

Notice of meeting of

Audit & Governance Committee

To:	Councillors Cunningham-Cross (Chair), Barnes, Brooks (Vice-Chair), Burton, Cuthbertson, Watson and Steward
Date:	Thursday, 28 June 2012
Time:	4.30 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 4:00 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 - 10)

To approve and sign the minutes of the meeting of the Audit & Governance Committee held on 2 April 2012.

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 Committee's remit can do so. The deadline for registering is **5:00 pm on Wednesday 27th June 2012.**

4. Forward Plan. (Pages 11 - 18)

This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to April 2013.

5. External Audit 2011/12 - Audit Progress Report. (Pages 19 - 32)

This report presents the progress report of the Council's external auditor, the Audit Commission, in achieving their 2011/12 Audit Plan. The Progress Report is attached at Annex A.

6. Review of the Effectiveness of Internal Audit. (Pages 33 - 56)

This report advises Members of the process and the outcomes of the 2011/12 review of the effectiveness of the council's internal audit arrangements.

7. Annual Report of the Head of Internal Audit. (Pages 57 - 78)

This report summarises the outcome of audit and fraud work undertaken in 2011/12 and provides an opinion on the overall adequacy and effectiveness of the council's internal control arrangements.

8. Draft Annual Governance Statement. (Pages 79 - 96)

The purpose of this report is to present the Annual Governance Statement (AGS) 2011/12 for approval. The AGS is attached as Annex A to the report and a signed version as agreed by the Leader and Chief Executive of the council will accompany the Statement of Accounts 2011/12

9. Urgent Business

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

Democracy Officer:

Name: Laura Bootland

Contact details:

- Telephone – (01904) 552062
- E-mail – laura.bootland@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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- find out about the rules for public speaking from the Democracy Officer.

A leaflet on public participation is available on the Council's website or from Democratic Services by telephoning York (01904) 551088

Further information about what's being discussed at this meeting

All the reports which Members will be considering are available for viewing online on the Council's website. Alternatively, copies of individual reports or the full agenda are available from Democratic Services. Contact the Democracy Officer whose name and contact details are given on the agenda for the meeting. **Please note a small charge may be made for full copies of the agenda requested to cover administration costs.**

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The majority of councillors are not appointed to the Cabinet (39 out of 47). Any 3 non-Cabinet councillors can 'call-in' an item of business following a Cabinet meeting or publication of a Cabinet Member decision. A specially convened Corporate and Scrutiny Management Committee (CSMC) will then make its recommendations to the next scheduled Cabinet meeting, where a final decision on the 'called-in' business will be made.

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	2 APRIL 2012
PRESENT	COUNCILLORS JEFFRIES (CHAIR), BARNES, BROOKS (VICE-CHAIR), BURTON, CUTHBERTSON, WATSON AND GILLIES (SUBSTITUTE FOR COUNCILLOR STEWARD)
APOLOGIES	COUNCILLOR STEWARD

58. DECLARATIONS OF INTEREST

At this point in the meeting Members were asked to declare any personal or prejudicial interests they may have in the business in the agenda. None were declared.

59. MINUTES

RESOLVED: That the minutes of the meetings held on 13 February 2012 and 19 March 2012 be approved and signed as a correct record.

60. PUBLIC PARTICIPATION

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

61. FORWARD PLAN

Consideration was given to the forward plan of reports expected to be presented to the Committee during the period to February 2013.

Members were asked to identify any further items they wished to add to the Forward Plan.

RESOLVED: That the Committee's Forward Plan for the period up to February 2013 be noted.

REASON: To ensure that the Committee receives regular reports in accordance with the functions of an effective audit committee and can seek

assurances on any aspect of the Council's internal control environment.

62. FUTURE EXTERNAL AUDIT ARRANGEMENTS - VERBAL UPDATE

Members received a verbal update on future external audit arrangements. They were informed that, following a procurement exercise, the local in-house bid had been successful and hence the existing team would continue to deliver the service in the short-term. Under TUPE regulations, the staff concerned would transfer to Mazars accountancy and would be known as Mazars DA. In other parts of the country the in-house bids had not been successful and the contracts had been awarded to other providers.

RESOLVED: That the verbal update on future external audit arrangements be noted.

REASON: To ensure that the Committee is kept informed of changes in audit provision.

63. AUDIT COMMISSION OPINION AUDIT PLAN 2011/12

Members considered a report that presented the Audit Commission's Opinion Audit Plan for 2011/12 which was attached as an annex to the report. Members noted the fees for the audit, as detailed in the report.

Members' attention was drawn to pages 7 to 9 of the Audit Plan, which detailed the significant risks that had been identified. It was noted that some of these risks were not specific to City of York Council but that others had particular implications for the Council including:

- The requirement to recognise and value heritage assets
- The quality of the fixed asset records
- The Council's reliance on spreadsheets to prepare its year end accounts and the inherent risks that superseded or inaccurate spreadsheets may be used in error.

At the request of Members, details were given of some of the action that was being taken to minimise these risks.

Members agreed that the Plan sufficiently reflected the audit needs and interests of the Council.

RESOLVED: (i) That the matters set out in the Opinion Audit Plan, presented by the District Auditor, be noted.

(ii) That the Plan be approved.

REASONS: (i) To ensure the effective deployment of scarce external audit resources to best effect.

(ii) To ensure that the external audit and inspection process contributes effectively to the Council's system of internal control.

64. INTERNAL AUDIT, COUNTER FRAUD AND INFORMATION GOVERNANCE PLAN 2012/13

Members considered a report that sought the Committee's approval for the planned programme of audit, counter fraud and information governance work to be undertaken in 2012/13.

At the request of Members, officers gave further details of proposed work in respect of the following:

- Project 19230 – Community Stadium
- Project 19515 – Waste PFI
- Project 10940 – Stores and purchasing
- Project 11480 – Personalisation

RESOLVED: That the Internal Audit and Counter Fraud Plan 2012/13 be approved.

REASON: In accordance with the Committee's responsibility for overseeing the work of internal audit.

65. AUDIT, COUNTER FRAUD AND INFORMATION GOVERNANCE MONITORING REPORT

Members considered a report that provided an update on progress made in delivering the internal audit workplan for 2011/12 and on current counter fraud and information governance activity. The report also provided an update on the integration of Veritau and the North Yorkshire Audit Partnership.

It was noted that one of the priorities for Veritau was to deliver at least 93% of the audit plan. Officers confirmed that it was anticipated that the target would be exceeded by the end of April 2012.

Members noted that there had been a significant increase in the value of fraudulent benefit overpayments identified in the year to date compared to last year. A large proportion of the increase could be attributed to a relatively small number of high value cases. Officers confirmed that prosecutions were made wherever possible and that a press release was issued when these were successful. It did, however, take time to recover money from those who had been convicted.

- RESOLVED:
- (i) That the progress made in delivering the 2011/12 internal audit work programme, and current counter fraud and information governance activity, be noted.
 - (ii) That the progress on the integration of Veritau and the North Yorkshire Audit Partnership be noted.

- REASONS:
- (i) To enable Members to consider the implications of audit and fraud findings.
 - (ii) As part of the Committee's responsibility to consider reports dealing with the management of internal audit.

66. INTERNAL AUDIT FOLLOW UP REPORT

Members considered a report that provided a six-monthly update on progress made by council departments in implementing actions agreed as part of internal audit work. The report also included details of revisions to the escalation process.

Members were informed that the proportion of actions with a revised implementation date remained relatively high compared to previous years. This situation was being closely monitored and, in most cases, progress was being made.

Discussion took place regarding the new procedure when following up and escalating agreed actions, as detailed in Annex 1 to the report. The new process was simpler, and included the involvement of the Officer Governance Group, which would support the escalation process. Members commented on the statement in the report which specified that issues would be “escalated to more senior managers, and ultimately may be referred to the Audit and Governance Committee”. Members recommended that the word “may” be amended to read “would usually”.

- RESOLVED:
- (i) That the progress made in implementing internal audit agreed actions, as detailed in paragraphs 5-11 of the report, be noted.
 - (ii) That the changes made to the escalation procedure in agreement with the Assistant Director, Financial Services be noted.

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

67. AUDIT & GOVERNANCE COMMITTEE EFFECTIVENESS - SELF ASSESSMENT

Members considered a report that sought their views on the proposed arrangements for undertaking a self assessment exercise of the Committee’s own effectiveness.

It was noted that Members had previously agreed that an independent person should be invited to join the committee but that this suggestion had not been progressed.

- RESOLVED: That the arrangements for undertaking the review of the Committee’s own effectiveness be as follows:
- (a) All members of the Committee (excluding substitutes) to be asked to complete a self assessment questionnaire.¹

- (b) A working group of the Committee to be established to undertake the review (with support from officers).
- (c) The membership of the working group to comprise: Cllr Jefferies, Cllr Brookes, Cllr Burton and Cllr Cuthbertson.
- (d) As part of the review, the working group would also give consideration to the role that they would envisage an independent member of the committee would carry out and the associated skills analysis.

REASON: To ensure that the Audit and Governance Committee remains effective.

