



Notice of meeting of a Public Meeting

Audit & Governance Committee

To:	Councillors Potter (Chair), Brooks (Vice-Chair), Ayre, Barnes, Burton, Watson and Wiseman
Date:	Tuesday, 9 July 2013
Time:	5.00 pm
Venue:	The Frank Green Room - 2nd Floor, West Offices

AGENDA

1. **Declarations of Interest**

At this point, Members are asked to declare:

- Any personal interests not included on the Register of Interests
- Any prejudicial interests or
- Any disclosable pecuniary interests

which they may have in respect of business on this agenda.

2. **Minutes** (Pages 3 - 8)

To approve and sign the minutes of the meeting of the Audit and Governance Committee held on 17 April 2013.

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 Monday 8 July 2013**.

4. Audit and Governance Committee Forward Plan to April 2014
(Pages 9 - 16)

This paper presents the future plan of reports expected to be presented to the committee during the forthcoming year to April 2014.

5. Review of the Effectiveness of Internal Audit (Pages 17 - 36)

This report advises Members of the process and the outcomes of the 2012/13 review of the effectiveness of the Council's internal audit arrangements.

6. Annual Report of the Head of Internal Audit (Pages 37 - 58)

This report summarises the outcome of audit and fraud work undertaken in 2012/13 and provides an opinion on the overall adequacy and effectiveness of the Council's internal control arrangements.

7. Draft Annual Governance Statement (Pages 59 - 72)

The purpose of this report is to present the draft Annual Governance Statement 2012/13 for approval.

8. Review of the Terms of Reference of the Audit and Governance Committee (Pages 73 - 84)

Members are asked to consider proposed changes to the terms of reference of the Audit and Governance Committee.

9. Review of the Council's Scrutiny Arrangements (Pages 85 - 90)

This report provides information about the Council's scrutiny arrangements.

10. Audit Progress Report 2013-14 (Pages 91 - 102)

This paper from Mazars (the Council's external auditors) reports on progress in delivering their responsibilities as auditors.

11. Appointment of Independent Member to the Audit and Governance Committee

The Chair will provide a verbal report on the appointment of an Independent Member to the Audit and Governance Committee.

The Committee is asked to make a recommendation to Council on the appointment.

12. Urgent Business

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

Democracy Officer:

Name: Jayne Carr

Contact Details:

Telephone – (01904) 552030

Email – jayne.carr@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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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	17 APRIL 2013
PRESENT	COUNCILLORS CUNNINGHAM-CROSS (CHAIR), BARNES, BROOKS (VICE-CHAIR), BURTON, CUTHBERTSON, STEWARD AND WATSON
IN ATTENDANCE	COUNCILLOR CRISP

61. DECLARATIONS OF INTEREST

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda. None were declared.

62. MINUTES

RESOLVED: That the minutes of the meeting of 19 March 2013 be approved and signed by the Chair as a correct record.

63. PUBLIC PARTICIPATION

It was reported that there was one registration to speak under the Council's Public Participation Scheme. Ms Swinburn spoke on general issues within the Committee's remit. Referring to comments that she had made at the previous meeting regarding democratic governance, she stated that she had understood that this issue would be considered as part of the review of the Audit and Governance Committee's terms of reference. She was therefore disappointed that this item had been deferred to the next meeting. Ms Swinburn stated that it was very important that there was an opportunity to discuss democratic procedures in the city.

The Chair explained that the Committee would also have the opportunity to review these issues when it considered the Annual Governance Statement.

64. AUDIT AND GOVERNANCE COMMITTEE FORWARD PLAN

Consideration was given to a paper which presented the future plan of reports expected to be presented to the Committee during the forthcoming year to February 2014.

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

Members sought an update on the situation in respect of the appointment of Independent Members. They were informed that an advertisement had been drafted and would be placed on the Council's website. The closing date for applications was 24 May 2013. The selection process would then be carried out with the intention that the Selection Panel's recommendations would be considered by the Committee at their meeting on 27 June 2013.

RESOLVED: That the Committee's Forward Plan for the period up to February 2014 be approved.

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.

65. INTERNAL AUDIT, COUNTER FRAUD AND INFORMATION GOVERNANCE PLAN 2013/14

Members considered a report that sought their approval for the planned programme of audit, counter fraud and information governance work to be undertaken in 2013/14. Officers drew their attention to the report annex which set out the proposed schedule of work.

Members, referring to the fact that total planned days would be 102 less than 2012/13, sought clarification as to where this would have greatest impact. Officers explained that the plan was based on risk assessment and that some areas of less risk had now not been included in the plan. Nevertheless they were satisfied that there was an adequate level of assurance. Members' attention was also drawn to the controls that were in place in addition to the checks that were carried out by Veritau.

At the request of Members, officers gave details of the costings involved.

RESOLVED: That the 2013/14 internal audit, counter fraud and information governance plan be approved.

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

66. AUDIT, COUNTER FRAUD AND INFORMATION GOVERNANCE MONITORING REPORT

Members considered a report that provided an update on progress made in delivering the internal audit work plan for 2012/13 and on current counter fraud and information governance activity.

Referring to the reference in the report that a request from a service manager had triggered a review of procedures, Members queried how officers determined whether such a request was an appropriate use of time. Officers explained the discussions that took place surrounding such requests, including judgements as to the urgency of the situation and whether investigation was an appropriate use of resources.

RESOLVED: That the progress made in delivering the 2012/13 internal audit work programme, and current counter fraud and information governance activity be noted.

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

67. INTERNAL AUDIT FOLLOW UP REPORT

Members considered the regular six monthly report that set out progress made by Council departments in implementing actions agreed as part of internal audit work.

Members sought clarification as to why actions that had been identified as requiring immediate action were sometimes not completed within the implementation date. Officers explained that it was a management responsibility to assess the risks

involved in not completing the required action by the implementation date. Officers gave further information about the situation in respect of the monitoring of direct payments and stated that an update would be provided at the meeting in July.

It was noted that, in general, good progress had been made by Council departments to rectify weaknesses in control identified through internal audit work.

RESOLVED: That the progress made in implementing internal audit agreed actions, as detailed in paragraphs 5-11 of the report, be noted.

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

68. INFORMATION GOVERNANCE STRATEGY

Members considered a report that informed them of the Information Governance Strategy developed by the Council's Corporate Information Governance Group (CIGG) and progress in implementing the strategy discussed by the Committee on 13 February 2012.

Officers were asked about the arrangements that were in place in respect of retention policies and record management. They noted that, in preparation for the move to West Offices, a considerable amount of work had been carried out to ensure that sensitive documentation that was being retained was not being kept for longer than legal requirements. A policy on document retention was in place but may need to be reviewed and updated. Officers gave definitions of the type of data that was deemed to be confidential.

RESOLVED: That the Information Governance Strategy that had been adopted to improve governance arrangements within the Council, and the action being taken to achieve level 1 of the Information Assurance Model be noted.

REASON: As part of the Committee's responsibility to consider reports dealing with governance matters.

69. MAZARS DRAFT AUDIT STRATEGY MEMORANDUM

Members considered a report that presented the Mazars' Draft Audit Strategy for the year ended 31 March 2013 which was attached as an annex to the report.

