satisfaction Survey

Annex 2 – Summary of CIPFA benchmarking information

Results of Internal Audit Customer Satisfaction Survey - 2008

Internal Audit – Customer Satisfaction Survey			
		Importance	Performance
1.	Audit		
	Internal Audit undertakes work in a number of different areas. In respect of the following areas, how well do you consider the service is currently performing?		
1.1	Advice and guidance on policies/procedures	2.44	2.33
1.2	Review of compliance with legislation/policies/ procedures	2.78	2.67
1.3	Internal Control reviews	2.78	2.67
1.4	Audit of contracts	2.50	2.60
1.5	Review of asset security	2.00	2.80
1.6	Audit of IT systems and controls	2.50	2.83
1.7	Investigation of fraud and corruption	2.75	2.50
2.	Audit Staff		
	Based on your contact with Internal Audit staff in the past year, how well do you rate them in the following areas:		
2.1	Professionalism	2.89	3.11
2.2	Unbiased and objective opinions	3.00	2.89
2.3	Ability to establish positive rapport	2.67	2.56
2.4	Knowledge of key policies and procedures	2.75	2.88
2.5	Knowledge of the operation	2.63	2.38
2.6	Knowledge of the IT systems	2.43	2.43
3.	Conduct of Audits		
	Based on your experience, how well do we plan and carry out individual audits?		
3.1	Audits focus on the areas of significant risk	2.78	2.89
3.2	The timing of audits is appropriate	2.56	2.78
3.3	Audit objectives and procedures are discussed prior to commencement of the audit	2.89	2.78
3.4	Opportunity is given to change/comment on the scope of individual audits	2.67	2.89
3.5	Business concerns and perspectives are adequately considered during each audit	2.56	2.67
3.6	Auditors take care to minimise disruption to operations	2.44	3.11
3.7	Auditors' requests for information are reasonable	2.67	3.00
3.8	Auditors discuss issues with managers as they arise	2.89	2.56
3.9	The Audit Manager attends meetings to discuss audit findings	2.44	2.78

		Importance	Performance
4.	Audit Reporting		
	The final product of an audit is the report. How do you rate our reporting process?		
4.1	Reports are well written and easily understood	2.89	2.89
4.2	Reports are factually correct	2.89	2.78
4.3	The length and detailed content of reports is appropriate	2.56	2.89
4.4	There is no delay in issuing reports	2.56	1.89
4.5	Conclusions are appropriate and supported by adequate evidence	2.89	2.44
4.6	Recommendations are constructive, practical and cost effective	2.89	2.44
4.7	Responses to issues raised are appropriately reflected in the report.	2.56	2.78
5.	Customer Service		
	How do you rate us in the following areas?		
5.1	Your contact with Internal Audit management	2.38	3.25
5.2	Our responsiveness to your requests	2.56	3.11
5.3	The extent to which Internal Audit meet your needs	2.67	2.78
6.	Overall Rating of Internal Audit		
		-	2.78
Scoring Key:			
	Importance		Performance
	Low 1		Poor 1
	Medium 2		Satisfactory 2
	High 3		Good 3
			Excellent 4

59 surveys were issued to Chief officers and Senior managers. A total of 9 fully or part completed surveys were returned.

Internal Audit - Benchmarking Data

For 2007/08, the following benchmarking data is available. The information is based on estimated financial data submitted to CIPFA as part of the national annual benchmarking exercise;

	CYC	Unitary Average
Total cost per auditor	£47,789	£49,902
Staffing related costs per auditor	£39,684	£39,778
Overhead costs per auditor	£8,105	£10,123
Audit days per £m gross turnover	4.29	4.08
% of staff in the team who are qualified	36%	29%
% of staff within the team – AAT qualified (or equivalent)	21%	23%
% of staff who are trainees	29%	17%

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**Audit and Governance Committee**

26 June 2008

Report of the Assistant Director (Audit and Risk Management)

Annual Report of the Chief Internal Auditor

Summary

- 1 This report details the outcome of audit and fraud work undertaken in 2007/08 and provides an opinion on the overall adequacy and effectiveness of the Council's internal control arrangements.

Background

- 2 The work of Internal Audit is governed by the Accounts and Audit Regulations 2003 (as amended) and the CIPFA Code of Practice for Internal Audit in Local Government (issued in 2006). In accordance with the Code of Practice, the Chief Internal Auditor is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
- 3 The 2007/08 Audit and Fraud Plan was approved by the Audit and Governance Committee on 3 April 2007. The Plan included a programme of audit reviews based on a detailed risk assessment and five year strategic plan. The 2007/08 Plan also included details of planned counter fraud activities. The total number of planned audit days was 1,340 with a further 1,100 days allocated to counter fraud activities. As in previous years, there were insufficient resources in the Audit Team to allow all the systems or areas identified through the strategic planning process to be audited. Priority was therefore given to 'high' and 'medium' risk areas. The counter fraud activity plan was based on the resources available to the Fraud Team.

2007/08 Internal Audit Plan – Outturn

- 4 Two of the priorities for the service are to deliver at least 90% of the Audit Plan and to ensure that Internal Audit continues to retain its 'managed audit' status with the Audit Commission. These are the minimum requirements necessary to achieve a good score for internal control as part of the Comprehensive Performance Assessment (CPA) - Use of Resources evaluation.

- 5 Internal Audit successfully delivered 91.6% of the 2007/08 Plan (compared to 92% in 2006/07 and 91.3% in 2005/06). Details of the audits completed and the reports issued are given in Annex 2.
- 6 Variations were made to the Audit Plan through the year as a result of new and changed priorities or as new risks were identified. The variations were approved by the Assistant Director (Audit and Risk Management) in accordance with the scheme of delegation. All of the variations approved for the year were reported to this Committee on 15 January 2008 (no further formal variations have been sought since that report).