Action Required

1. Circulate questionnaire

MN

68. REVIEW OF THE AUDIT AND GOVERNANCE COMMITTEE TERMS OF REFERENCE

Members considered a report that recommended the adoption of revised terms of reference for the Committee.

RESOLVED: That this item be deferred to the next meeting.

REASON: To enable more time for consideration.

69. KEY CORPORATE RISK MONITOR QUARTER 4

Members considered a report that detailed the current position of the risks associated with the Key Corporate Risks (KCRs) as at the end of February 2011.

Members' attention was drawn to paragraph 3 of the report, which set out the directorate risk reporting agenda.

Some Members stated that they believed that the previous arrangement, whereby they had received the detailed risk register, had been beneficial. Officers confirmed that the risk register was available to Members but, to ensure that it was accessible, it was best provided electronically rather than included with agenda papers.

Officers stated that it was intended that the key strategic risks would be reviewed and updated and the Committee would be involved in this process.

- RESOLVED:
- (i) That the risks set out in paragraphs 5 and 6 of the report be noted.
 - (ii) That the directorate risk reporting agenda, as set out at paragraph 3 of the report, be approved.
 - (iii) That, when the risk monitor report was considered at future meetings, copies of the detailed risk register be emailed to Members.¹

- REASONS:
- (i) To provide assurance that risks to the council are continuously reviewed and updated.
 - (ii) To ensure that directorates bring forward updated risk reports providing assurance that risk is being properly managed through 2012/13.
 - (iii) To enable Members to give full consideration to the issues.

Action Required

1. Email risk register to Members

DW

Councillor Jeffries, Chair

[The meeting started at 5.30 pm and finished at 7.15 pm].

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Audit and Governance Committee

28 June 2012

Report of the Director of CBSS

Audit & Governance Committee Forward Plan to April 2013**Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to April 2013.

Background

2. There are to be six fixed meetings of the Committee in a municipal year. To assist members in their work, attached as an Annex is the indicative rolling Forward Plan for meetings to April. This may be subject to change depending on key internal control and governance developments at the time. A rolling Forward Plan of the Committee will be reported at every meeting reflecting any known changes.
3. No amendments have been made to the forward plan since the previous version was presented to this Committee in February 2012.

Consultation

4. The Forward Plan is subject to discussion by members at each meeting, has been discussed with the Chair of the Committee and key corporate officers.

Options

5. Not relevant for the purpose of the report.

Analysis

6. Not relevant for the purpose of the report.

Council Plan

7. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

Implications

8.
 - (a) **Financial** - There are no implications
 - (b) **Human Resources (HR)** - There are no implications
 - (c) **Equalities** - There are no implications
 - (d) **Legal** - There are no implications
 - (e) **Crime and Disorder** - There are no implications
 - (f) **Information Technology (IT)** - There are no implications
 - (g) **Property** - There are no implications

Risk Management

9. By not complying with the requirements of this report, the council will fail to have in place adequate scrutiny of its internal control environment and governance arrangements, and it will also fail to properly comply with legislative and best practice requirements.

Recommendations

10.
 - (a) The Committee's Forward Plan for the period up to April 2013 be noted.

Reason

To ensure the Committee receives regular reports in accordance with the functions of an effective audit committee.

- (b) Members identify any further items they wish to add to the Forward Plan.

Reason

To ensure the Committee can seek assurances on any aspect of the council's internal control environment in accordance with its roles and responsibilities.

Contact Details

Author:

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Customer & Business
Support Services
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Chief Officer Responsible for the report:

Ian Floyd
Director of CBSS
Telephone: 01904 551100

**Report
Approved**



Date 11/06/2012

Specialist Implications Officers

Head of Civic, Democratic & Legal Services

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

None

Annex

Audit & Governance Committee Forward Plan to April 2013

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Audit & Governance Committee Draft Forward Plan to April 2013

Training/briefing events will be held at appropriate points in the year to support members in their role on the Committee.

- **Committee 25th July 2012**

External Audit 2012/13 Audit Plan

Draft Statement of Accounts 2011/12

Scrutiny of the Treasury Management Annual Report 2011/12 and Review of Prudential Indicators

Key Corporate Risk Monitor Quarter 1 (Including OCE Risks)

Audit Commission national reports summary (if any)

Audit Commission reports as per agreed Audit & Inspection plan

Changes to the Constitution (if any).

- **Committee 27th September 2012**

2011/12 Final Statement of Accounts

Annual Governance Report 2011/12

Annual Report of the Audit & Governance Committee

Key Corporate Risk Monitor Quarter 2 (Including CBSS Risks)

Follow-up of Internal and External Audit Recommendations

Internal Audit & Fraud Plan Progress Report

Audit Commission reports as per agreed Audit & Inspection plan

Changes to the Constitution (if any).

- **Committee 12th December 2012**

Key Corporate Risk Monitor Quarter 3 (Including CANS/ CS Risks)

Annual Audit Letter – Audit Commission

2012/13 Review of the Effectiveness of Internal Audit

Internal Audit & Fraud Plan Progress Report

Scrutiny of the Treasury Management Monitor 2 Report 2012/13
and Review of Prudential Indicators

*Audit Commission reports as per agreed Audit & Inspection plan
Changes to the Constitution (if any).*

- **Committee 13th February 2013**

Audit Commission 2010/11 Grant Claim Certification Work

Key Corporate Risk Monitor Quarter 4 (Including ACE Risks)

Scrutiny of the Treasury Management Monitor 3 Report 2012/13
and Review of Prudential Indicators

Scrutiny of the Treasury Management Strategy Statement and
Prudential Indicators

Counter Fraud: Risk Assessment and Review of Policies

Internal Audit Plan Consultation

*Audit Commission reports as per agreed Audit & Inspection plan
Changes to the Constitution (if any).*

- **Committee 17 April 2013**

Approval of Internal Audit Plan

Internal Audit & Fraud Plan Progress Report

Follow up of Internal and External Audit Recommendations

Review of the Effectiveness of the Audit & Governance Committee

Key Corporate Risk Monitor Quarter 4

Audit Commission national reports summary (if any)

Audit Commission reports as per agreed Audit & Inspection plan

Changes to the Constitution (if any).

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Audit and Governance Committee

28 June 2012

Report of the Director of Customer & Business Support Services

Audit Commission Audit Progress Report: 2011/12**Summary**

1. This report presents the progress report of the council's external auditor, the Audit Commission, in achieving their 2011/12 Audit Plan. The Progress Report is attached at Annex A.
2. The report reflects progress on the Audit Commission's external audit work including: the audit of the financial statements; the value for money conclusion; and other key areas of work.
3. It also includes an update on:
 - The abolition of the Audit Commission;
 - Externalisation of the Audit Practice;
 - Annual Fraud and corruption survey 2011/12;
 - National Fraud initiative; and
 - Openness and accountability in local pay.

Background

4. The 2011/12 Opinion Plan was presented to this committee in April 2012. The Plan sets out the work to be conducted by the District Auditor, taking account of:
 - national risks
 - the inherent audit risks arising from previous audit work carried out at the council including Internal Audit work and previous inspection findings;

- the requirements of the Code of Audit Practice in discharging their statutory responsibilities in the conduct of the audit.

5. The fee for this work was confirmed as £224,010 in April 2012.

Consultation

6. Progress made in respect of the 2011/12 Audit Plan is consulted on with the relevant responsible officers within Customer & Business Support Services, prior to this being reported to those members charged with governance at the council.

Options

7. Not relevant for the purpose of the report.

Analysis

8. Not relevant for the purpose of the report.

Corporate Priorities

9. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

Implications

10.

(a) **Financial** – The fees can be contained within the 2011/12 budget for external audit fees.

(b) **Human Resources (HR)** - There are no implications.

(c) **Equalities** - There are no implications.

(d) **Legal** - There are no implications.

(e) **Crime and Disorder** - There are no implications.

(f) **Information Technology (IT)** - There are no implications.

(g)**Property** - There are no implications.

Risk Management

11. The council will fail to properly comply with legislative and best practice requirements to provide for the proper audit of the authority. Any failure to do so would be unlawful.

Recommendations

12. Members are asked to consider the content of the progress report, note its findings and matters arising.

Reason

To ensure the Committee is fully aware of the current activity of the external auditors and any issues that could affect the council's system of internal control.

Contact Details

Author:

Emma Audrain
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Tel 01904 551170

Chief Officer Responsible for the report:

Ian Floyd
Director of Customer & Business Support Services
Telephone: 01904 551100

**Report
Approved**



Date 15.06.12

Specialist Implications Officers: N/A

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

Audit Commission Annual Audit Plan 2011/12

Annexes:

Audit Commission Audit Progress Report 2011/12

Progress **Report**

City of York Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

The purpose of this report is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It also includes an update on the externalisation of the Audit Practice, the proposed abolition of the Audit Commission, and other national issues and developments.

If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details below.

Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Steve Nicklin

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Progress report

Financial statements

1 We presented our 2011/12 Opinion Plan to the February meeting of the Audit and Governance Committee. This plan set out our initial assessment of audit risk, and the work that we will undertake to meet our Code of Audit Practice responsibilities.