Members' attention was drawn to section 11 of the strategy which detailed the significant risks and key judgement areas.

Members also noted the fees for the work and the timing of key phases in the audit work.

RESOLVED: (i) That the matters set out in the Audit Strategy Memorandum 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. The Committee was satisfied that the Plan sufficiently reflected the audit needs and interests of the Council.

Councillor Cunningham-Cross, Chair
[The meeting started at 5.40 pm and finished at 6.40 pm].

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Audit and Governance Committee

9 July 2013

Report of the Director of CBSS

Audit & Governance Committee Forward Plan to April 2014**Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to April 2014.

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 February. 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. There has been one amendment made to the forward plan since the previous version was presented to this Committee in April 2013.
4. The review of the terms of reference of Internal Audit has been deferred until the September Audit & Governance Committee meeting.

Consultation

5. 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

6. Not relevant for the purpose of the report.

Analysis

7. Not relevant for the purpose of the report.

Council Plan

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

Implications

9.
 - (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

10. 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

11.
 - (a) The Committee's Forward Plan for the period up to April 2014 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: **Chief Officer Responsible for the report:**

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Ian Floyd
Director of CBSS
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**Report
Approved**



Date 01/07/2013

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 2014

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Audit & Governance Committee Draft Forward Plan to April 2014

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

- **Committee 31st July 2013**

Draft Statement of Accounts 2012/13

Key Corporate Risk Monitor Quarter 1 (Including directorate risks)

Report to update on the Progress of Direct Payments

Mazars Progress Report

Changes to the Constitution (if any)

- **Committee 26th September 2013**

Final Statement of Accounts 2012/13

Scrutiny of the Treasury Management Annual Report 2012/13 and review of prudential indicators

Mazars Annual Governance Report 2012/13

Mazars Draft Annual Audit Letter 2012/13

Corporate Risk Monitor Quarter 2 (Including directorate risks)

Follow up of Internal & External Audit Recommendations

Internal Audit & Fraud Plan Progress Report

Review of the Terms of Reference of Internal Audit

Changes to the Constitution (if any)

- **Committee 11th December 2013**

Key Corporate Risk Monitor Quarter 3 (Including directorate risks)

Annual Audit Letter – Mazars

Mazars Grant Claims report

2013/14 Review of the effectiveness of Internal Audit

Internal Audit & Fraud Plan Progress Report

Scrutiny of the Treasury Management Monitor 2 Report 2013/14
and Review of Prudential Indicators

Changes to the Constitution (if any)

- **Committee 12th February 2014**

Key Corporate Risk Monitor Quarter 4 (including directorate risks)

2013/14 Review of the effectiveness of Internal Audit

Scrutiny of the Treasury Management Monitor 3 Report 2013/14
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 16 April 2014**

Approval of Internal Audit Plan

Internal Audit & Fraud Plan Progress Report

Follow up of Audit Recommendations

Information Governance Annual Report

Audit Commission reports as per agreed Audit & Inspection plan

Changes to the Constitution (if any)

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**Audit and Governance Committee**

9 July 2013

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

Review of the Effectiveness of Internal Audit 2012/13

Summary

- 1 This report advises Members of the process and the outcomes of the 2012/13 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)¹.

Defining Internal Audit

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

¹ The CIPFA Code of Practice for Internal Audit in Local Government was replaced on 1 April 2013 by the Public Sector Internal Audit Standards.

“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 was completed during 2012/13 and the results were reported to this is committee in December 2012. Following this review an action plan was adopted which identified various changes and improvements to the working of the committee. Further reports will be presented to the committee to enable progress against the action plan to be monitored.

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 for this are:
- (a) it is a core responsibility of the Audit and Governance committee to approve internal audit plans and to 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 of the council's accounts. External audit review elements of internal audit's work to assess what reliance can be placed upon it. However, this review work does not cover all the elements of internal audit and, therefore, cannot be relied upon to properly fulfil the requirements of the Regulations.
- 11 As in previous years, the review of the effectiveness of internal audit has been undertaken jointly with North Yorkshire County Council and in consultation with the respective Audit Committee chairs, in accordance with the process agreed by this committee in February 2013. This ensures consistency and avoids unnecessary duplication of work by the two council's client officers. The review has also been extended to take account of the expansion of the Veritau's internal audit provision to include five of the North Yorkshire district councils.

Scope of the Review

- 12 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.

- 13 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 2013/14 Plan was approved at the April 2013 meeting of this committee);
 - (d) regular reports on the implementation of internal audit recommendations;
 - (e) reports from the external auditor (in so far as they relate to the work of internal audit).

2012/13 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

- 14 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 (compared to 2011/12);
 - (b) a customer satisfaction survey has been completed (by senior managers in the council and Veritau's other client councils);
 - (c) the progress made to address any issues identified in the 2011/12 review of effectiveness has been assessed;
 - (d) the views of the external auditors have been sought regarding the extent to which they can place reliance upon the work of internal audit;
 - (e) other factors regarding the quality of the service have been considered as appropriate.
- 15 The results of the review are set out in **Annex 1** to this report. The external auditors, Mazars have also provided the

feedback on the work of internal audit. A copy of their letter is attached as **annex 2**.

CONCLUSION

- 16 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 2012/13.

Consultation

- 17 This review has been undertaken jointly with the Corporate Director – Strategic Resources 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 February 2013.

Options

- 18 Not relevant for the purpose of the report.

Analysis

- 19 Not relevant for the purpose of the report.

Council Plan

- 20 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

- 21 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

- 22 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

- 23 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. To ensure that the council complies with its statutory responsibilities.

Contact Details

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Chief Officer Responsible for the report:

Tracey Carter
Assistant Director – Finance, Asset
Management and Procurement

**Report
Approved**



Date 10/6/13

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 – results of the review of internal audit effectiveness.

Annex 2 – copy of letter from the external auditors, Mazars

REVIEW OF INTERNAL AUDIT EFFECTIVENESS – 2012/13

- 1 This report sets out the results of the review of internal audit effectiveness for 2012/13 in terms of the service provided by Veritau. As this is a shared service and to avoid unnecessary duplication a single review has been carried out encompassing all of the company's client councils (ie North Yorkshire County Council, the City of York Council, Hambleton District Council, Richmondshire District Council, Ryedale District Council, Scarborough Borough Council and Selby District Council). It should be noted that Veritau's audit systems and working practices are applied consistently across each of the client councils and so there should not be any significant difference in the standard or quality of the service.
- 2 The review of effectiveness should however include consideration of other factors which are likely to be specific to individual councils, for example the status of internal audit within the organisation, the relationship between the external and internal auditors and the effectiveness of the audit committee (to the extent that its work relates to internal audit). These issues will be addressed separately, where applicable.
- 3 The review of internal audit effectiveness has considered the following sources of information:

Update of Code of Practice Self Assessment Checklist

- 4 For 2012/13, the proper practices for internal audit were those contained within the CIPFA Code of Practice for Internal Audit in Local Government (the Code of Practice)¹. 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 covered the following areas:
 - (a) Scope of Internal Audit (Terms of Reference and scope of work)
 - (b) Independence
 - (c) Ethics for Internal Auditors

¹ The CIPFA Code of Practice for Internal Audit in Local Government was replaced on 1 April 2013 by the Public Sector Internal Audit Standards.