2007/08 Counter Fraud Activity Plan – Outturn

- 7 Counter fraud work has been undertaken in accordance with the approved Plan. Annex 3 provides a summary of the work completed. The majority of the work undertaken by the Fraud Team during the year related to the identification and investigation of suspected fraudulent Housing and Council Tax Benefit claims. However, the team has also worked closely with Internal Audit on a number of internal fraud investigations. In addition, the team has been involved in investigating increasing numbers of referrals relating to the fraudulent use of disabled blue badges. Details of the investigations undertaken, and prosecutions and sanctions achieved in the year, are given in Annex 4.

Opinion of the Chief Internal Auditor

- 8 The audit and fraud work undertaken during the year is designed to provide assurance to members and officers on the adequacy of the control environment as an essential part of the Council's corporate governance framework. Audit testing has also been undertaken so as to provide assurance to the S151 Officer, to help him discharge his responsibility for ensuring that proper arrangements exist for the administration of the Council's financial affairs.
- 9 The reports detailed in Annex 2, together with the results of investigations into suspected fraud and corruption, have been sent to the relevant directors, service managers, and where necessary to the S151 Officer. All audit reports include recommendations and action plans agreed with the relevant parties aimed at remedying identified weaknesses in control. In addition, follow up reviews are conducted on an ongoing basis to track the progress made by managers in implementing agreed recommendations.
- 10 The opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment is given in Annex 1. The opinion is based on the results of the audit and fraud work completed during the year. In giving this opinion attention is drawn to the following significant control weaknesses which are considered relevant to the preparation of the 2007/08 Annual Governance Statement;
 - a) The Council has had high levels of sickness absence for a number of years. Action has been taken to put in place measures to control

levels of sickness, for example the new corporate Attendance Management Policy introduced in October 2007, and there is some evidence of improvement. However, Internal Audit work has identified that the new procedures are not yet fully embedded across the Council. In addition, systems for ensuring that accurate management information on sickness is available still need improving.

- b) Both the 2005/06 and 2006/07 Statements of Accounts contained significant misstatements. Although these were technical accounting issues, controls should have existed to identify the errors before the final figures were included in the approved Statement of Accounts. Action is required to put in place procedures to ensure that similar errors do not recur in future.

Consultation

- 11 Not relevant for the purpose of the report.

Options

- 12 Not relevant for the purpose of the report.

Analysis

- 13 Not relevant for the purpose of the report.

Corporate Objectives

- 14 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

- 15 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

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

Recommendations

- 17 Members are asked to;

- Note the results of the audit and fraud work undertaken in 2007/08.

Reason

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

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

Reason

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

- Note the significant control weaknesses identified during the year which are relevant to the preparation of the Annual Governance Statement.

Reason

To enable the Annual Governance Statement to be prepared.

Contact Details

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Report Approved



Date 13/6/08

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

Internal Audit Risk Assessment and Strategic Audit Plan
2007/08 Audit Plan
2007/08 Counter Fraud Activity Plan

Annexes

Annex 1 - Opinion of the Chief Internal Auditor
Annex 2 - 2007/08 Audits Completed and Reports Issued
Annex 3 - Counter Fraud Activity
Annex 4 - Investigations, Prosecutions and Sanctions

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Opinion of the Chief Internal Auditor

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

Signed

Liz Ackroyd
Assistant Director – Audit and Risk Management

DATE

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Annex 2

2007/08 Audits Completed and Reports Issued

Systems/establishment audits

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

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

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

Definition of Priority

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

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

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

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

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

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

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

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

Opinion	Number
“High standard”	1
“Good”	7
“Acceptable”	14
“Weak”	2
“Not acceptable”	1
“Not given”	5

25 2007/08 audit reports were finalised during the year. In all cases the recommendations made have been accepted by management, and will be subject to follow up by Internal Audit. The table below shows reports finalised since the last report to this committee on 15 January 2008.

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
Community Equipment and Loans Store	22/5/08	Good	3	0	Improvements to arrangements for delivering and collecting equipment were required.
Derwent Infant School	27/3/08	Good	5	0	No significant weaknesses identified.
Dunnington CE Primary School	31/1/08	Acceptable	10	0	The school needed to adopt a policy and procedure for recording gifts and hospitality, review other policies including those relating to budget management and free staff meals, and update committee terms of reference.
Follow up report (2) on the implementation of Internal Audit recommendations.	13/5/08	Not given	N/A	N/A	A review of the progress made by management to implement previously agreed audit recommendations. A copy of the report was presented to A&G on 13 May 2008.

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
Hob Moor Primary School	27/5/08	Acceptable	7	0	Recommendations included the need to improve record keeping in relation to Governor's meetings.
Lord Deramore's Primary School	27/5/08	Acceptable	10	0	The school needed to improve procedures for declaring business interests, budget monitoring, and administering the school fund.
On Street Parking and Car Parks	29/4/08	Acceptable	5	0	It was found that progress was being made to address the significant weaknesses previously highlighted by the Audit Commission. A number of additional recommendations were made, including the need to improve record keeping and reconciliation procedures in relation to penalty charge notice income.
Poppleton Ousebank Primary School	31/12/07	Acceptable	10	0	The school needed to adopt a policy and procedure for recording gifts and hospitality. Other recommendations included the need to maintain a charging policy, and ensuring orders are raised for repair and maintenance work.