2 We confirmed an audit fee of £224,010 as previously agreed, and this remains appropriate.

Financial statements audit

3 Our detailed testing on the Council's financial systems is now substantially complete. As previously discussed, we recommend that reconciliations between the general ledger, accounts payable/receivable systems and bank statements are carried out on a more systematic and regular basis throughout the year. However these reconciliations have been performed in full as at 31 March 2012, and there were adequate compensating controls in place throughout the year.

4 No other significant weaknesses have been identified, and our audit work confirms that a satisfactory IT control environment has been maintained.

5 Over the past three years the Council has implemented a number of significant changes to its financial systems and key personnel. There is also an ongoing requirement for financial savings. Taken together, these factors suggest that a more strategic review of internal control arrangements might be opportune. As external auditors it is not our role to prescribe in detail how the Council's overall system of financial control should operate. However to assist the Council with its own review we have provided officers with a list of all of the financial controls we have identified, and whether we regard these as key controls for audit purposes.

6 We have discussed the 2011/12 closedown process, current technical issues and our working paper requirements with the Council's finance staff. We expect to receive unaudited financial statements following certification on 30 June 2012, and all supporting working papers by 1 August 2012. This should give us sufficient time to complete our audit work and meet the statutory opinion deadline of 30 September.

VFM conclusion

7 Our assessment is based on two criteria, specified by the Audit Commission, related to your arrangements for:

- securing financial resilience – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- challenging how you secure economy, efficiency and effectiveness – focusing on whether you are prioritising your resources within tighter budgets and improving productivity and efficiency.

8 Our assessment has progressed according to plan. The only outstanding work is to review the Council's year end financial statements, annual governance review, and performance report. No new value for money risks have been identified.

9 We will include the main findings from our Value for Money work in the Annual Governance Report presented at September's Committee meeting.

Other areas of work

10 At the Council's request we reviewed their minimum revenue provision and credit ceiling calculations for the current year, and we have confirmed a new methodology with officers.

11 We have also successfully resolved a number of queries from the Department of Work and Pensions following our certification of the 2010/11 Housing and Council tax benefits grant claim. We are currently progressing 2011/12 grant claims certification work, which will help to confirm key balances and transactions in the accounts.

The future of local public audit

Abolition of the Audit Commission

12 In August 2010, the government announced its intention to abolish the Audit Commission and put in place a new framework for local public audit.

13 The Audit Commission has recently announced the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17 (see below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

14 Thereafter a new local public audit regime will apply, the key features of which are as follows.

- Local government bodies will appoint their own auditor on the advice of an independent audit appointment panel, with a maximum of two terms of five years permissible;
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies;
- The power to issue a public interest report will be retained;
- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and approval by the independent auditor appointment panel;
- The National Audit Office will be responsible for maintaining audit codes of practice and providing support to auditors; and.
- The National Fraud Initiative will continue.

15 The government is holding further discussions with audited bodies and audit firms to develop its proposals, and intends to publish draft legislation for pre-legislative scrutiny in 2012.

Externalisation of the Audit Practice

16 Following the recent procurement exercise, five-year contracts have been let from 2012/13 to the following firms.

Firm	Contract areas
Mazars	North East & North Yorkshire
Ernst and Young	Eastern , South East

Firm	Contract areas
Grant Thornton	North West, West Midlands, London (South), Surrey & Kent, South West
KPMG	Humberside & Yorkshire, East Midlands, London (North)

17 The Commission has been able to secure very competitive prices that will save local public bodies over £30 million a year for a minimum of five years. Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

18 To support the transition process, the Commission has arranged a series of introductory meetings in each contract area. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits.

19 Further details are available on the Commission's website and we will continue to keep you updated on developments. Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities and delivering your 2011/12 audit- to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

Other matters of interest

Annual fraud and corruption survey 2011/12

20 On 2 April 2012 the Audit Commission issued its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year. The electronic survey was open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

21 City of York Council submitted its return by the due date and we have confirmed that the data is consistent with our own knowledge and understanding of the organisation. The Council's return confirms that there is a proactive approach to preventing and detecting both external and internal fraud, supported by prosecution in appropriate cases.

National Fraud Initiative

22 The Audit Commission has recently consulted on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI). This data marching exercise takes place biannually. It has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

23 The work programme will remain unchanged from 2010/11 and, in recognition of the financial pressures that public bodies are facing, the Audit Commission proposes that the scale of fees for mandatory participants will not be increased. For City of York Council this is £3,650.

Openness and accountability in local pay

24 On 17 February 2012 DCLG published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act.

25 For each financial year, beginning with 2012/13, the Council will be required to prepare a pay policy statement that must articulate its policies on the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees. This statement must be approved by full Council, and published via the website.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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



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**Audit and Governance Committee**

28 June 2012

Report of the Assistant Director – Finance, Asset Management and Procurement

Review of the Effectiveness of Internal Audit 2011/12

Summary

- 1 This report advises Members of the process and the outcomes of the 2011/12 review of the effectiveness of the council's internal audit arrangements.

Background

- 2 The Accounts and Audit Regulations 2011 require the council to conduct, at least once a year, a review of the effectiveness of its internal audit arrangements, and to report the findings of this review to an appropriate committee. 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 separate item on this Agenda).
- 3 The Regulations require that the council must undertake an adequate and effective internal audit of its accounting records and of its system of internal control. Previous guidance has stated that the proper practices for internal audit are those contained within the CIPFA Code of Practice for Internal Audit in Local Government 2006 (the Code of Practice).

Defining Internal Audit

- 4 In the Code of Practice, internal audit is defined as:

“an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the

organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."

As such internal audit forms an essential part of the council's corporate governance arrangements.

- 5 Since April 2009, internal audit has been provided under contract by Veritau Ltd, a company wholly owned by the council and North Yorkshire County Council, with the service being provided under a formal "shared service" arrangement. This review takes full account of this framework for the provision of the service.
- 6 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
 - (f) provide assistance to the Audit and Governance Committee in the performance of its functions as set out in its terms of reference.
- 7 The Code of Practice 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 and scope of work);
 - (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, regulators and inspectors);
 - (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.
- 8 The best practice guidance states that the review of the effectiveness of internal audit should also include consideration of the effectiveness of the audit committee itself (to the extent that its work relates to internal audit) as well as the performance of the audit provider. A separate review of the Audit and Governance Committee's effectiveness is currently being undertaken. It is expected that the results of this review will be reported to the September meeting of this Committee.

Who Should Undertake the Review?

- 9 The Regulations require either the council itself, or an appropriate committee of the council, to review the system of internal audit. The council has delegated this to the Audit and Governance Committee. The main reasons why the Audit and Governance Committee is considered as "an appropriate means through which to carry out the review of Internal Audit" are:
- (a) it is a core responsibility of the Audit and Governance Committee to approve internal audit plans and monitor the work of the service;
 - (b) the Audit and Governance Committee is independent of the management of the council;
 - (c) the annual report and the opinion of the Head of Internal Audit are considered by the Audit and Governance Committee;

- (d) the external auditor reports to the Audit and Governance Committee and is therefore readily available to give an opinion on the work of internal audit;
 - (e) the review of the effectiveness of internal audit feeds into the Annual Governance Statement which is also considered by the Committee.
- 10 A key point is that it is the responsibility of the council to conduct the annual review; it is not a review that is carried out by the external auditor as part of their annual audit. External audit review elements of internal audit's work to assess what reliance can be placed upon it for other purposes and the audit of the council's accounts. However, this review work does not cover all the elements of the system of internal audit and, therefore cannot be relied upon to properly fulfil the requirements of the Regulations.
- 11 The review of the effectiveness of internal audit has been undertaken jointly with North Yorkshire County Council by the Shared Service Contract Board (SSCB) and in consultation with the respective Audit Committee Chairs, in accordance with the process agreed by this Committee in December 2011. The SSCB comprises the respective client officers from the council and North Yorkshire County Council, and Veritau's Head of Internal Audit. Meetings of the SSCB are held quarterly and performance indicators and changes in working practices are discussed.
- 12 Using the SSCB as the focus for this annual review ensures consistency and avoids unnecessary duplication of work by the two client officers. The opinions reflected in this report reflect the shared view of the two client officers arrived at during the review. It should be noted that the statistics in this report are, of course, just in respect of the service provided to the council.

Scope of the Review

- 13 The review is primarily about effectiveness, not process. In essence the need for the review is to ensure that the opinion contained in the Annual Report provided by the Head of Internal Audit may be relied upon as a key source of evidence in the Annual Governance Statement. The focus of the review has, therefore, concentrated on the delivery of the internal

audit function to the required professional standards in order to produce the required outcome i.e. a reliable assurance on internal control and the management of risks in the council, rather than an assessment of value for money.

- 14 Other sources of assurance that the Committee receives, from which it can take a view on the effectiveness of the service include:
- (a) regular monitoring reports on internal audit work and related performance measures;
 - (b) the Internal Audit Annual Report (which is a separate item on this Agenda);
 - (c) the Internal Audit Plan (the 2012/13 Plan was approved at the April 2012 meeting of this Committee);
 - (d) regular reports on the implementation of internal audit recommendations.