- (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
- 5 A detailed self assessment exercise to assess compliance against the CIPFA Code of Practice for Internal Audit was undertaken in 2010/11. The self assessment has been reviewed and updated on an annual basis since that date. With the exception of the areas identified in paragraph 8 below, the service is considered to be fully compliant.
- 6 During 2012/13, the priority has been to establish a new company to deliver internal audit services to five of the North Yorkshire district councils. The new company, Veritau North Yorkshire (VNY) commenced trading on 1 April 2012. The existing audit systems, procedures and operating practices have been adopted by the new company so that there is now a consistent approach to audit work across all the member councils and other external clients.
- 7 With the exception of some minor changes to operational arrangements and the format of audit reports there have been no significant developments since the date of the last review. Adherence with the professional standards set out in the Code of Practice has therefore been maintained.
- 8 Those aspects of the current internal audit arrangements which have previously been identified as not fully complying with the Code of Practice are listed below:

Note: F indicates full compliance, P indicates partial compliance, and N indicates non compliance

Ref	Standard	P / N	Current Status
3	Ethics for Internal Auditors		
3.3	Objectivity		
3.3.4	Are staff rotated on regular / annually audited areas.	F	Operating arrangements were previously considered to be only partially compliant. However, staff rotation has increased significantly in the last few years. This process has continued through 2012/13 with the expansion in the number of client councils. Auditors are therefore increasingly working across different client councils and service areas. However, staff rotation still 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. This balance will be kept under review in 2013/14.
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 client council and the partner in question. Good working relationships exist between Veritau and the other principal audit providers in the area (for example – the NHS internal audit providers in North Yorkshire). Other arrangements tend to be limited and informal in nature.

Ref	Standard	P / N	Current Status
			However, the need for a formal joint working protocol has been recognised in these situations and is included in the company's 2013/16 Business Plan.
5.5	Relationships with Other Regulators and Inspectors		
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	P	This occurs on an ad-hoc basis but is not considered to be of 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	P	Given Veritau's contractual

Ref	Standard	P / N	Current Status
	results of the internal audit quality assurance programme?		position, this information is considered to be more relevant to the individual client officers in each council. Such information is provided as necessary.

Customer Satisfaction Surveys

- 9 In accordance with the Code of Practice, Veritau carries out customer survey reviews as a normal part of the audit process. An annual survey of senior managers in each client council is also carried out to assess overall customer satisfaction with the quality of work being undertaken. These surveys are dealt with in turn below.
- 10 At the close of each audit, the responsible service manager of the area being audited is asked for feedback. The service manager is asked a series of questions about the conduct of the audit and about whether they were satisfied with the overall outcome. The level of satisfaction in 2012/13 (based on 119 surveys returned during the year) was 99.2%. This compares with 100% satisfaction in 2011/12.
- 11 In the annual survey, senior managers were asked to rank the individual elements of the service provided by Veritau (including internal audit, counter fraud and information governance). A total of 35 surveys were returned. The results were generally consistent between the client councils and with the results of similar surveys conducted in previous years.
- 12 For the purposes of this review, the scores for internal audit and counter fraud have been summarised as follows:

	1	2	3	4	N/A
Internal Audit Services					
1.1 The quality of planning and the overall coverage of the audit plan	3	24	3		5
1.2 The provision of advice and	6	23	5		1

	1	2	3	4	N/A
guidance					
1.3 The conduct and professionalism of audit staff	21	11	2		1
1.4 The ability of audit staff to provide unbiased and objective opinions	16	16	2		1
1.5 The ability of audit staff to establish a positive rapport with customers	14	19			2
1.6 The auditors' overall knowledge of the system / service being audited	1	25	6		3
1.7 The auditors' ability to focus on the areas of greatest risk	5	23	3	1	3
1.8 The arrangements made to agree the scope and objectives of the audit	9	19	3	1	3
1.9 The auditors' ability to minimise disruption to the service being audited	11	17	3		4
1.10 The communication of issues found by the auditors during their work	8	22	1		4
1.11 The quality of feedback at the end of the audit	6	22	3		4
1.12 The auditors' ability to	7	21	4		3

	1	2	3	4	N/A
communicate their findings in the audit report					
1.13 The accuracy, format, length and style of audit reports	5	18	8	1	3
1.14 The time taken to issue audit reports	5	18	9		3
1.15 The relevance of audit opinions and conclusions	5	22	4	1	4
1.16 The extent to which agreed actions are constructive and practical	5	22	5		3
1.17 The quality of IT audit (provided on behalf of Veritau by PWC)	2	10	1	1	21
The overall rating for the Internal Audit services	5	24	3		3
Counter Fraud Services					
3.1 The preparation and maintenance of counter fraud policies and strategies	4		1		17
3.2 The communication of fraud risks to managers and other stakeholders	3		3		17
3.3 The provision of advice on measures to prevent fraud and corruption	3	1	3		16

	1	2	3	4	N/A
3.4 The identification of possible fraud and error	3	1	2		17
3.5 The receipt and handling of fraud referrals	2	2	3		16
3.6 The investigation of suspected fraud	4	1	2		16
3.7 The conduct and professionalism of counter fraud staff	4	3	1		15
3.8 The investigators' knowledge of legislation, policies and procedures	3	2	1		17
3.9 The quality of feedback during and at the end of fraud investigations	3	3		1	16
3.10 The time taken to complete fraud investigations	1	4		2	16
3.11 The outcomes from fraud investigations	3	2	1	1	16
3.12 The overall reporting of counter fraud activities and work done	3	2	1	1	16
The overall rating for the Counter Fraud services	3	1	1	1	17

Key:

1 = Excellent

2 = Good

3 = Satisfactory

4 = Poor

N/A = Not answered

Note – the number of surveys received is lower for counter fraud because not all the client councils receive this service.

- 13 For internal audit, the majority of the responses were either excellent or good. Whilst it is not considered to be a significant problem, the number of 'satisfactory' responses for questions 1.13 and 1.14 suggests that there is however further scope to improve the accuracy and timeliness of audit reporting. Where particular issues were highlighted or comments made then these will be addressed with the relevant audit team and/or client council. For counter fraud, the majority of respondents did not answer the questions. This reflects the fact that only certain managers generally have regular contact with this aspect of the service. Where responses were provided then there is however more of a divergence of opinions. It is recognised that further developmental work is therefore required in this area, particularly in respect of communications and turnaround times.

Client Liaison

- 14 As part of ongoing client liaison arrangements, Veritau audit managers will meet regularly with senior officers in each client council. Whilst the specific arrangements differ between the councils, the S151 officer is always a main point of contact. Other key contacts may include the chief executive, the monitoring officer and/or other members of the corporate management team in each council. As such, these senior managers are well placed to assess the overall effectiveness of the audit service, and also how Veritau deal with any issues which may arise during the course of work. No specific matters of concern have been raised about the standard or quality of audit work through these client arrangements during 2012/13.