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
Poppleton Road Primary School	31/1/08	Acceptable	9	0	The school needed to adopt a policy and procedure for recording gifts and hospitality. It also needed to register the school fund with the Charity Commission and ensure its accounts were independently examined on an annual basis.
St Mary's CE Primary School	26/3/08	Acceptable	10	0	Improvements to letting arrangements were required including the need to finalise contracts with external providers of the breakfast and after school clubs. The school also needed to review security arrangements in relation to keyholders and consider lone working issues.
Stockton on the Forest Primary School	11/2/08	Acceptable	8	0	The school needed to adopt a policy and procedure for recording gifts and hospitality and ensure proper records of controlled stationary are maintained.
Treasury Management	15/4/08	High Standard	0	0	No significant weaknesses identified.
York High School	27/5/08	Acceptable	8	0	Improvements to record keeping were required. It was also found that salary

Description	Date Final Issued	Opinion	Recommendations		Work done / significant weaknesses / issues identified
			Total number	Number of 'high' priority	
					advances to staff were made using the BAFS account rather than by using the Council payroll service which normally processes pay for staff at the school. This increased the risk that salary advances may not have been correctly recovered.

Other Work Completed during 2007/08

- Statement on Internal Control for 2006/07, prepared and published as part of the annual Statement of Accounts
- Report of the Chief Internal Auditor for 2006/07, prepared and presented to A&G on 26 June 2007.
- Support and advice to the Resources Directorate regarding problems connected with petty cash payments and the introduction of new guidance.
- Further development of procedures (in conjunction with staff from LCCS) for assessing schools' performance in relation to the Financial Management Standard in Schools including a report prepared for the Schools Forum setting out the process to be followed for 2007/08 and presentation to headteachers and school governors. The service assessed 37 schools (26 primary, 2 special, and 9 secondary schools) for compliance with the standard and carried out an additional external assessment against the standard for Huntington Secondary School (chargeable work).
- Preparation of the Local Code of Corporate Governance reported to A&G on 24 September 2007.
- Data collected and submitted to the Audit Commission as part of the NFI exercise and report prepared for A&G setting out work completed in relation to the National Fraud Initiative data matches (presented to A&G on 24 September 2007).
- Report prepared for A&G setting out the results of the Audit Commission review of Internal Audit (presented to A&G on 24 September 2007).

- Shared Service Initiative – completion of work as part of the ongoing project.
- Annual update of the strategic audit plan and preparation of the 2008/09 Audit Plan.
- Internal Audit Mid Term Monitoring Report for A&G (15 January 2008).
- Follow up of action taken to address weaknesses identified in the 2006/07 Statement on Internal Control (reported to A&G on 13 May 2008) and the introduction of updated procedures to enable production of the new Annual Governance Statement for the 2007/08 Statement of Accounts (reported to A&G on 15 January 2008).
- Preparation of the Counter Fraud and Corruption Policy and update of the Fraud and Corruption Prosecution Policy (adopted on 18 March 2008 and presented to A&G on 13May 2008).
- Chargeable work including one school fund audit, grant claim audits (Safer Cities Community Fund, Supporting People, DTI grant), North Yorkshire Audit Partnership Internal Audit, Museums Trust Internal Audit.

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**Annex 3
Counter Fraud Activity 2007/08**

Activity	Work Completed or in Progress
Training	Fraud awareness training has been provided for new benefits and housing staff during the course of the year. In addition, work has been done to prepare fraud awareness training sessions for all other Housing and Council Tax Benefit staff.
Public and Internal Fraud Awareness	A targeted fraud awareness publicity campaign was undertaken in March 2008. This included material directed at both staff and the public and included, for example, press advertisements, articles in staff newsletters and publications, and posters in Council office. On an ongoing basis throughout the year the service has received publicity in relation to successful prosecutions through the local press.
Advice and Guidance	Ongoing advice and guidance is provided on the design and implementation of measures to prevent and detect fraud and other financial irregularities. For example changes to the design of benefit claim forms and the implementation of security measures in Council establishments and offices. Feedback is given to relevant staff on all cases investigated. This feedback is intended to encourage more referrals and also includes recommendations to change or improve systems and procedures so as to prevent or detect fraud in the future, where necessary.
Data Matching	<p>Throughout 2007/08 the Fraud Team has carried out ongoing work on 2006/07 Audit Commission National Fraud Initiative (NFI) data matches - a total of 20 NFI investigations were concluded during the year. The Commission has commended the work carried out to investigate these matches.</p> <p>The team has also coordinated the collection of data for an additional NFI data match in 2007/08 using council tax and electoral registration records. This exercise has resulted in approximately</p>

	<p>3000 matches that now have to be investigated by the Council. This work is ongoing.</p> <p>The Fraud Team has continued to investigate potential benefit fraud cases identified by the DWP through the HBMS data match process. The Council received 457 HBMS referrals during the year of which 110 required detailed investigation. Benefit overpayments identified as a result of this work totalled £143k of which £78k was fraudulent. In seven cases the claimant was prosecuted or received a sanction (an administrative penalty or caution). Total HBMS referrals were lower than normal in 2007/08 due to the suspension of data flows between the Council and DWP, as a result of security fears following the loss of data by HM Revenue and Customs in 2007. The DWP has now completed a review of procedures for transferring data and the HBMS service resumed in April 2008.</p>
Joint Working with Other Agencies	<p>The Fraud Partnership Agreement (FPA) with the DWP which encourages and facilitates joint working on relevant cases is now fully operational and is proving to be very successful. Both agencies are cooperating on individual investigations and sharing information to identify further possible fraud. In 2007/08 the Fraud team has been involved in 78 joint working cases with the DWP.</p> <p>The Fraud Team has continued to take part in specific joint exercises with other agencies and other Council departments. For example, the team has worked on a number of cases with Housing and Trading Standards (some of which have now been successfully concluded) and has worked closely with the police on an ongoing basis.</p>
Financial Investigations	<p>All investigations are monitored to assess their suitability for financial investigation and asset recovery. The team commenced one major financial investigation during the year (which is ongoing), and a number of other cases are currently being considered for further action.</p>
Proactive Work	<p>Proactive work during the year has focussed on the development of procedures for investigating disabled blue badge fraud as the number of cases referred has continued to rise. The team has</p>