2011/12 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

- 15 For the purposes of this review, the following work has been completed:
- (a) 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
 - (b) an overview of customer survey results has been undertaken
 - (c) the opinion of external audit has been considered
 - (d) other issues regarding the quality and cost effectiveness of the service have been considered as appropriate
- 16 In previous years, the results of the latest benchmarking data available from CIPFA have been used to provide some indication of how cost-effective the service was compared to internal audit provision within other councils. Given that the service is now a shared service provided by an external body, albeit owned by the two councils involved, suitable benchmarking data has been more difficult to obtain. Alternative sources of information have therefore been used to provide evidence of the continued cost effectiveness of the current arrangements. This information supports the view that

the service remains cost effective. See paragraph 34 below for further details.

Update of Code of Practice Self Assessment Checklist

- 17 The self assessment checklist has been reviewed and updated for 2011/12. This has been reviewed in the SSCB and is considered by the SSCB as a fair reflection of the priorities that need to be progressed at this time.
- 18 As previously reported to this Committee, considerable work has been undertaken to integrate working practices and systems across the shared service and to select best practice from both partners' organisations. A specific priority in 2011/12 has been the development of a more proactive approach to the identification of fraud risks, particularly within housing and adult social care services. The majority of fraud investigations are now being undertaken by Veritau's dedicated counter fraud team based at York. This has allowed a number of new tools and techniques to be deployed to combat suspected fraud within the council.
- 19 In respect of the delivery of the service for the council, it is the view of the Assistant Director – Finance, Asset Management and Procurement (who acts as the lead client for the council), that whilst there have been some changes in operational arrangements, adherence with the professional standards set out in the Code of Practice has been maintained or enhanced.
- 20 Those aspects of the current internal audit arrangements which have been identified as not complying fully with the Code of Practice are listed in Annex 1. Where changes and/or improvements to working practices are considered necessary then these have been included in the Veritau Business Plan for 2012/13, and are reflected in paragraphs 22 - 23 below.
- 21 There were a number of areas for development which were identified as part of last year's self assessment. These are listed below, with information on progress made in the year, as follows:
 - (a) **continued rotation of internal audit staff between teams and across sites to minimise the number of**

occasions where systems or services are subject to audit by the same member of staff

Cross site working has been continued through 2011/12. This has produced efficiencies and allowed best practice to be more easily shared between the two councils. It has also helped to reduce the number of occasions where the audit of a specific system or area has been undertaken by the same person for a number of years. Examples of successful cross site working during the year have included the audits of:

- the Carbon Reduction Commitment submission
- personalisation in social care
- contracting and charges for social care
- workforce planning

A single schools audit team has also been created covering both councils. This has meant that staff resources can be more easily managed and has reduced travelling times. Staff rotation, however, has to be balanced with the need to maintain a level of continuity and to ensure that the knowledge gained by auditors of each system or service area is used effectively.

(b) Audit and Governance Committee to conduct a review of it's own effectiveness

The Committee has established a working group to undertake this review. A self assessment questionnaire has also been completed by all the members of the Committee. The results of the review are expected to be reported to this Committee in September.

(c) development of a formal protocol to support joint working with other internal auditors

The principal area which has been identified for joint working is with health. Good working relationships exist between Veritau and the NHS internal audit provider in York and North Yorkshire. Regular liaison meetings are

held and a joint audit was completed during the year to assess the baseline financial information prior to the transfer of public health responsibilities to the council (and North Yorkshire). Further joint audit work is planned in 2012/13. A memorandum of understanding has been agreed between the two audit providers and this will be further developed in 2012/13. Internal protocols exist within Veritau for work involving the council and the group's other clients (including the North Yorkshire Fire and Rescue Service and the five district council members of Veritau North Yorkshire). A standard protocol will be prepared for other potential joint working situations, for example with neighbouring authorities, North Yorkshire Police or significant partnerships in which the council has an interest.

(d) **development of a clearer methodology for determining the overall opinion of the Head of Internal Audit**

This has been completed. A new audit report format has also been developed which incorporates a clearer assessment of the probability of identified risks occurring and their likely impact.

- 22 The self assessment exercise has been reviewed in the light of progress made over the last year. It remains the case that whilst the service is not wholly compliant in all aspects of the code, the approach taken is considered to be appropriate in the circumstances of the service provided to the council, with the exception of two areas that continue to require further development in 2012/13, which are as follows:
- (a) As noted in paragraph 18 above, further work is required to fully embed the updated counter fraud arrangements.
 - (b) As noted in paragraph 21 above, further work is required to establish a clear framework for obtaining assurance from other partner organisations.
- 23 In addition, reports from the Head of Internal Audit to the Audit and Governance Committee have previously been in the name of the council's client officer. It is proposed that this should change in the future with all internal audit related reports issued in the name of the Head of Internal Audit.

Customer Satisfaction Surveys

- 24 In accordance with the CIPFA Code, Veritau carries out customer survey reviews as a normal part of the audit process. As part of the work to support this review of effectiveness, other surveys are also undertaken to provide further assurance. These are dealt with in turn below.
- 25 At the close of each audit, the responsible Manager of the area being audited is asked for feedback on that audit. In response to the question “Considering the audit overall, would you say that you were more satisfied than dissatisfied with the service received?” 100% assessed the audit as being satisfactory. The equivalent satisfaction score for 2010/11 was 100%.
- 26 An overall customer satisfaction survey was sent to relevant senior officers in May 2012. Five replies were received.
- 27 A summary of the questions, and the range of assessments made for the main audit service is attached as Annex 2. The majority of the assessments give an opinion of good or better. Only one “poor” assessment was made, relating to the time taken to issue audit reports. More generally, the spread of assessments for this question (1.14) suggests that this is an area for improvement, and this has been discussed with the Head of Internal Audit.
- 28 It will be noted that no responses were received for question 1.17, which relates specifically to the specialist IT audit service provided on behalf of Veritau by PWC. This service mostly relates to North Yorkshire County Council.
- 29 As well as the main internal audit service, Veritau also provides counter fraud and information governance services to the council, and the survey also covered this aspect of the Veritau work. Whilst not strictly covered by the scope of this effectiveness review, it is pleasing to note that the overall assessment of these services was mainly ‘good’ and there were no ‘poor’ responses.

External Audit Opinions expressed during 2011/12

- 30 No matters of concern have been raised with the S151 Officer or the Audit and Governance Committee by the external

auditor regarding internal audit matters during 2011/12. There were also no matters raised regarding internal audit arrangements in the Audit Commission's Annual Audit Letter 2010/11, which was reported to this Committee in December 2011

- 31 The external auditor was asked for specific feedback on the work of the internal audit service during 2011/12. A copy of the letter received is attached at Annex 3.
- 32 In respect of the service provided to North Yorkshire County Council, the external auditor is Deloittes. The following response was received from Deloittes:
 - (a) We maintain an open dialogue with internal audit that allows us to share areas of concern between internal and external audit;
 - (b) Internal audit work constructively with external audit;
 - (c) We have not indentified any significant areas of concerns based on our review of the reports produced by internal audit that are relevant to the financial statement audit

Other Issues identified regarding the quality and cost effectiveness of the service

- 33 During 2011/12, and relevant to the overall quality of the staffing available to the internal audit service, it is appropriate to note that Veritau achieved IIP accreditation, and a number of staff completed their training, leading to membership of the Chartered Institute of Internal Auditors, hence strengthening experience and the knowledge base of the team.
- 34 In previous reviews, consideration has been given to the availability of benchmarking data with other internal audit services providers. Previously, benchmarking data was available through membership of the relevant CIPFA benchmarking club. Because of the shared service arrangement, and the fact that it is provided through an external company, it has been concluded that membership of this benchmarking club is of limited value. In terms of evidence available in relation to cost effectiveness, Veritau were involved in two tender exercises during the year. Neither were mainstream local government bodies. In both cases, the Veritau bid represented the lowest cost, although in neither

case was the contract awarded to them. This was because of issues relating to the range of skills and services that the team was able to make available, which did not meet in full the requirements of the bodies concerned. In both cases the winning tenders were submitted by large accountancy firms.

CONCLUSION

- 35 Based on the results of this review, the council's internal audit arrangements are considered to be operating in accordance with accepted professional best practice, and remain effective. The Committee can therefore continue to place reliance on the internal audit arrangements operating within the council when considering the draft Annual Governance Statement for 2011/12.

Consultation

- 36 This review has been undertaken jointly with the Assistant Director – Central Finance at North Yorkshire County Council and in consultation with the Chair of the Audit and Governance Committee as recommended and agreed by this Committee in December 2011.

Options

- 37 Not relevant for the purpose of the report.

Analysis

- 38 Not relevant for the purpose of the report.

Council Plan

- 39 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything it does and by helping to make the council a more effective organisation.

Implications

- 40 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

- 41 The council will fail to comply with the Accounts and Audit Regulations 2011 if it does not undertake a proper review of the effectiveness of internal audit as part of the wider review of the effectiveness of the system of internal control.