External Audit

- 15 Similarly, no matters of concern have been raised with the S151 officer or the relevant audit committee by the external auditors, at any of the client councils. In some cases, the external auditors have provided specific comments on the work of internal audit and these are reported separately to the relevant council.



M A Z A R S

Mr M Thomas
Veritau Limited
c/o City of York Council
West Offices
Station Rise
York YO1 6GA

11 June 2013

Dear Max

In response to your email dated 5 June 2013, I can confirm that as part of our external audit work this year Mazars LLP have undertaken a high level review of the internal audit arrangements in place at City of York Council.

This review has been undertaken for our own purposes only, to meet the requirements of International Auditing Standards (UK and Ireland) 315. It should not be relied upon to provide assurance to third parties, and did not constitute an independent assessment of Internal Audit under the requirements of Regulation 6 of the Accounts and Audit Regulations 2011. We have not considered the scope of Veritau's work in the context of the activities of the Council as a whole, nor have we examined in detail the quality of individual assignments.

We have however considered:

- Internal Audit's functions and responsibilities;
- the objectivity of the Council's Internal Audit function;
- liaison and reporting arrangements in place with management, those charged with governance, and ourselves;
- procedures for ensuring technical competence and due professional care.

No significant weaknesses in these respects have been identified, and we have therefore concluded that there is no reason in principal why we could not place reliance on Veritau's work.

Yours sincerely

Lynn Worth
Senior Audit Manager

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INVESTOR IN PEOPLE



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**Audit and Governance Committee**

9 July 2013

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 2012/13 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 relevant professional standards. During 2012/13, the applicable standards for internal audit were contained in the CIPFA Code of Practice for Internal Audit in Local Government (2006)¹. 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.

2012/13 Internal Audit & Counter Fraud Work

- 3 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.

¹ The CIPFA Code of Practice for Internal Audit in Local Government was replaced on 1 April 2013 by the Public Sector Internal Audit Standards.

- 4 Internal audit delivered 94.8% of the 2012/13 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%).
- 5 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.
- 6 Counter fraud work was undertaken in accordance with the approved plan. A summary of activity is included in Annex 3. This has been another successful year for the team with, for example, 23 successful housing investigations being conducted – up from 18 last year. The team has also established itself in the investigation of social care fraud issues. Following the development of referral arrangements and delivery of fraud awareness training, 16 referrals for social care fraud were made during the year.

Breaches of Financial Regulations

- 7 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 2012/13. A summary of breaches identified since the last report to this committee in April 2012 is included in annex 4. There are no specific issues arising from known breaches of financial regulations in 2012/13 that require drawing to members' attention.

Opinion of the Head of Internal Audit

- 8 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.

- 9 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 the annexes to this report and other monitoring reports to this committee during the year. Internal audit work has been conducted in accordance with proper standards.
- 10 In giving this opinion attention is drawn to the following significant control issues which are considered relevant to the preparation of the 2012/13 Annual Governance Statement:
 - a) Information Security – There continue to be weaknesses in the council's arrangements for managing information securely. There have been improvements since the previous year; however, there are still significant areas of weakness. Recent changes such as the move to West Offices may have led to further improvement, but there is insufficient evidence of this yet. Checks in 2012/13 identified examples of sensitive documents left out on desks or in unlocked cabinets. In many cases, secure storage was available but was not being used.
 - b) Health and Safety – Significant concerns were raised in the 2011/12 audit. While many of the issues have been addressed, the development of processes is still at an early stage. Work is ongoing – for example the Health and Safety team's own review of processes is expected to be completed in July 2013. Further follow up work will be undertaken by internal audit in 2013/14 to ensure weaknesses have been fully addressed.
 - c) Adult Social Care Budgetary Control – Procedures for controlling expenditure need improving. Issues included insufficient action taken to mitigate significant overspends identified through budget monitoring. There were also no clear links between control of expenditure and budget responsibility in some areas.

- d) The 2011/12 audit of partnerships identified significant weaknesses in corporate arrangements for managing partnership risks. No evidence has been seen of action to address those concerns.

Consultation

- 11 Not relevant for the purpose of the report.

Options

- 12 Not relevant for the purpose of the report.

Analysis

- 13 Not relevant for the purpose of the report.

Council Plan

- 14 The work of internal audit of internal audit and counter fraud 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

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

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

Risk Management Assessment

- 16 The council will not comply with proper practice for internal audit if the results of audit work are not reported to those charged with governance.

Recommendation

17 Members are asked to:

- (a) note the results of audit and counter fraud work undertaken in 2012/13.

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

Author:

Max Thomas
Head of Internal Audit
Veritau Limited
01904 552940

Chief Officer Responsible for the report:

Ian Floyd
Director of CBSS
Telephone: 01904 551100

Report
Approved



Date 20/06/13

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers

- 2012/13 Audit, Counter Fraud, and Information Governance Plan
- Internal Audit, Counter Fraud, and Information Governance Monitoring Reports to Audit and Governance Committee in 2012/13 (September, December, April)
- Reports on Follow up of Internal Audit Agreed Actions to Audit and Governance Committee in 2012/13 (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

Opinion of the Head of Internal Audit

I have evaluated the results of the audit and fraud work undertaken during the 2012/13 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

27 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</p>	<p>A significant system weakness, whose impact or frequency presents risks to the system</p>

Priority

Long Definition

Short Definition – for use in Audit Reports

effective control environment exists to minimise exposure to significant risks such as financial or other loss.

objectives, and which needs to be addressed by management.

Such issues may require the input at Head of Service or senior management level and may result in significantly revised or new controls.

3

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

17 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	5
Substantial Assurance	5
Moderate Assurance	5
Limited Assurance	0
No Assurance	0
Not given	2

Final Reports Issued

The table below shows audit reports finalised since the last report to this committee in April 2013. In all cases the recommendations made have been accepted by management, and 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	
Nursery Education Grants	08/04/2013	Substantial Assurance	4	0	A review of procedures for making payments to private providers of nursery education for free entitlement. Overall, procedures were found to be operating well but minor weaknesses identified included:

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
					<ul style="list-style-type: none"> • some nurseries not applying the most recent government guidance about how free hours can be used • some nurseries not registering correctly with the information commissioner • some nurseries not complying with best practice with how to invoice parents for additional hours
Federation of Hob Moor Oaks and Hob Moor Community Primary School	17/04/2013	Substantial Assurance	7	0	A schools audit, no significant issues were identified.
Our Lady Queen of Martyrs Primary School	17/04/2013	High Assurance	5	0	A schools audit, no significant issues were identified.
Canon Lee School	22/04/2013	Moderate Assurance	10	0	A schools audit. While a number of issues were identified, none represent significant weaknesses. The

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
					weaknesses seem to be largely a result of past circumstances (staffing changes and absences) and not necessarily indicative of the likely level of control going forward.
Heworth CE Primary School	24/04/2013	Substantial Assurance	5	0	A schools audit, no significant issues were identified.
Housing Rents	26/04/2013	High Assurance	0	0	No significant issues identified.
Health & Safety	09/05/2013	No opinion given	0	0	This audit was a follow up of the 2011/12 audit which was given a "limited assurance" opinion. Significant progress has been made towards implementation of the agreed actions. Six of the nine actions have been fully implemented and one partially implemented. For the remaining actions, a revised implementation date has been agreed with the service.
Budgetary Control	21/05/2013	Moderate Assurance	2	0	A review of the budget monitoring procedures used across the council. Weaknesses identified relate to