	<p>worked with officers from Parking Services and Corporate Support within HASS (who administer blue badges) to look at how these cases should be investigated and what action can be taken. As a result of investigations completed, 10 cases were referred to the police for further action. Work is ongoing to develop a policy on blue badge fraud and enforcement.</p>
Other	<p>A review of overall Council policies for countering fraud and corruption has been undertaken. A new Counter Fraud and Corruption Policy and an updated Fraud and Corruption Prosecution Policy were approved by Members on 18 March 2008.</p> <p>The Audit and Fraud Team has undertaken five internal investigations in 2007/08, and has carried out additional work in relation to eight minor thefts or frauds.</p>

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Annex 4

Investigations, Prosecutions and Sanctions (Housing and Council Tax Benefits) 2007/08

876 fraud referrals were received in the year (2006/07 – 1,131), which represents a decrease of 23% on the previous year. 356 of these cases were passed for investigation (41%). The decrease in referrals is principally due to the suspension of HMBS data matches between October 2007 and March 2008 (see Annex 3). The following table summarises performance during the year.

	2007/08 Actual	2007/08 Target	2006/07 Actual
Number of fraud investigations completed	524	540	539
Prosecutions	20	19	22
Administrative Penalties	14	20	15
Cautions	14	20	14

In addition to the above, the Fraud team has investigated 22 cases of suspected blue badge fraud. The investigations have led to 10 cases being referred to the police for further action.

Although the number of prosecutions has exceeded the target for the year, the number of sanctions achieved (cautions and administrative penalties) is below the level expected. This is in part due to the Fraud Team Leader post being vacant for several months, which led to a backlog of cases awaiting decision on action to be taken. Although a new Team Leader was appointed in January 2008, the backlog of cases was not addressed before the end of the year and this has affected the number of sanctions administered. The total number of investigations completed has also been affected by the vacancy, and by long term sickness within the team.

Performance of the fraud team is also measured and reported through three statutory Best Value Performance Indicators. The outturn for 2007/08 is as follows.

	2007/08 Actual	2007/08 Target	2006/07 Actual	Comments
BVPI 76b – Number of investigators per 1000 caseload	0.49	0.50	0.51	There were no changes in the Fraud Team establishment during the year. There has been a slight decrease in this indicator due to a rise in benefit claimants (up by approximately 0.3% on 2006/07).
BVPI 76c – Number of investigations completed per 1000 caseload	43.2	45	44.59	This indicator is slightly lower than expected due to the increase in benefit claimants. However, the number of investigations completed has also been affected by vacancies within the team, and long term sickness.
BVPI 76d – Number of sanctions/prosecutions per 1000 caseload	3.96	5	4.22	As noted above, the shortfall in this indicator is principally due to the backlog of cases awaiting decision in year, caused by the vacancy in the Team Leader post.



Audit and Governance Committee

26 June 2008

Report of the Assistant Director (Audit and Risk Management)

2007/08 Annual Governance Statement

Summary

- 1 The purpose of this report is to allow consideration of the draft 2007/08 Annual Governance Statement (AGS), which is to be published with the Statement of Accounts.

Background

- 2 As reported to the last meeting of this Committee (on 13 May 2008), the Accounts and Audit Regulations 2003 imposed a legal requirement on all local authorities to conduct a review of the effectiveness of its system of internal control and to publish a Statement of Internal Control (SIC) as part of the annual accounts.
- 3 CIPFA/SOLACE originally published a guidance document for local authorities in 2001, called *Corporate Governance in Local Government: A Keystone for Community Governance*. The guidance was not mandatory but was intended to help authorities to develop and maintain strong governance arrangements.
- 4 In 2007, CIPFA/SOLACE published an updated Framework document. The new document '*Delivering Good Governance in Local Government Framework*' set out six core principles of governance which authorities are required to adopt. In accordance with this requirement, the Council adopted a new local Code of Governance in September 2007 which reflected the new CIPFA/SOLACE framework.
- 5 The new guidance also introduced the requirement on local authorities to prepare an Annual Governance Statement (AGS) instead of a SIC (from 2007/08 onwards). In preparing the AGS it is necessary to address the overall governance arrangements of the organisation rather than specifically the systems of internal control.

2007/08 Annual Governance Statement (AGS)

- 6 Internal Audit has completed its review of the Council's governance arrangements and systems of internal control. This has involved each Directorate completing a self assessment of the key controls within their

respective areas. The Chief Executive and Directors have also been required to complete and sign Assurance Statements, using information obtained from the review of key controls and associated evidence. A similar self assessment of Corporate key controls has been undertaken and reported to Corporate Management Team, and the S151 Officer and Monitoring Officer have been asked to complete and sign disclosure statements. In addition, Internal Audit has also gathered and reviewed other documentary evidence to identify possible control weaknesses (for example, the corporate risk register, internal and external audit reports and other inspection reports).