Recommendation

- 42 Members are asked to:

- (a) Note the results of the annual review of the effectiveness of internal audit.

Reason

To enable members to consider the overall adequacy and effectiveness of the council's control environment.

- (b) Approve the change in reporting arrangements in respect of reports to the Committee on internal audit matters (see paragraph 23 above).

Reason

To ensure the council complies with the CIPFA Code of Practice.

Contact Details

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Chief Officer Responsible for the report:

Tracey Carter
Assistant Director – Finance, Asset
Management and Procurement
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**Report
Approved**



Date 12/6/12

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

None

Annexes

Annex 1 – areas of non-compliance with the CIPFA Code of Practice

Annex 2 – customer satisfaction survey results

Annex 3 – copy of letter from Lynn Hunt, Audit Manager – Audit Commission

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REVIEW OF COMPLIANCE AGAINST THE CIPFA CODE OF PRACTICE

REF	STANDARD	P / N	CYC
2	Independence		
2.2	Organisational Independence		
2.2.2	Does the Head of Internal Audit report in his or her own name to members and officers	P	Reports to the Audit and Governance Committee are currently in the name of the client officer (the AD Finance, Asset Management and Procurement) except for the Annual Report of the Head of Internal Audit.
3	Ethics for Internal Auditors		
3.3	Objectivity		
3.3.4	Are staff rotated on regular / annually audited areas.	P	Cross site working (between Northallerton and York) has continued through 2011/12. This has produced efficiencies and allowed best practice to be more easily shared between the two councils. It has also helped to reduce the number of occasions where audits have been undertaken by the same person for a number of years. Staff rotation, however, has to be balanced with the need to maintain a level of continuity and to ensure that the knowledge gained by auditors of each system or service area is used effectively.
4	Audit Committees		
4.2	Internal Audit's Relationship with the Audit Committee		

REVIEW OF COMPLIANCE AGAINST THE CIPFA CODE OF PRACTICE

REF	STANDARD	P / N	CYC
4.2.4	Does the Head of Internal Audit:		
	Participate in the committee’s review of its own remit and effectiveness?	P	The Audit and Governance Committee has not completed the review of its own effectiveness.
5	Relationships		
5.3	Relationships with Other Internal Auditors		
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?	P	The method of obtaining assurance from partner organisations will vary depending on the relationship between the Council and the partner, and the degree of risk involved. The principal area which has been identified for joint working is with health. Good working relationships exist between Veritau and the NHS internal audit provider in York and North Yorkshire. Regular liaison meetings are held and a joint audit was completed during the year. Further joint audits are planned in 2012/13. Other arrangements tend to be limited and informal in nature. However, the need for a formal joint working protocol has been recognised in these situations and is included in the company’s 2012/15 Business Plan.
5.5	Relationships with Other Regulators and Inspectors		
5.5.1	Has the Head of Internal Audit	P	This occurs on an ad-hoc basis but is not considered to be of

REVIEW OF COMPLIANCE AGAINST THE CIPFA CODE OF PRACTICE

REF	STANDARD	P / N	CYC
	sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?		significant importance.
10	Reporting		
10.3	Follow-up Audits and Reporting		
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	N	Veritau does not consider that it is appropriate to revise an opinion. However, account will be taken of the progress made by management to address control weaknesses and to complete agreed actions when providing the annual audit opinion.
10.4	Annual Reporting and Presentation of Audit Opinion		
10.4.2	Does the Head of Internal Audit's report:		
	Communicate the results of the internal audit quality assurance programme?	N	Given Veritau's contractual position, this information is considered to be more relevant to the CYC client officer. In addition, details of the annual customer satisfaction survey are shared with the client.

REVIEW OF COMPLIANCE AGAINST THE CIPFA CODE OF PRACTICE

Key

Y – fully compliant

P – partially compliant

N – not compliant

Note – this is an extract from the full self assessment and shows only those areas of partial or non-compliance.

REVIEW OF INTERNAL AUDIT EFFECTIVENESS
Customer Satisfaction Survey results

Excellent	Good	Satisfactory	Poor	Not answered
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1. Internal Audit Services

How would you rate the following elements of the internal audit service provided by Veritau?

1.1 The quality of planning and the overall coverage of the audit plan	1	3			1
1.2 The provision of advice and guidance		5			
1.3 The conduct and professionalism of audit staff	4	1			
1.4 The ability of audit staff to provide unbiased and objective opinions	3	2			
1.5 The ability of audit staff to establish a positive rapport with customers	2	3			
1.6 The auditors' overall knowledge of the system / service being audited	1	3	1		

REVIEW OF INTERNAL AUDIT EFFECTIVENESS
Customer Satisfaction Survey results

	Excellent	Good	Satisfactory	Poor	Not answered
1.7 The auditors' ability to focus on the areas of greatest risk	1	3	1		
1.8 The arrangements made to agree the scope and objectives of the audit	2	3			
1.9 The auditors' ability to minimise disruption to the service being audited	1	3			1
1.10 The communication of issues found by the auditors during their work	2	1	1		1
1.11 The quality of feedback at the end of the audit	3	1			1
1.12 The auditors' ability to communicate their findings in the audit report	2	2	1		
1.13 The accuracy, format, length and style of audit reports	1	3	1		
1.14 The time taken to issue audit reports		1	3	1	

REVIEW OF INTERNAL AUDIT EFFECTIVENESS
Customer Satisfaction Survey results

	Excellent	Good	Satisfactory	Poor	Not answered
1.15 The relevance of audit opinions and conclusions		3	2		
1.16 The extent to which agreed actions are constructive and practical	1	3	1		
1.17 The quality of IT audit (provided on behalf of Veritau by PWC)					5
2. Please provide an overall rating for the Internal Audit services provided by	1	4			
	25	44	11	1	9

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30 May 2012

Mr M Thomas
Director and Head of Internal Audit
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Dear Max

Review of Internal Audit 2011/12

I am writing as requested to confirm that we have recently updated our assessment of Internal Audit in terms of:

- compliance with CIPFA standards;
- levels of competence, by reference to qualifications and experience;
- the scope of Internal Audit's planned work programme; and
- delivery against plan to date.

Our assessment has included more detailed review (on a sample basis) of some individual Internal Audit assignments and a limited amount of reperformance work.

There were no significant areas of non-compliance. This means that we have been able to maximise our reliance on Internal Audit work and thereby minimise duplicated effort and unnecessary costs to the Council.

Yours sincerely

Lynn Hunt
Audit Manager

cc Mr I Floyd, Director of Customer and Business Support Services, City of York Council

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**Audit and Governance Committee**

28 June 2011

Report of the Head of Internal Audit

Annual Report of the Head of Internal Audit

Summary

- 1 This report summarises the outcome of audit and fraud work undertaken in 2011/12 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 (England) Regulations 2011 and the CIPFA Code of Practice for Internal Audit in Local Government (2006). In accordance with the code of practice, the Head of Internal Audit is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the council's control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
- 3 Audit work was undertaken across the council's services and activities in accordance with an internal audit plan, which was approved by this Committee in April 2011.

2011/12 Internal Audit, Counter Fraud & Information Governance Work

- 4 The results of completed audit work have been reported to service managers and relevant chief officers during the course of the year. In addition, summaries of all finalised audit reports have been presented to this committee as part of regular monitoring reports. Details of audits finalised since the last report to this committee in April 2012 are included at Annex 2.
- 5 Overall, internal audit delivered 95.9% of the 2011/12 internal audit plan by 30 April 2012 (against a target of 93%). The

service also achieved a positive customer satisfaction rating of 100% (against a target of 95%), and agreed actions to address 100% of high priority issues identified through audit work (against a target of 95%).

- 6 All of the actions agreed with services as a result of internal audit work are followed up to ensure that the underlying control weaknesses are addressed. The results of follow up work are summarised twice yearly for this committee (the last report was in April). Overall, good progress in implementing actions continues to be made. Although, as noted in the September and April reports, there was a notable increase in the proportion of actions with revised implementation dates in 2011/12 compared to previous years. This is likely to be due to the significant level of organisational change and project work which are ongoing at the council. This impacts upon implementation because actions tend to be tied into project timescales rather than being dealt with as isolated issues. Outstanding actions continue to be monitored and in most cases progress is acceptable. One outstanding action is currently escalated to the relevant assistant director in accordance with the escalation policy.
- 7 Counter fraud work was undertaken in accordance with the approved plan. A detailed summary of the work completed up to the end of February was presented to this committee as part of the last monitoring report on 2 April 2011. Final numbers of referrals, and cases investigated are included in the updated figures in Annex 3. Overall this has been an excellent year for the team. In addition to 21 prosecutions and 36 other sanctions for benefit fraud, the team has been involved in 18 successful housing fraud cases. Working in partnership with housing services, 11 properties have been recovered from existing tenants and eight housing applications containing false information blocked. The team has also made progress in building on existing relationships with other departments to promote wider awareness of the potential for fraud and mechanisms for referring and investigating cases.
- 8 In March 2010, the Executive approved a strategy for implementing the Information Governance Maturity Model developed by the Cabinet Office. In addition, the council has given a number of undertakings to the Information Commissioner following an information security breach in

January 2011. The Corporate Information Governance group (CIGG) has continued to oversee the implementation of the strategy and the undertakings made to the Information Commissioner. This group is chaired by the council's Senior Information Risk Owner (SIRO) – the Director of Customer and Business Support Services. CIGG is attended by an information governance champion from each directorate as well as representatives from Veritau's Information Governance team (IGT). During the year, CIGG identified three new linked Information Governance priorities.