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
					inconsistencies in the way monitoring is performed in different directorates as well as with the records kept to support budget virements.
Charges for Care	21/05/2013	Substantial Assurance	2	0	<p>An audit of the key risks relating to the calculation, invoicing and collection of charges for non residential care. Overall, controls were found to be operating well but weaknesses identified were:</p> <ul style="list-style-type: none"> • recovery plans were not always in place for accounts with long standing arrears • some cases were identified where inadequate evidence had been retained to support debts written off.
Howe Hill for Young People	30/05/2013	Substantial Assurance	2	0	An establishment audit focussing on key controls at the Howe Hill for Young People hostel. No significant weaknesses were identified but improvements could be made to reduce reliance on petty cash and ensure adequate records are maintained for all cash purchases.

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
Council Tax Benefits & Housing Benefits	04/06/2013	Limited Assurance	4	2	<p>While no new significant weaknesses were identified, some actions agreed in the 2011/12 audit (also limited assurance) have not yet been successfully implemented. The main issues are:</p> <ul style="list-style-type: none"> • there is no intervention strategy in place to identify changes in customers' circumstances • error rates identified in the department's quality assurance checks remain high and a document and coordinated approach to addressing these errors and training needs is required.
Data Quality	12/06/2013	Substantial Assurance	1	0	<p>The audit reviewed a number of performance indicators used across the council to ensure data collection, processing and reporting processes were accurate and robust. No significant issues were identified.</p>

COUNTER FRAUD ACTIVITY 2012/13

The table below shows the total numbers of fraud referrals received and summarises the outcomes of investigations completed. The indicators include the full range of counter fraud work undertaken.

	2012/13 (Actual: Full Yr)	2012/13 (Target: Full Yr)	2011/12 (Actual: Full Yr)
% of investigations completed which resulted in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked, management action taken).	47%	30%	38%
Number of investigations completed	262	320	335

Caseload figures for the period are:

	As at 31/3/13	As at 1/4/12
Awaiting allocation	38	68
Under investigation	125	195

Summary of counter fraud activity:

Activity	Work Completed or in Progress
Data Matching	<p>A total of 9,600 data matches were received from the Audit Commission as part of the National Fraud Initiative. 2,000 of these matches are recommended matches, and work is ongoing to investigate them.</p> <p>Housing Benefit Matching Service (HBMS) referrals - the counter fraud team received 1,906 HBMS referrals during the year. HBMS referrals resulted in 4 benefit fraud prosecutions and 6 sanctions in 2012/13.</p>
Fraud Detection and Investigation	<p>In addition to benefit fraud investigation, the service continued to promote the use of criminal investigation techniques and standards in other areas to encourage a robust response to any fraud perpetrated against the council. Activity included the following:</p> <ul style="list-style-type: none"> • Benefit Fraud - 18 people were prosecuted for benefit fraud offences and a further 13 received formal sanctions (cautions and administrative penalties). Benefits were corrected in a further 61 cases. • Housing Fraud – working in conjunction with housing officers, 21 properties were recovered in 2012/13 with an estimated value of £2.7 million. In addition, 2 properties were prevented from being let where the prospective tenants had provided fraudulent information in their housing applications. There are currently 45 housing investigations ongoing.

Activity	Work Completed or in Progress
	<ul style="list-style-type: none"> • Internal Fraud - the team received 16 referrals for internal frauds in 2012/13. • Social Care Fraud – 16 referrals relating to social care fraud were received during the year. • Parking Fraud – the fraud team investigated 4 cases of misuse of council parking schemes – three relating to blue badges and one to guest house permits. They resulted in one successful prosecution and two cautions being issued. • Council Tax Fraud – three investigations into council tax fraud were completed in 2012/13 and all resulted in a saving to the council.

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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.	1
Inadequate inventory procedures	1
Insufficient write off authorisation procedures	2
Lack of suitable debt management action	1
No VAT charged on vatable income	1
Incorrect petty cash claim procedures	1
Inadequate asset disposal procedures	1

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Audit and Governance Committee

9 July 2013

Report of the Director of Customer & Business Support Services

Annual Governance Statement 2012/13**Summary**

1. The purpose of this report is to present the draft Annual Governance Statement (AGS) 2012/13 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 2012/13.
2. 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 2013. The final version of the Statement of Accounts will be approved by this Committee, at the meeting in September 2013. This is consistent with the change to the approval process that was introduced in 2011/12

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 2012/13 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 2011/12 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 the Officer Governance Group (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 2 new items and a refocus on one existing issue. Two items from the previous years statement have made sufficient progress to no longer be considered significant issues.

Monitoring of AGS Action Plans

9. As has been previously agreed, 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

12. Not relevant for the purpose of the report.

Corporate Priorities

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

Implications

14. The implications are;
 - **Financial** – there are no financial implications other than the time required to undertake the review of key controls and prepare the 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

15. 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

- 16. Members are asked to consider and approve the AGS 2012/13, 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.

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**Report
Approved**



Date

1 July 2013

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)
- 2011/12 Annual Governance Statement
- CIPFA – The role of the Chief Finance Officer (2010)

Annexes

Annex A – Draft Annual Governance Statement 2012/13

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* and the recently published addendum. 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 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 2013 and up to the date of approval of the Statement of Accounts for 2012/13.

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 and continues to seek to develop these arrangements.

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 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 established new arrangements for dealing with ethical standards issues following the abolition of the previous statutory regime. A Joint Standards Committee comprising of members of the City Council and Parish Council is responsible for promoting good ethical governance within the organisation and within local Parish Councils. 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 council has appointed independent persons to assist in making decisions on complaints and in promotion of high standards generally. 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

ANNUAL GOVERNANCE STATEMENT

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).

Many codes and protocols form part of the constitution and are monitored for effectiveness by the Officer Governance Group (see paragraph 3.19 below). Amendments are normally 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:

ANNUAL GOVERNANCE STATEMENT

- 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
- 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 2012/13 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 2012/13. 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 2012/13 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

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. The Council has in place an 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

The Council's Governance Framework cont'd

ANNUAL GOVERNANCE STATEMENT

- 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:

- 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 2011/12 Annual Governance Statement.

ANNUAL GOVERNANCE STATEMENT

5. Significant Governance Issues

The financial pressures facing the Council naturally represent a potential risk to the Council's overall Governance arrangements. Savings have had to be made in many areas that form a part of the Governance Framework, including reductions in finance, ICT, performance, ward committees, Democratic services, performance, and internal audit, and significant further savings across all areas will be required. Whilst crucial elements of the framework will be prioritised, there will be need to keep under review the overall impact of budget reductions to ensure that the overall Governance Framework remains effective.