- 7 Group Leaders, the Executive Member and Shadow Executive Member for Corporate Services, the Chairs of Corporate Services EMAP, Standards Committee and the Scrutiny Management Committee, together with Members of the Audit and Governance Committee, were asked to provide details of any significant control issues which they were aware of, for possible inclusion in the 2007/08 AGS.
- 8 Internal Audit has also reviewed the progress which has been made to address the nine significant control issues identified in the 2006/07 SIC. In all cases work is ongoing to improve the relevant governance arrangements and control framework. The results of this follow up review were reported to the last meeting of this Committee. However, for some of the control issues there is still insufficient evidence that the new or improved control arrangements are fully embedded across the Council, and these issues have therefore been included in the draft 2007/08 AGS.
- 9 Local authorities are required to use judgement in deciding whether control weaknesses are significant and hence require disclosure in the AGS. The Officer Governance Group has therefore evaluated all the control issues identified through the review process and has considered which should be disclosed in the AGS as a significant control weakness. A control weakness is considered to be significant where;
 - a) the issue has seriously prejudiced or prevented achievement of a principal Council aim or objective;
 - b) the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in a significant diversion of resources from another aspect of the Council's services;
 - c) the issue has led to a material impact on the accounts;
 - d) the Audit and Governance Committee has advised that it should be considered significant for this purpose;
 - e) the Chief Internal Auditor has reported on it as significant in the annual opinion on the Council's internal control environment;
 - f) the issue, or its impact, has attracted significant public interest or has seriously damaged the Council's reputation;

- g) the issue has resulted in formal action being taken by the S151 Officer and/or the Monitoring Officer.
- 10 Corporate Management Team considered the significant control issues which had been identified, together with the draft 2007/08 AGS on 4 June 2008.
- 11 A copy of the draft 2007/08 AGS is attached at annex 1. The draft includes 9 significant control issues. The AGS is scheduled to be signed by the Leader and the Chief Executive following approval by Council on 30 June. Once approved and signed it then needs to be published as part of the 2007/08 Statement of Accounts.

Monitoring of SIC Action Plans

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

Consultation

- 13 Not relevant for the purpose of the report.

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 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

- 17 The implications are;
- **Financial** – there are no financial implications other than the time required to undertake the review of key controls and prepare the AGS.
 - **Human Resources (HR)** – there are no HR implications to this report.

- **Equalities** - there are no equalities implications to this report.
- **Legal** - there is a legal requirement for the Council to publish a Annual Governance Statement as part of the annual Statement of Accounts.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.
- **Property** - there are no property implications to this report.

Risk Management Assessment

- 18 The Council will fail to comply with legislative requirements if it does not publish a Annual Governance Statement with the annual Statement of Accounts. The Council would be criticised by the external auditor if the process followed to prepare the Annual Governance Statement was not sufficiently robust. This in turn would adversely impact on the Council's CPA score for the Use of Resources.

Recommendation

- 19 Members are asked to;
- Consider and comment on the content of the draft 2007/08 AGS, particularly the significant control issues identified and the action plan to address those weaknesses;

Reason

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

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

Reason

To enable Members to comment on the proposed monitoring arrangements

Contact Details

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Report Approved



Date 13 June 2008

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

- CIPFA/SOLACE – ‘Delivering Good Governance in Local Government’ – Framework and Guidance Note for English Authorities
- Accounts and Audit Regulations 2003 (as amended)
- CIPFA guidance – ‘The Annual Governance Statement’ – Meeting the Requirements of the Accounts and Audit Regulations 2003 (as amended 2006)

Annexes

Annex 1 – draft 2007/08 Annual Governance Statement

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2007/08 ANNUAL GOVERNANCE STATEMENT

ANNUAL GOVERNANCE STATEMENT

1. Scope of Responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the Council's website. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

Corporate governance is the system by which local authorities direct and control their functions and relate to the communities they serve. The framework for corporate governance recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) identifies six underlying principles of good governance. These principles have been taken from *The Good Governance for Public Services* and adapted for local authorities. They 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

The principles of corporate governance should be embedded into the culture of each local authority. Furthermore each local authority has to be able to demonstrate that they are complying with these principles.

The governance framework comprises the systems and processes, culture and values, by which an authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level rather. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of

ANNUAL GOVERNANCE STATEMENT

effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2008 and up to the date of approval of the Statement of Accounts.

3. The Governance Framework

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

Policies and Guidance

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

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

Political and Managerial Structures and Processes

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

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

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

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Strategic Planning Processes

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

Management and Decision Making Processes

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

- Delivering what our customer want
- Providing strong leadership
- Supporting and developing people
- Encouraging improvement in everything we do

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

Financial Management

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

Compliance Arrangements

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

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

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

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Risk Management

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

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

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

Internal Audit and Fraud

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

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

Performance Management

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

Consultation and Communication Methods

The Council communicates the vision of its purpose and intended outcomes for all stakeholders to enable accountability and encourage open consultation. To enable this, analysis of the Council's stakeholders is undertaken and relevant and effective channels of communication are developed. Examples of communication and consultation include:

- Communication of the Council's Community and Corporate Strategies
- Publishing an annual Statement of Accounts and Council Plan to inform stakeholders and services users of the previous year's achievements and outcomes;
- the annual report on the performance of the scrutiny function
- opportunities for the public to engage effectively with the Authority including attending meetings;
- the Talkabout Citizen's Panel; and
- the annual resident's survey (ResOp)

To support the existing arrangements, the Council will seek to develop a consultation policy which will outline how staff and their representatives are consulted and involved in decision-making.