- The move to the new HQ.
 - Management of records in preparation for the move, and afterwards (including the implementation of the Documentum EDRMS).
 - Data security during the move, and in the new working environment.
- 9 The IGT has continued to help develop the council's information governance framework to incorporate the core measures identified in the Government's Data Handling review and the HMG Security Framework. It is intended that all of the council's policies, strategies, protocols and guidance notes relating to information governance can be developed in such a way that they complement each other and form a comprehensive framework. Following the serious security breach in January 2011 and subsequent undertaking to the Information Commissioner, a security improvement plan has been prepared by the IGT. This includes a reporting and investigation procedure, and periodic unannounced visits to offices to assess physical security.

Breaches of Financial Regulations

- 10 Where breaches of council regulations, legislation, or other external regulations are identified through internal audit work these are reported to the committee in accordance with best practice. In most cases, actions agreed with managers as a result of the audit work will address the breaches identified. There have been a number of breaches of the council's financial regulations identified during the course of internal audit work in 2011/12. A summary of breaches identified since the last report to this committee in April 2012 is included in annex 4.

- 11 Most of the breaches listed in Annex 4, and in previous monitoring reports in 2011/12, do not represent a significant risk to the council. The main area of note is the continuing high level of expenditure without purchase orders. There has, however, been a significant improvement on previous years and work is ongoing to address this issue.
- 12 In addition to the areas already reported there are further breaches identified through information security checks undertaken by internal audit which are relevant to forming an overall opinion. The audit report has not yet been finalised, but the work identified a number of areas where confidential information was not stored securely.

Opinion of the Head of Internal Audit

- 13 In accordance with the council's terms of reference for internal audit, the Head of Internal Audit is required to provide an annual written report to the Audit and Governance Committee. The report sets out the Head of Internal Audit's opinion on the overall adequacy and effectiveness of the council's control environment and contributes to the overall review of the effectiveness of its systems of internal control and to the preparation of the Annual Governance Statement.
- 14 The opinion of the Head of Internal Audit is given in annex 1. The opinion is based on audit and counter fraud work completed during the year including that detailed in annex 2 to this report, and other monitoring reports to this committee during the year. Internal audit work has been conducted in accordance with the CIPFA Code of Practice for Internal Audit.
- 15 In giving this opinion attention is drawn to the following significant control issues which are considered relevant to the preparation of the 2011/12 Annual Governance Statement:
 - a) Information Security – There continue to be weaknesses in the council's arrangements for managing information securely. Internal audit work during the year identified weaknesses in the physical storage of sensitive information across a number of departments. While there has been some improvement since the previous year, controls are not still not sufficient to prevent a significant breach occurring.

- b) Partnerships – internal audit work identified that there is a lack of overarching controls to monitor and manage the council’s involvement in partnerships. This issue has been reported through the Officer Governance Group and will be referred to CMT.
- c) Health and Safety – There is a lack of clarity about responsibilities and management of some health and safety risks. A draft audit report has been issued and is in the process of being finalised with the relevant senior managers.

Consultation

- 16 Not relevant for the purpose of the report.

Options

- 17 Not relevant for the purpose of the report.

Analysis

- 18 Not relevant for the purpose of the report.

Council Plan

- 19 The work of internal audit, counter fraud, and information governance helps to support overall aims and priorities by promoting probity, integrity and accountability and by helping to make the council a more effective organisation.

Implications

- 20 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

- 21 The council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if the results of audit work are not reported and the annual statement and opinion of the Head of Internal Audit is not considered by those charged with governance.

Recommendations

- 22 Members are asked to:

- (a) note the results of audit and fraud work undertaken in 2011/12.

Reason

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

- (b) accept the opinion of the Head of Internal Audit on the adequacy and effectiveness of the council's internal control environment.

Reason

To enable Members to consider the opinion of the Head of Internal Audit.

- (c) 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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Ian Floyd
Director of CBSS
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**Report
Approved**



Date 12/6/12

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

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For further information please contact the author of the report

Background Papers

2011/12 Audit, Counter Fraud, and Information Governance Plan
Internal Audit, Counter Fraud, and Information Governance
Monitoring Reports to Audit and Governance Committee in
2011/12 (September, December, April)
Reports on Follow up of Internal Audit Agreed Actions to Audit and
Governance Committee in 2011/12 (September, April)

Annexes

Annex 1 - Opinion of the Head of Internal Audit
Annex 2 - Audits Completed and Reports Issued
Annex 3 - Counter Fraud Work
Annex 4 - Breaches of Financial Regulations

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Opinion of the Head of Internal Audit

I have evaluated the results of the audit and fraud work undertaken during the 2011/12 year. In my opinion the council's internal controls provide **Substantial Assurance**. The council can therefore continue to place reliance on the adequacy and effectiveness of its systems of internal control and the overall control environment.

Signed

Max Thomas
Head of Internal Audit
Veritau Ltd

28 June 2012

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AUDITS COMPLETED AND REPORTS ISSUED

The following categories of opinion are used for audit reports.

Opinion	Level of Assurance
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Actions to address issues are agreed with managers where weaknesses in control are identified. The following categories are used to classify agreed actions.

<u>Priority</u>	<u>Long Definition</u>	<u>Short Definition – for use in Audit Reports</u>
1 (High)	<p>Action considered both critical and mandatory to protect the organisation from exposure to high or catastrophic risks. For example, death or injury of staff or customers, significant financial loss or major disruption to service continuity.</p> <p>These are fundamental matters relating to factors critical to the success of the area under review or which may impact upon the organisation as a whole. Failure to implement such recommendations may result in material loss or error or have an adverse impact upon the organisation's reputation.</p> <p>Such issues may require the input at Corporate Director/Assistant Director level and may result in significant and immediate action to address the issues raised.</p>	<p>A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.</p>
2	<p>Action considered necessary to improve or implement system controls so as to ensure an effective control environment exists to minimise exposure to significant risks such as financial or other loss.</p> <p>Such issues may require the input at Head of Service or senior management level and may result in</p>	<p>A significant system weakness, whose impact or frequency presents risks to the system objectives, and which needs to be addressed by management.</p>

Priority

Long Definition

Short Definition – for use in Audit Reports

3

significantly revised or new controls.

Action considered prudent to improve existing system controls to provide an effective control environment in order to minimise exposure to significant risks such as financial or other loss.

The system objectives are not exposed to significant risk, but the issue merits attention by management.

Such issues are usually matters that can be implemented through line management action and may result in efficiencies.

Draft Reports Issued

13 internal audit reports are currently in draft. These reports are with management for consideration and comments. Once the reports have been finalised, details of the key findings and issues will be reported to this committee. The draft reports are categorised as follows:

Opinion	Number
“High Assurance”	0
“Substantial Assurance”	4
“Moderate Assurance”	2
“Limited Assurance”	3
“No Assurance”	1
“Not given”	3

Final Reports Issued

The table below shows audit reports finalised since the last report to this committee in April 2011. In all cases the issues raised have been accepted by management, and the agreed actions will be followed up by internal audit.

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
Housing Repairs and Maintenance	22/03/12	Moderate Assurance	7	0	An audit of responsive repairs carried out to council properties. Issues identified included: <ul style="list-style-type: none"> • Rechargeable repairs not being invoiced and income not being collected from tenants in a timely manner • Authorisation of invoices from external contractors not taking place promptly
Lord Deramore's Primary School	17/04/12	High Assurance	4	0	A school audit. No significant weaknesses identified.
Debtors	19/04/12	Substantial Assurance	2	0	An audit of the council's debtors systems. No significant weaknesses were identified.
St. Lawrence's CE Primary School	19/04/12	High Assurance	3	0	A school audit. No significant weaknesses identified.
Procurement Cards	25/04/12	Not given	0	0	A review of the initial pilot use of procurement cards across the council. No significant issues were identified, but further work to

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
					be undertaken in 2012/13.
Corporate Procurement	25/04/12	Not given	0	0	An initial review of the council's corporate procurement arrangements. Further work to be undertaken in 2012/13.
Redundancy and Workforce Planning	27/04/12	Moderate Assurance	2	0	This audit looked at redundancy consultation, selection criteria, notice arrangements and payment calculations as well as redeployment procedures. Some errors were identified in payment calculations and some supporting documents were not available.
All Saints RC Secondary School	02/05/12	High Assurance	4	0	A school audit. No significant weaknesses identified.
Joseph Rowntree Secondary School	03/05/12	Substantial Assurance	6	0	A school audit. No significant weaknesses identified.
Knavesmire Primary School	07/05/12	Substantial Assurance	4	0	A school audit. No significant weaknesses identified.
Council Tax and NNDR	14/05/12	High Assurance	0	0	A review of arrangements for billing and collection of Council Tax and NNDR. Controls were found to be working well.