In considering the significant internal control issues contained within the 2011/12 AGS, it is noted that the following enhancements have been achieved and are now not considered significant governance issues :

- **Further improvements to officer and member decision-making processes in light of the recent significant organisational changes (CBSS)** - For example, Individual Cabinet Member decision making has been streamlined so that meetings are no longer held for decisions where there is no real public interest. The scheme of delegations has been altered to reflect new departmental structures and the Council's constitution reflects new public health responsibilities.
- **Compliance with Financial Regulations and Contract Procedure Rules to ensure lawful, effective and efficient use of the councils resources in relation to procuring goods and services; in particular the raising of purchase orders for all relevant items of expenditure (CBSS)** - For example, the pilot for No PO no Pay has been extended and introduced council-wide meaning any invoices that are now received that don't have a valid Purchase order are returned to the supplier unpaid. The number of users of the Purchasing system has also been rationalised to enable a smaller more skilled level accessing the system.

In addition to the above, a number of issues referred to in the 2011/12 AGS have been partially actioned in 2012/13 and will be further progressed during 2013/14 and beyond (through the named lead area) and the role of the Committee is also identified/recommended .

- **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). It is recommended that a future agenda item for the Committee covers this.
- **Information Governance including compliance with the requirements of the Information Governance Strategic Framework, including ensuring that information security requirements are adhered to (CBSS)** - It is recommended that a 6 monthly report on information governance be presented to the Committee
- **A refocus on Business Continuity, in particular a focus on the Council move to the new offices (West Offices Project Plan)** - It is recommended that this be included as a future agenda item.

There has been a refocus on Partnerships Governance, which was included in the statement last year:

- **Partnership Governance including the shared use of resources and Grant Funding arrangements** - While the Council has strong strategic partnership arrangements, further work is needed to embed corporate controls over operational partnerships to ensure risks are well managed and partnership arrangements represent good value for money. Progress is being made in terms of grant funding with a Scrutiny review of Grants underway and additional legal agreements being put into place for all new grant arrangements. It is recommended that the Committee await the scrutiny review and then consider further actions as required.

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New areas identified through the effectiveness review at Section 4 above are outlined below with details of the plans which will be monitored by the OGG during 2012/13 for evidence of improvement:

The Role of the Audit Committee in Democratic Governance

- During the year the Audit Committee have considered matters of Democratic Governance, and the role of the Committee in this area. Related to this, there have been some instances where process in relation to the Councils Democratic procedures have been challenged, and the legislation in this area has also been subject to change, for example in relation to access to information. Members have already started to consider potential improvements to both the Scrutiny Process and the conduct of the Council meeting. This will feed into a planned redrafting of the constitution.
- As such, it is considered that the Audit Committee should receive/review a number of reports related to Democratic Governance during the year. An internal audit review is currently being implemented, and this may further inform in relation to matters. Therefore, whilst this matter may not usually fall into the category of significant control weaknesses, given the matters that have been raised during the year, it is felt that there should be more prominence given to democratic governance issues through this Committee, and therefore this is included as one of the items to be progressed during the year, with a view to the Committees forward plan including a number of items related to Democratic Governance.

Freedom of Information Process

- During the year the Council has had to deal with a growing number of freedom of information requests, many of which are becoming increasingly complex in nature. As a result of this at times there have been some delays. In response to this, action is underway to address this issue with an internal audit review of system processes planned. It is recommended the Committee consider any findings associated with this review.

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
Chief Executive

Dated

Signed
Cllr J. Alexander
Leader of the Council

Dated

**Audit and Governance Committee**

9 July 2013

Report of the Head of Internal Audit

Review of the Terms of Reference of the Committee

Summary

- 1 To consider proposed changes to the terms of reference of the committee prior to approval by full Council.

Background

- 2 Best practice recommends that the terms of reference for audit committees should be periodically reviewed. Following the review of the committee's own effectiveness, the resulting action plan approved in March 2013, included a requirement to undertake an annual review of the committee's terms of reference.
- 3 A copy of the existing terms of reference is attached at annex 1. The proposed changes are detailed in annex 2 and are shown as tracked changes. Most of the changes simply reflect current reporting arrangements but the opportunity has also been taken to update the terms of reference to take account of recommended best practice.

Consultation

- 4 The committee is being consulted on the proposed changes prior to the revised terms of reference being referred to full Council.

Options

- 5 The committee therefore has three options:

- to agree the proposed changes as set out in annex 2 and recommend to full Council that the Constitution be amended;
- propose different changes to the terms of reference for consideration and approval by full Council;
- leave the terms of reference unchanged.

Analysis

- 6 Not relevant for the purpose of the report.

Council Plan

- 7 The work of the committee supports the council's overall aims and priorities by promoting probity, integrity and honesty and by helping to make the council a more effective organisation.

Implications

- 8 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

- 9 The Committee may fail to fully and properly discharge its responsibilities if it fails to function effectively.

Recommendation

- 10 Members are asked to;
- consider the proposed changes to the terms of reference (as set out in annex 2) and recommend to full Council that the Constitution be amended.

Reason

To ensure that the Audit and Governance Committee continues to operate effectively and in accordance with recommended best practice.

Contact Details

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**Report
Approved**



Date 13 June 2013

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 – existing terms of reference for the Audit and Governance Committee

Annex 2 – proposed changes to the terms of reference for the Audit and Governance Committee

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Audit and Governance Committee – Terms of Reference**8 Audit & Governance Committee**

8.1 The functions of the Audit & Governance Committee are:

No.	Delegated authority	Conditions
	Audit	
1	To consider the annual report and opinion of the Assistant Director (Customer Service & Governance) including a summary of internal and external audit activity (actual and proposed in the relevant accounting period) and the level of assurance that can be given over the corporate governance arrangements at the Council and to advise the Executive accordingly.	
2	To consider summaries of specific internal audits reports as scheduled in the forward plan for the Committee or otherwise requested by Members.	
3	To consider reports dealing with the management and performance of the Internal and External Audit functions.	
4	To consider reports from Internal Audit on agreed recommendations not implemented within agreed timescales.	
5	To consider the action plan arising from the Annual Letter of the External Auditor.	With respect to the Annual Letter being first considered and accepted by the Executive.
6	To consider all other relevant reports from the District Auditor as scheduled in the forward plan for the Committee as agreed with the External Auditor or otherwise requested by Members.	
7	To comment on the scope and depth of External Audit work and ensure it provides value for money.	

No.	Delegated authority	Conditions
8	To liaise with the Audit Commission over the appointment of the Council's External Audit body.	
9	To approve the Annual Plans of the Internal Audit Service and the External Auditor.	
10	To commission work from the Internal Audit Service and External Audit with regard to the resources available and the existing scope and breadth of their respective work programmes and the forward plan for the Committee.	Subject to budgetary provision.
11	To provide advice to the Council on issues arising out of a fraud investigation and report any action which has or ought to be taken by the Council.	
Governance & Regulatory		
12	To keep under review the Council's contract procedure rules, financial regulations, working protocols and codes of conduct and behaviour (not otherwise reserved to the Standards Committee).	
13	To review any relevant issue referred to it by the Chief Executive, S151 Officer, the Assistant Director (Customer Service & Governance), the Monitoring Officer or any other Council body.	
14	To consider any reports of the Assistant Director (Customer Service & Governance) referred to the Committee for consideration further to Article 13 of this Constitution.	
15	To monitor the effective development and operation of risk management and corporate governance across the Council.	
16	To monitor Council policies on 'whistle blowing', the Anti-Fraud & Corruption Strategy and consider any issues referred to it in accordance with the Council's whistle blowing policy and procedures as set out in Part 5 of this Constitution.	