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Partnership working arrangements

The overall governance framework established by the Council contributes to effective partnership and joint working arrangements. In addition, the Council is seeking to define protocols for partnership working that ensure that the responsibilities are clearly defined to ensure that the relationship works effectively, for the benefit of service users. For each partnership the legal status of the entity is defined and also the extent that decisions taken by the partnership will be binding for each organisation. Regular review of existing partnerships database is undertaken to monitor the extent of joint working and its effectiveness.

4. Review of Effectiveness

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

- the adequacy and effectiveness of key controls, both within individual Directorates and across the Council
- any control weaknesses identified and included on the Corporate Governance Assurance Statements signed by each Director
- any control weaknesses or issues identified and included on the Disclosure Statements signed by the Chief Executive, Section 151 Officer and Monitoring Officer
- any control weaknesses or issues identified and included in the annual report of the Chief Internal Auditor, which was presented to the Council's Audit and Governance Committee
- significant issues and recommendations included in reports received from the District Auditor and other inspection agencies
- the results of internal audit and fraud investigation work undertaken during the period
- the views of those Members and officers charged with responsibility for governance, together with managers who have responsibility for decision making, the delivery of services and ownership of risks
- the Council's risk register and any other issues highlighted through the Council's risk management arrangements
- the outcomes of service improvement reviews and performance management processes
- those control issues identified in the 2006/07 Statement of Control.

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

ANNUAL GOVERNANCE STATEMENT

5. Significant Internal Control Issues

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

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Sickness			
The 2006/07 SIC identified continuing weaknesses in the Council's procedures for monitoring and reporting sickness absence. In October 2007 a new corporate Attendance Management Policy was introduced with an emphasis on enabling attendance at work. Good progress has been made to address the underlying control weaknesses, resulting in a reduction in sickness from 12.9 days per FTE for 2006/07 to 9.54 days for 2007/08, which is above average performance in comparison with similar Councils. However there is still insufficient evidence that the improved arrangements have been fully embedded. In addition arrangements for preparing management information and ensuring its quality require improvement.	Work commenced in spring 2007 to develop procedures to address high sickness absence levels. Phase 1 of the project addressed policies and procedures and guidance for managers. New procedures were launched in October 2007, coupled with an extensive training package. Absence management phase 2 began in May 2008 involving new contracts with the Occupational Health provider and a focus on wellbeing initiatives for staff. Absence management now forms part of the Single Improvement Plan (SIP), and will be monitored on an ongoing basis as part of overall performance management arrangements.	Ongoing	2006/07 SIC* Performance and Financial Monitoring Reports * Annual report of the Chief Internal Auditor *

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Control Issue	Action Taken or Proposed	Due Date	Source(s)
Scrutiny Arrangements			
The Council's decision making process operates in accordance with the Constitutional requirements and has been adapted effectively to reflect the current balanced political administration. Effective pre-decision scrutiny is enabled by the EMAP process, however there is currently inadequate post-decision scrutiny in operation.	Current arrangements for pre- and post decision scrutiny will be reviewed in the context of best practice employed in other councils, by September 2008. Recommendations will be made to the Council in October 2008 and, subject to agreement, new arrangements will be put in place by April 2009.	April 2009	Corporate Self Assessment CPA Corporate Assessment 2007
Health and Safety			
The Council has a Health and Safety Team within the Human Resources Department which provides professional health and safety advice to all service areas. During 2007/08, the capacity of the team has been increased to enable professional advice to be provided. A strategic review of the health and safety arrangements has been undertaken. The results of which will inform the Council's approach to health and safety and develop the corporate framework. Although some progress has been made there is still insufficient evidence that the required processes are fully embedded across the Council.	A review of health and safety management within the Council has already been completed and has resulted in the launch of a new safety management system on 1 June 2008 and the creation of a joint health and safety committee, with the trade unions. The focus of future work will be to embed a culture of health and safety by supporting managers through the use of health & safety advisors and providing clear leadership within directorates. Health and safety forms part of the Single Improvement Plan (SIP), and will be monitored on an ongoing basis as part of overall performance management arrangements.	Ongoing	2006/07 SIC * H&S Prohibition Notices

ANNUAL GOVERNANCE STATEMENT

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Community Engagement			
<p>The Council regularly consults with the local community, for example through the annual ResOp survey and the Talkabout resident's panel. It also carries out specific exercises such as those carried out to support the development of the Community Strategy. However, the Council does not currently have a communication strategy or a consultation strategy and therefore engagement with all stakeholders and community groups cannot be assured.</p>	<p>A Council-wide communications and engagement strategy will be developed, drawing on best practice models used in other councils.</p> <p>Recommendations will be made to the Executive by September 2008, and the new strategy implemented by January 2009.</p> <p>An audit of compliance will be completed within the following 12 months.</p>	January 2009	<p>CPA Corporate Assessment</p> <p>Deciding and Delivering Council Priorities Report (External Audit) *</p>
Closedown Process			
<p>In preparing both the 2005/06 and 2006/07 Statement of Accounts, the Council experienced problems during the Closedown process. As identified in the 2006/07 SIC, this resulted in a material misstatement being included in the 2005/06 Accounts which should have been identified by internal controls. For the 2006/07 Accounts, several significant misstatements were identified by the External Auditor. Weaknesses with the closedown process have contributed to these errors. Despite plans to incorporate review time into the process for the 2007/08 closure of accounts, there is insufficient evidence that adequate improvements to the process have been put in place.</p>	<p>All the issues arising from the 2006/07 closedown process have been reviewed, and the following measures put in place to avoid a similar recurrence in future years:</p> <ul style="list-style-type: none"> • The working papers on bank reconciliation and asset register have been reviewed. • Meetings have been scheduled to review the directorate and corporate closedown working papers. <p>Monthly meetings have also been held with the external auditors to highlight ongoing issues. In addition, the Head of Finance is planning to review the working papers which support the 2007/08 Statement of Accounts.</p> <p>The key issues for the 2007/08 Accounts are the need to ensure that prior period adjustments and the restatement of last year's accounts are completed within the available timescales.</p>	June 2008	<p>2006/07 SIC*</p> <p>Annual Governance Report 2007 (External Audit) *</p> <p>2007 Annual Audit and Inspection Letter (External Audit) *</p> <p>Annual report of the Chief Internal Auditor *</p> <p>Audit of Financial Statements (External Audit)*</p>