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
Nursery Education Grants	15/05/12	High Assurance	2	0	A review of procedures for making payments to private providers of nursery education for free entitlement. Procedures were found to be generally working well.
Agency Staff	16/05/12	Moderate Assurance	6	1	This audit looked at procedures for the use of external temporary staff and the use of internal council staff pools. Weaknesses identified related to a lack of supporting documentation for pre-employment checks (including evidence of right to work in the UK), a lack of management information reports about the use of agency staff and some evidence of external temporary staff being engaged outside of current council policy.
Treasury Management and Prudential Code	18/05/12	High Assurance	0	0	An audit of arrangements for managing the council's cash balances through loans and investments. Controls were found to be working well.
Ordering and Creditor Payments	23/05/12	Moderate Assurance	7	0	An audit of the council's systems for ordering goods and services and making payments to suppliers. Steps are being taken to improve controls, increase the proper use of purchase orders and increase the efficiency of the purchasing process.
Housing Rents	23/05/12	Substantial Assurance	3	0	No significant issues identified. Minor issues to be addressed relating to refunding accounts with large credit balances and

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
					retaining more comprehensive details to support debt write offs.
Personalisation and Direct Payments	23/05/12	Limited Assurance	7	1	The audit looked at procedures for implementing the Personalisation agenda within adult social care as well as specifically looking at the administration and monitoring of direct payments. The main weaknesses relate to a lack of monitoring of how direct payments are spent by customers. Other issues identified were a lack of consistency in the monitoring of care outcomes and in the monitoring and receipt of signed documents from customers.
Data Quality	24/05/12	Not Given	0	0	A review of the processes for calculating key performance indicators in various council departments. No significant issues identified.

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COUNTER FRAUD ACTIVITY 2011/12

The table below shows the total numbers of fraud referrals received and summarises the outcomes of investigations completed. While benefit fraud is still a major role for the team, there is a continuing increase in the work the team undertakes in other areas. The indicators have been updated from previous years to reflect this and now include the full range of counter fraud work undertaken.

	2011/12 (as at 31/3/12)	2011/12 (Target: Full Yr)	2010/11 (Actual: Full Yr)
Number of Fraud referrals received. <i>The target is designed to promote fraud awareness and encourage people to report suspected fraud.</i>	571	400	456
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked, management action taken). <i>The target is designed to measure the effectiveness of counter fraud activity</i>	38%	30%	62%
Value of fraudulent benefit overpayments identified. <i>The target is designed to measure the effectiveness of counter fraud activity</i>	£560k	£350k	£390k
Number of investigations completed	335	N/A	266 ¹
Number of successful outcomes ²	127	N/A	53

Caseload figures for the period are:

¹ The comparative figure for 2010/11 has been restated from that previously reported, to exclude Housing Benefit Matching Service (HBMS) cases. This enables fraud referrals and outcomes to be considered on a like for like basis.

² 2011/12 figures will be higher than previous years as it includes all successful outcomes rather than just benefit related sanctions and prosecutions.

	As at 1/4/11	As at 31/3/12
Awaiting allocation	91	68
Under investigation	259	195

ANNEX 4

**SUMMARY OF BREACHES OF FINANCIAL REGULATIONS
IDENTIFIED DURING INTERNAL AUDIT WORK COMPLETED
IN THE PERIOD**

Description of Breach	Instances
Purchase orders not completed by staff when ordering goods and services.	NA ¹
Insufficient evidence to justify debt write offs	5
Failure to collect income	2
Lack of a current contract	1
Failure to gain a waiver when not obtaining 3 quotes	2
Inventory records not properly maintained	2
Failure to retain quotation documentation	1

¹ The annual review of ordering and creditor payments identified that approximately 40% of payments do not have associated purchase orders. However, because some payments relate to continuous supplies or contracts which do not require a purchase order it is difficult to quantify the number of orders in breach.

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Audit and Governance Committee

28 June 2012

Report of the Director of Customer & Business Support Services

Annual Governance Statement 2011/12**Summary**

- 1 The purpose of this report is to present the Annual Governance Statement (AGS) 2011/12 for approval. The AGS is attached as Annex A and a signed version as agreed by the Leader and Chief Executive of the council will accompany the Statement of Accounts 2011/12.
- 2 As was reported to this committee in April 2011, changes have been made to the approval process for the Statement of Accounts. In 2011/12, the AGS continues to form part of the Statement of Accounts, however it is now considered as an accompanying document rather than a core statement. The Draft Statement of Accounts will be approved by the S151 Officer by the 30th June and will be reviewed by this Committee at the meeting in July 2012. The final version of the Statement of Accounts will be approved by this Committee, at the meeting in September 2012.

Background

- 3 The Accounts and Audit Regulations 2003 imposed a legal requirement on all local authorities to conduct a review of the effectiveness of systems of internal control and to publish Statements of Internal Control (SIC) as part of the annual accounts.
- 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 has a local

Code of Governance which reflects the CIPFA/SOLACE framework.

- 5 The Framework 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.

Preparation Process

- 6 In compiling the 2011/12 AGS, a range of sources of evidence have been gathered and analysed. These have then been reviewed by the Officer Governance Group to consider the following:
 - (a) significant issues and recommendations included in reports received from the Audit Commission and other inspection agencies;
 - (b) the results of internal audit and fraud investigation work undertaken during the period;
 - (c) the Review of the Effectiveness of Internal Audit;
 - (d) 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;
 - (e) any issues highlighted as key corporate risks in the council's risk register;
 - (f) progress in dealing with control issues identified in the 2010/11 Annual Governance Statement.
 - (g) any control weaknesses identified and included on the Corporate Governance Assurance Statements signed by each Director;
 - (h) any control weaknesses or issues identified and included on the Disclosure Statements signed by the Section 151 Officer and Monitoring Officer;
 - (i) any control weaknesses or issues identified and included in the annual report of the Chief Internal Auditor.
- 7 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 have

therefore evaluated all the control issues identified through the review process and 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.
- 8 The items that OGG have agreed meet the criteria above have been published within Section 5 of the AGS. This year there are 6 items in total, with no new significant issues, but a refocus on a number of existing issues to take into account new developments.

Monitoring of AGS Action Plans

- 9 As was agreed in approving the 2009/10 AGS, there will not be a separate action place for the AGS. Instead, the items will be monitored in the named lead directorate areas with the Officer Governance Group (OGG) having oversight and regularly monitoring the progress of all AGS actions.

Consultation

- 10 Not relevant for the purposes of this report

Options

11 Not relevant for the purpose of the report.

Analysis

8 Not relevant for the purpose of the report.

Corporate Priorities

9 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything it does. It specifically contributes to the Effective Organisation priority in the Corporate Strategy.

Implications

10 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 an 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

11 The council will fail to comply with legislative requirements if it does not publish an 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.

Recommendation

- 12 Members are asked to consider and approve the AGS 2011/12, particularly the significant governance issues identified in section 5 of the Statement.

Reason

To enable Members to consider the effectiveness of the council's governance framework, and in particular the significant control issues.

Contact Details

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Customer & Business
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Chief Officer Responsible for the report:

Ian Floyd
Director of Customer & Business
Support Services
Telephone: 01904 551100

**Report
Approved**



Date 15 June
2012

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’ (2007)
- CIPFA/SOLACE – Application Note to Delivering Good Governance in Local Government:a Framework (March 2010)
- 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)
- 2010/11 Annual Governance Statement
- CIPFA – The role of the Chief Finance Officer (2010)

Annexes

Annex A – Draft Annual Governance Statement 2011/12

ANNUAL GOVERNANCE STATEMENT

1. Scope of Responsibility

City of York Council (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 putting in place proper arrangements for the governance of its affairs, which facilitate 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 in the council's Constitution and on the council's website. This statement explains how the council has complied with the code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011.

2. The Purpose of the Governance Framework

Corporate governance is the system by which the council directs and controls its functions and relates to the communities it serves. 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* framework and adapted for local authorities. They are defined as follows:

- focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- developing the capacity and capability of members and officers to be effective
- engaging with local people and other stakeholders to ensure robust public accountability.

The extent to which the principles of corporate governance are embedded into the culture of the council will be assessed in this statement. Furthermore the council has to be able to demonstrate that it is complying with these principles.

The governance framework comprises the systems and processes, culture and

ANNUAL GOVERNANCE STATEMENT

values, by which the council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the council 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. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

ANNUAL GOVERNANCE STATEMENT

The Purpose of the Governance Framework cont'd

The governance framework has been in place at the council for the year ended 31 March 2012 and up to the date of approval of the Statement of Accounts for 2011/12.

3. The Council's 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 strategic planning processes, political and managerial structures and processes, management and decision making processes, policies and guidance, financial management, compliance arrangements, risk management, internal audit, counter fraud activities, performance management, consultation and communication methods and partnership working arrangements.