No.	Delegated authority	Conditions
17	To consider the Council's arrangements for corporate governance and make recommendations about all actions necessary for compliance with best practice to Full Council.	
18	To consider the Council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice.	
19	To bring to Full Council all proposals for amendment to this Constitution submitted by Members in accordance with this Constitution.	Subject to the advice of the Head of Civic, Democratic and Legal Services.
	Annual Governance Statement and Accounts	
20	To approve the Statement of Accounts and the Annual Governance Statement.	
21	To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.	

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Audit and Governance Committee – Terms of Reference (suggested changes)

No	Delegated authority	Conditions
	Audit	
1	To consider the annual report and opinion of the <u>Head of Internal Audit</u> . The report should <u>Assistant Director (Customer Service & Governance)</u> including a summary of internal and external audit activity <u>in the relevant period (actual and proposed in the relevant accounting period)</u> and the level of assurance that can be given over the <u>control environment and</u> corporate governance arrangements at the Council and to advise the Cabinet accordingly.	
2	To consider <u>periodic reports from the Head of Internal Audit detailing the summary findings and the main issues arising from internal audit work</u> . summaries of specific internal audits reports as scheduled in the forward plan for the Committee or otherwise requested by Members.	
3	To consider reports dealing with the management and performance of the Internal and External Audit functions.	
<u>4</u>	<u>To review the effectiveness of Internal Audit and the Committee itself on an annual basis.</u>	
<u>54</u>	To consider reports <u>of the Head of Internal Audit detailing the progress made by management to address control weaknesses identified by</u> from <u>Internal or External Audit</u> . on agreed recommendations not implemented within agreed timescales.	

No	Delegated authority	Conditions
65	To consider the action plan arising from the Annual Letter of the External Auditor.	With respect to the Annual Letter being first considered and accepted by the Cabinet.
76	To consider all other relevant reports <u>received</u> from the <u>District-External</u> Auditor as scheduled in the forward plan for the Committee as agreed with the External Auditor or otherwise requested by Members.	
87	To comment on the scope and depth of <u>e</u> External <u>a</u> Audit work and ensure it provides value for money.	
98	To liaise with the Audit Commission over the appointment of the Council's External Auditor <u>or body</u> .	
10	<u>To approve the Internal Audit Strategy</u>	
119	To approve the Annual Plans of the Internal Audit Service and the External Auditor.	
1210	To commission work from the Internal Audit Service and External Audit with regard to the resources available and the existing scope and breadth of their respective work programmes and the forward plan for the Committee.	Subject to budgetary provision.
11	To provide advice to the Council on issues arising out of a fraud investigation and report any action which has or ought to be taken by the Council.	
	Governance & Regulatory	

No	Delegated authority	Conditions
132	To keep under review the Council's contract procedure rules, financial regulations, working protocols and codes of conduct and behaviour (not otherwise reserved to the Standards Committee).	
143	To review any relevant issue referred to it by the Chief Executive, S151 Officer, the Assistant Director (<u>Financial Services</u>) Customer Service & Governance , the Monitoring Officer, <u>the Head of internal Audit</u> or any other Council body.	
154	<u>To consider the effectiveness of the Council's arrangements for corporate governance (including information governance).</u> To consider any reports of the Assistant Director (Customer Service & Governance) referred to the Committee for consideration further to Article 13 of this Constitution.	
165	To monitor the effective development and operation of risk management <u>arrangements</u> and corporate governance across the Council.	
176	To monitor <u>assess the effectiveness of the Council's counter fraud arrangements including the Whistleblowing policy and other relevant counter fraud policies and plans.</u> on 'whistle blowing', the Anti-Fraud & Corruption Strategy and consider any issues referred to it in accordance with the Council's whistle blowing policy and procedures as set out in Part 5 of this Constitution.	
187	To consider the Council's arrangements for	

No	Delegated authority	Conditions
	corporate governance and make recommendations about all actions necessary for compliance with best practice to Full Council.	
198	To consider the Council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice.	
2019	To bring to Full Council all proposals for amendment to this Constitution submitted by Members in accordance with this Constitution.	Subject to the advice of the Assistant Director of Governance and ICT.
	Annual Governance Statement and Accounts etc	
210	To approve the Statement of Accounts and the Annual Governance Statement.	
221	To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.	
232	To scrutinise the Treasury Management Strategy and Monitoring Reports.	
	<u>General</u>	
24	<u>To meet informally with the External Auditor and the Head of Internal Audit on a periodic basis to discuss audit related matters.</u>	
25	<u>To report on the discharge of the Committee's responsibilities under the Constitution to Full Council on an annual basis.</u>	

**Audit and Governance Committee**

9 July 2013

Report of the Director of Customer and Business Support Services

Scrutiny Arrangements

Summary

- 1 This report provides information about the Council's scrutiny arrangements. These are a key element of the Council's corporate governance arrangements which the Committee is entitled to monitor and to which reference is made in the annual governance statement.

Statutory requirements

- 2 The Council operates a Cabinet as opposed to a Committee structure for its executive decision making. It is a requirement of the Local Government Act 2000 that executive arrangements must include provision for the appointment of at least one scrutiny committee with the power to review or scrutinise both executive and non executive decisions and to make reports or recommendations to the Cabinet or Council in respect of the discharge of those functions or on matters which affect the inhabitants of the area.
- 3 The Council has the following Overview and Scrutiny Committees which between them have the power to scrutinise and report in respect of these matters:
 - Corporate and Scrutiny Management Committee
 - Learning and Culture Overview and Scrutiny Committee
 - Community Safety Overview and Scrutiny Committee
 - Health Overview and Scrutiny Committee

- Economic and City Development Overview and Scrutiny Committee
- 4 Overview and scrutiny arrangements must make provision for executive decisions which have not yet been implemented to be referred back to the decision maker for reconsideration or for full Council to review the decision. The Corporate and Scrutiny Management Committee fulfils this task through the call in arrangements.
 - 5 In addition to scrutiny focussing on the Council's responsibilities there are requirements that the Council have arrangements in place to scrutinise the work of partners in respect of their crime and disorder functions and in respect of health matters. The Community Safety and Health Scrutiny Committees respectively carry out these duties.
 - 6 The Council is obliged to appoint a Statutory Scrutiny Officer to promote and support the scrutiny function. The Head of Civic and Democratic Services performs that role.