ANNUAL GOVERNANCE STATEMENT

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Equalities			
<p>Equalities and inclusion is an organisational priority which is reflected in both the Corporate and equalities Strategies. A large work programme has been planned to achieve these aims including the completion of equality Impact assessments and the improvement of staff awareness of equalities issues. However, there is insufficient evidence that the Council's policies and procedures are fully embedded within each directorate for informing service planning and a further period of time is required to allow the results of the work plan to take effect. Equalities monitoring arrangements also need to be strengthened. to ensure compliance with equalities legislation.</p>	<p>A data collection and analysis post to support equalities work has been approved by the Executive and will be recruited to by Autumn 2008.</p>	Autumn 2008	Corporate and Directorate Assurance Statements
	<p>An equalities development and improvement plan has been drawn up and is being overseen by the Equalities Leadership Group.</p>	Ongoing	
	<p>Council Management Team (CMT) will be asked to endorse an equalities management system for York (similar to the approach adopted for health and Safety). This would set ambitions and standards and make stronger links to departmental service planning.</p>	October 2008	
Business Continuity			
<p>Business continuity plans and procedures are required to enable the Council to respond effectively to any major events which may impact on the city and/or the ability of the Council to maintain its services. The 2006/07 SIC identified continuing weaknesses in the Council's business continuity arrangements. Although the Council has approved a Business Continuity Policy and Strategy and each directorate has appointed a business continuity champion, the quality of individual directorate plans is still not at the required standard. Support for the planning process is essential to enable the Group and Directorate level plans to be completed, which in turn will inform the Council's Corporate Business Continuity Plan.</p>	<p>A draft version of the Council's Corporate Business Continuity Plan (BCP) has been produced and will be taken to CMT in June 2008 for approval.</p>	June 2008	2006/07 SIC * Corporate and Directorate Assurance Statements
	<p>Progress is being made in the development of directorate BCPs and it is anticipated that all departments will have completed plans by autumn 2008.</p> <p>An "Advice and Assistance to Local Business and the Voluntary Sector" document has been circulated to businesses in York including presentations to business interest groups and the Council is sharing a stand at the Great Yorkshire Show.</p>	Autumn 2008	

ANNUAL GOVERNANCE STATEMENT

Control Issue	Action Taken or Proposed	Due Date	Source(s)
Project Management, Programme Management and Benefit Realisation			
<p>As identified in the 2006/07 SIC, some progress has been made to develop in-house management skills and capacity. However, there was still a need to ensure consistency across the Council. As a result major projects do not always realise the anticipated benefits to the Council. The resources to support key projects also remain limited. Improving project and programme management arrangements, remains a key action within the Organisational Efficiency Programme, with the aim of developing a scaleable programme/project model for Council-wide application following successful project examples. As the development of this model has been delayed due to resource constraints, only limited progress has been made to address these issues during 2007/08.</p>	<p>A joint workshop with staff from the Resources and Chief Executives Directorates has been held, to map out the various programmes and projects ongoing across the Council. Significant training has commissioned for senior staff.</p> <p>A consistent approach to project and programme management across the Council will be developed. Detailed actions will be set out in the Single Improvement Plan, and progress will be monitored on an ongoing basis as part of overall performance management arrangements.</p>		<p>2006/07 SIC * Corporate risk register * Review of Project Management and Programme Management Arrangements – report (External Audit)</p>

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

Signed

W. J. McCarthy
Chief Executive

Dated

Signed

Cllr A. Waller
Leader of the Council

Dated



Audit and Governance Committee26th June 2008

Report of the Assistant Director (Property Services)

The New Council HQ – response to questions posed by the A&G Committee**Summary**

- 1 This report responds to a number of questions raised by the A&G Committee relating to the contract management arrangements for this major council project.

Background

- 2 At its meeting 13 May 2008 members of the Audit & Governance meeting agreed that the Assistant Director: Property Services should be invited to the June meeting of the committee to answer specific questions of concern regarding the contract management of the New Council HQ project. These are:
 - a. the form of contract.
 - b. the provisions for variations, claims, arbitration and bonding;
 - c. the extent of nominated suppliers and nominated sub-contractors;
 - d. business continuity in the event of business failure by the main stakeholders;
 - e. business continuity in the event of the loss of the project leader
 - f. arrangements for member steering and the regularity of reports.
 - g. re-confirmation that the project still meets the governance criteria of the best solution, at the right time and at the best cost for residents

Information

- 3 The response to each question is as follows:
- 4 *a) the form of contract.*

The form of contract will be the Engineering Construction Contract Option D (Target Contract will Bills of quantities). This form of contract is endorsed by

the (Office of Government Commerce) as the contract satisfies the Achieving Excellence in Construction (AEC) principles.