Strategic Planning Processes

The council has in place a strategic planning process, informed by community and member consultation, that reflects political and community objectives and acts as the basis for corporate prioritisation. The council's Council Plan expresses the council's priorities until 2015 and priorities and associated milestones are refreshed each year. The council has also developed a standard directorate and service planning process which integrates priority setting with resource allocation and performance management.

Political and Managerial Structures and Processes

The full Council is responsible for agreeing overall policies and setting the budget. The Cabinet, which meets monthly, is responsible for decision making within the policy and budget framework set by full Council. The Corporate Management Team (CMT), which meets weekly, 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 Cabinet and CMT monitor and review council activity to ensure corporate compliance with governance, legal and financial requirements. The Chief Finance Officer (Director of CBSS) and the Monitoring Officer (Head of Legal and ICT) review reports before they are presented to the Cabinet to ensure that all legal, financial and other governance issues have been adequately considered.

The council implemented new scrutiny arrangements during 2009/10 which have increased the effectiveness of the scrutiny function.

There is an Audit and Governance Committee which acts as the responsible body charged with governance on behalf of the Council. In doing so it provides independent assurance on the adequacy of the risk management framework and

ANNUAL GOVERNANCE STATEMENT

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, it oversees the financial reporting process and approves the Final Statement of Accounts.

The council has a Standards Committee that is responsible for promoting good ethical governance within the organisation. The Standards Committee is also responsible for adjudicating in cases where a complaint is made against a Member of either, the City of York Council, or the parish councils within its administrative boundary. The Standards Committee has a membership that includes members of the council, members of the public and representatives of the parish councils. In addition, the Chair of the Committee must be one of the independent members.

The Council's Governance Framework cont'd

The Audit and Governance and Standards Committees have committed to working together improve the oversight of corporate governance

Management and Decision Making Processes

As part of the refreshed strategic council plan, a core organisational capability is included as a priority theme, ensuring that the organisation is adequately equipped to deal with financial, organisational, employee and Customer priorities. Over the last year a Workforce Strategy has been approved which sets out the way the Council will develop the skills of our staff to effectively deliver our priorities.

Corporate management and leadership at officer level is lead by CMT, and is supported and developed through the Corporate Leadership Group.(CMT plus Assistant Directors). Decisions are operated in accordance with the Council's constitution.

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 Council Members and Council Officers
- Protocol on Officer/Member Relations
- Financial Regulations and Procurement Rules
- Member and Officer Schemes of delegation
- Registers of Council Members' interests, gifts and hospitality
- Registers of Council Officers' 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
- The Council's Business Model (2009 version).

ANNUAL GOVERNANCE STATEMENT

Many codes and protocols form part of the constitution and are monitored for effectiveness by the Officer Governance Group (see paragraph 3.19 below). Any amendments must be scrutinised by the Audit & Governance Committee prior to approval by full Council.

Financial Management

The Director of Customer & Business Support Services (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's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) in that:

- he is a key member of the Corporate Management Team, helping it to develop and implement strategy and to resource and deliver the council's strategic objectives sustainably and in the public interest;
- he is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the council's financial strategy; and he
- leads the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The Council's Governance Framework cont'd

In delivering these responsibilities he leads and directs a finance function:

- that is resourced to be fit for purpose; and
- is professionally qualified and suitably experienced.

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. The financial management system includes:

- A Medium Term Financial Plan highlighting key financial risks and pressures on a 5 year rolling basis
- An annual budget cycle incorporating Council approval for revenue and capital budgets as well as treasury management strategies
- Annual Accounts supporting stewardship responsibilities, which are subjected to external audit and which follow Statements of Recommended Practice, Accounting Codes of Practice, and International Financial Reporting Standards

ANNUAL GOVERNANCE STATEMENT

- Joint budget and performance monitoring as outlined in the section on Performance Management below.

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 Head of Internal Audit
- Finance officers and other relevant service managers.

The Council's Monitoring Officer has a statutory responsibility for ensuring that the council acts lawfully and without maladministration.

Compliance with the council's governance arrangements are subject to ongoing scrutiny by the Audit Commission and other external agencies. The Officer Governance Group (OGG) also monitors, reviews and manages the development of the council's corporate governance arrangements. The group includes the Section 151 Officer, the Monitoring Officer and the Head of Internal Audit as well as other key corporate officers and is responsible for drafting the Annual Governance Statement on behalf of the Audit & Governance Committee.

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.

ANNUAL GOVERNANCE STATEMENT

The Council's Governance Framework cont'd

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. These risk management arrangements and the Corporate Risk Register containing the Council's key strategic risks are monitored by CMT and the Audit & Governance Committee.

Internal Audit and Fraud

The council also operates internal audit and fraud investigation functions in accordance with the Accounts and Audit Regulations 2011. The service in 2011/12 was provided by Veritau Limited, a shared service company established by the City of York and North Yorkshire Councils. Veritau's Internal Audit & Counter 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 continued to work to secure further improvements in 2011/12. This includes establishing the Business Intelligence Hub, within the Office of the Chief Executive. It has a Performance Management Framework (PMF), which sets out the formal arrangements for effective performance management at a directorate and corporate level, including both service and financial based monitoring. During 2011/12 each directorate reported finance and performance monitoring progress to members through the established Scrutiny arrangements. Corporate joint finance and performance reporting to CMT (monthly) and Executive (quarterly) takes place at a corporate level.

Finance and Performance monitoring is reported regularly at CMT and Cabinet, and there is ongoing regular discussion of financial performance at CMT to ensure that the Council is able to manage the major savings programmes.

Consultation and Communication Methods

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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. These have been enshrined in the council's Engagement Strategy. Examples of communication and consultation include:

- communication of community and corporate strategies
- publishing an annual Statement of Accounts and Performance Report 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 council including attending meetings
- regular residents' surveys

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- publications such as Your Voice and Your Ward
- involvement in devolved budget decision-making at ward level
- budget and other consultation processes including the on-line 'You Choose' budget survey.
- customer feedback through the council's complaints procedure or other direct service feedback processes.

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 build on existing protocols for partnership working that ensures that the responsibilities are clearly defined to ensure that the relationship works effectively, for the benefit of service users. Further development of this work is covered in the section on Significant Governance Issues below.

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 Customer & Business Support Services (the Section 151 Officer) and the Assistant Director of Customer & Business Support Services - Governance & ICT (the Monitoring Officer), and the Head of Internal Audit (Veritau Ltd). The review included consideration of:

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- the adequacy and effectiveness of key controls, both within individual directorates and across the council
- any control weaknesses or issues identified and included on the Disclosure Statements signed by the Section 151 Officer and Monitoring Officer
- any control weaknesses or issues identified and included in the annual report of the Chief Internal Auditor, presented to the council's Audit and Governance Committee
- significant issues and recommendations included in reports received from the Audit Commission and other inspection agencies
- the results of internal audit and fraud investigation work undertaken during the period
- the Review of the Effectiveness of Internal Audit
- 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
- progress in dealing with control issues identified in the 2010/11 Annual Governance Statement.

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5. Significant Governance Issues

In considering the significant internal control issues contained within the 2010/11 AGS, it is noted that the following enhancements have been achieved:

- Officer Code of Conduct awareness including a revision of current procedures such as the Whistleblowing Policy and Gifts and Hospitality
- Further development of effective processes for bank reconciliations. Progress has been made in this area to secure further control and assurance around the bank reconciliation process. It is recognised that although issues remain around the use of control accounts, this is not a matter relevant for inclusion as a significant governance issue within this statement.
- Improvements in procurement activity and contract control and management, including the introduction of a new electronic contract register

In addition to the above, a number of issues referred to in the 2010/11 AGS have been partially actioned in 2011/12 and will be further progressed during 2012/13 and beyond (through the named lead area). Whilst no new items have been identified through the effectiveness review at Section 4 above, there has been a refocus on a number of existing issues below to take into account new developments. The following items will be monitored by OGG during 2012/13 for evidence of improvement.

- Embedding of project and programme management. Embedding of the processes is necessary across all projects in terms of managing project risks particularly in light of the number of new projects due to take place across the council in the near future (Office of the Chief Executive)
- Partnership governance including shared use of resources. Embedding of corporate controls over partnerships to ensure risks are well managed and partnership arrangements represent good value for money (Office of the Chief Executive/Customer and Business Support Services)
- Further improvements to officer and member decision-making processes in light of the recent significant organisational changes (CBSS)
- Compliance with Financial Regulations and Contract Procedure Rules to ensure lawful, effective and efficient use of the council's resources in relation to procuring goods and services; in particular the raising of purchase orders for all relevant items of expenditure (CBSS)
- Information Governance including compliance with the requirements of the Information Governance Strategic Framework, including ensuring that information security requirements are adhered to (CBSS)
- A refocus on Business Continuity, in particular a focus on the Council move to the new offices (West Offices Project Plan)

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Significant Governance Issues cont'd

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed K. ENGLAND
K. England
Chief Executive

Dated

Signed J. ALEXANDER
Cllr J. Alexander
Leader of the Council

Dated

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