The contract was developed in the late 1980s to stimulate a fundamental change in the civil engineering design and construction. The second edition was published as a response to Sir Michael Latham's report 'Constructing the Team' (1994). Recently, this form of contract has become widely used by employers, contractors and consultants wishing to embrace the principles of partnering envisaged in 'Constructing the Team'.

The current version of the contract embraces good project management tools such as:

risk registers

collaborative discussions to mitigate problems and risk

clear division of function and responsibility

and key performance indicators.

This should result in reduced risk to an employer of cost and time overruns and of poor performance of the completed project. It should also lead to a much increased likelihood of achieving a profit for the contractor and his subcontractors and suppliers.

In addition, prior to selecting this contract we held a workshop with constructors and consultants who CYC have engaged with recently to discuss the merits of this form of contract and alternatives. The workshop agreed that the NEC suite of contracts were appropriate for this and other major projects.

A formal contract will be completed following agreement of the Target Price this autumn. The tendering process completed in late 2006 identified a suitable construction partner who would support the designers in the development of the scheme.

5 *b) the provisions for variations, claims, arbitration and bonding?*

Clauses do exist within the contract for the above.

The focus of the contract is to resolve disputes before they escalate. If a dispute arises the parties are referred to Adjudication for settlement. Referral to an Adjudicator can occur at anytime during the contract with the emphasis on parties to settle disputes as they arise. Arbitration procedures can only be undertaken following completion of adjudication and is the last result to the settlement of disputes.

Bonds

Currently we do not propose to have a performance bond, though discussions are ongoing to incorporate a parent company guarantee. Some elements of the construction (piling, structural floors – Cobiax, curtain waling) have

significant design input from the contractor and his supply chain. Collateral warranties will be agreed with each subcontractor or supplier.

Retention

To improve the contractor's cash flow the project will be retention free until completion. At completion a sum of £250,000 will be held until the Defects Certificate has been issued.

Incentivisation

A fundamental difference with this form of contract is the inclusion of Incentivisation. The purpose of the clause is to encourage effective management control.

The contractor and the consultants will receive a share of any savings or pay a share of excess when the final cost exceeds the target price. The target price will be adjusted for any compensation events.

6 *c) the extent of nominated suppliers and nominated sub-contractors*

No nominated suppliers or sub contractors are currently proposed. Shepherds and the designers have investigated numerous technical solutions and suppliers. These discussions continue. Shepherds propose to keep these options open as long as possible to maximise the value from the market.

Shepherds have consulted the design team on the composition of the tender lists for each (elemental) package. Sub contract tenders will be released and returned in the next two months.

7 *d) business continuity in the event of business failure by the main stakeholders;*

Prior to their appointments a financial appraisal was undertaken. Although this only provides limited protection.

Business failure of a consultant is reduced following agreement of the Target Price as the emphasis is on construction not design.

8 *e) business continuity in the event of the loss of the project leader*

The project has a robust project management structure and is able to respond to the loss of any of its component parts. The project has recently suffered the loss of the lead architect following his promotion to the New York office. RMJM have replaced him with minimal impact to the project.

9 *f) arrangements for member steering and the regularity of reports.*

The Project Champion, Sponsor and Project Manager meet with the Member Steering Group on a regular basis.

10 *g) re-confirmation that the project still meets the governance criteria of the best solution, at the right time and at the best cost for residents*

The Executive report dated 17th June provided the Members with the latest update. The report re-iterates the benefits and the financial and operational business case for undertaking this project.

Options

- 11 a) To accept the responses outlined above
- 12 b) To request further information

Analysis

- 13 There is no analysis of these options

Consultation

- 14 There has been no specific consultation to support the content of this report.

Corporate Priorities

- 15 The new Council HQ will provide a building for the organisation that will enable improved services to respond to all of the council's priorities.

Implications

- 16 The following information is provided:

- **Financial**

- 17 There are no financial implications

- **Human Resources (HR)**

- 18 There are no HR implications.

- **Legal**

- 19 There are no Legal implications.

- **Crime and Disorder (C & D)**

- 20 There are no C & D implications.

- **Information Technology (IT)**

- 21 There are no IT implications.

- **Property**

- 22 Property implications are discussed within the report

Risk Management

- 23 The project is being managed effectively in terms of risk and the choices made regarding contract management have been made with the objective of minimising risk

Recommendation

- 18 That Members accept the responses given to the Committees questions

Reason: To ensure the effective management of one the council's major projects and an imperative.

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Wards Affected:

For further information please contact the author of the report

Background Papers:

Exec:xxxxApropofl&p

APPROPRIATIONS

PROPERTY	HOLDING FINANCIAL ACCOUNT	CURRENT HOLDING STATUTORY POWER	PROPOSED HOLDING FINANCIAL ACCOUNT	PROPOSED HOLDING STATUTORY POWER	VALUATION
Haymarket Car Park (Part)	Housing Revenue Account	Part II Housing Act 1985	General Fund	S120 Local Government Act 1972	£850,000
17/21 Piccadilly	Housing Revenue Account	Part II Housing Act 1985	General Fund	S120 Local Government Act 1972	£750,000
Peasholme Hostel site	Housing Revenue Account	Part II Housing Act 1985	General Fund	S120 Local Government Act 1972	£500,000
4 Fishergate site	General Fund	S120 Local Government Act 1972	Housing General Fund	Part II Housing Act 1985	£500,000
Arc Light Centre, Union Terrace Car Park	General Fund	Sec 28 Road Traffic Regulation Act 1967	Housing General Fund	Part 11 Housing Act 1985	£335,000