Work undertaken by Scrutiny Committees

- 7 Each Committee is largely responsible for its own work plan. An annual work planning event was though instigated two years ago to enable all Members to put forward possible scrutiny topics. The Corporate and Scrutiny Management Committee has the responsibility to oversee and co-ordinate the function. Thus the primary responsibility for ensuring effective scrutiny is taking place rests with that Committee.
- 8 Committees generally appoint task groups to undertake individual scrutiny reviews. Since the 2011 elections the following reviews have been concluded:

Title	When reported and outcome	Parent Committee
Admission arrangements and school transport policies	Reported April 2012. Recommendations accepted	L&C
E-Planning Review	Reported to Cabinet Dec 2012 referred to Cabinet Member who accepted 12 of 13	ECDOSC

	recommendations.	
York Museums Trust	Reported to Cabinet Jan 2013. Referred to Cabinet member. Recommendations accepted	L&C
Out of Hours Childcare	Reported to Cabinet March 2013. Recommendations accepted	ECDOSC
End of life care	Reported to Cabinet March 2013. Recommendations accepted	HOSC
City Centre Access	Report finalised February 2013. Reported to Cabinet Member 18 th April. Recommendations accepted.	CSMC
Sickness absence	Report finalised March 2013. Reported to Cabinet May 2013. Endorsed recommendations already implemented and approved remaining recommendations	CSMC
Youth Unemployment	Report finalised March 2013. Reported to Cabinet May 2013. Recommendations accepted	ECDOSC
Community Engagement	Report finalised May 2013. Reported to Cabinet June 2013. Recommendations accepted	CSMC
Libraries	Report finalised May 2013. Reported to Cabinet June 2013. Recommendations accepted	L&C

- 9 It is evident that there was a relatively slow start to reviews after the election but significant progress during the last Municipal Year. The terms of reference for the Corporate and Scrutiny Management Committee envisage that it will receive reports on the progress made by the other Scrutiny Committees against their work plans. This does not appear to have happened in a structured way. Members may wish to comment on this.
- 10 Each Scrutiny Committee is responsible for monitoring the implementation of recommendations arising from reviews within its remit and workplans suggest that this does happen.
- 11 In the same period since the local elections the Corporate and Scrutiny Management Committee has met on eight occasions as a call in Committee to consider ten decisions. No decisions have been referred back for reconsideration.

Relationship with Audit and Governance

- 12 Although the roles of Audit and Governance Committee and the Scrutiny Committees are distinct there is some degree of overlap – particularly with the Corporate and Scrutiny Management Committee. It is quite possible that one or other of the Committees could identify an issue that ought to be considered by the other. The Chairs of the Scrutiny Committees meet, informally from time to time to discuss matters of shared interest and it has now been agreed that the Chair of this Committee should be invited to join them.

Reviewing the Scrutiny arrangements

- 13 The Council's scrutiny arrangements were fundamentally reviewed four years ago when the former EMAP system was abolished. The Scrutiny Management Committee considered reports on developing scrutiny in December 2010 and February 2011. Council subsequently agreed to merging the Scrutiny Management and Effective Organisation Committees to form the Corporate and Scrutiny Management Committee.
- 14 Members are currently being consulted on their views as to how scrutiny can be further developed and it is anticipated that formal reports will come forward in due course.

Conclusion

- 15 This Committee's role is to satisfy itself that the governance arrangements of the Council are adequate. The Corporate and Scrutiny Management Committee has primary responsibility for overseeing and co-ordinating the scrutiny function.
- 16 The Council has arrangements in place for scrutiny which meet the statutory requirements. Several scrutiny reviews have been undertaken which have resulted in meaningful recommendations. Those have largely been accepted by Cabinet. Call in arrangements exist and are used from time to time but have not resulted in decisions being referred back. The Council has kept its scrutiny arrangements under proactive review.
- 17 It is suggested that this indicates that the governance arrangements for scrutiny are adequate.

Corporate Priorities

- 18 Overview and Scrutiny forms an important component of the Council's corporate governance framework. As such it supports the overall aims and priorities of the Council by helping to make the Council a more effective organisation

Recommendation

- 19 Members are asked to:

(a) Note this report

Reason

So that the Committee is well informed when considering the annual governance statement.

Author and Chief Officer Responsible for the report:

Andy Docherty

Assistant Director, Governance and ICT

Telephone: 01904 551004

**Report
Approved**



Date 11/06/13

Wards Affected:

All



For further information please contact the author of the report

Background Papers

None

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Audit and Governance Committee

9 July 2013

Report of the Director of Customer and Business Support Services

CYC Audit Progress Report 2013/14 – Mazars External Auditors**Summary**

1. The paper attached at Annex A from Mazars – the Council's external auditors – reports on progress in delivering their responsibilities as auditors.

Background

2. The report covers:
 - a) Progress on the Audit for 2013/14
 - b) Summary of Advisory work Mazars have been commissioned to complete regarding a review of adult social care services
 - c) National Publications, events and other updates

Consultation

3. The Plan has been consulted on with the relevant responsible officers within the Customer & Business Support Services Directorate prior to it being reported to those members charged with governance at the council.

Options

4. Not relevant for the purpose of the report.

Analysis

5. Not relevant for the purpose of the report.

Corporate Priorities

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

Implications

7.
 - (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

8. By not responding effectively to the matters contained in this report, the council will fail to properly comply with legislative and best practice requirements.

Recommendations

9. Members are asked to:
 - a) note the matters set out in the Progress report presented by Mazar's;

Reason

To ensure Members are aware of Mazar's progress in delivering their responsibilities as external auditors.

Contact Details

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Chief Officer Responsible for the report:

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**Report
Approved**



Date 27th June
2013

Specialist Implications Officers

Wards Affected: Not applicable

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For further information please contact the author of the report

Background Papers:

None

Annexes

Mazars CYC Audit Progress Report

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City of York Council

Audit Progress report

June 2013

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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. Introduction

The purpose of this paper is to update the Audit and Governance Committee on our progress in meeting our responsibilities as your external auditor. We have also included emerging issues and developments which may be of interest to the Committee and, where relevant, recommendations that you may wish to consider.

If you need any additional information please contact me or your Senior Manager using the contact details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out across the UK public sector. It also details the full extent of services Mazars provides within the UK and abroad.

2. Summary of audit progress

Good progress has been made to date on the 2012/13 audit:

- Our Audit Strategy Memorandum was presented to the April meeting of the Audit and Governance Committee. This set out the risks we have identified in terms of both our opinion on the financial statements and the value for money conclusion, and our overall approach to the audit. Audit risks will be reviewed, and our testing strategy finalised, following receipt of your accounts however at this stage we have no changes to report to you.
- Work has been undertaken to confirm our understanding of your key financial systems. This work has included reviewing the design and operation of key controls, walking through transactions to test our understanding in practice, and compliance testing cash receipts.
- We have also reviewed the Council's overall control environment, including general ICT controls.

- Sample testing on housing and council tax benefit cases and the 2012/13 subsidy claim is under way, and we have completed early substantive work on payroll, social care, rents and NNDR/council tax collection systems.
- We have continued to liaise with Internal Audit to maximise the efficiency of audit processes, and to consider the implications of their findings in terms of our own work.
- Work on the value for money conclusion is well in hand and will be completed following receipt of the 2012/13 financial statements and end of year performance report.

Our work to date has not identified any significant weaknesses that need to be reported to you, except in relation to reconciliations between general ledger account codes, accounts payable/receivable systems and bank statements. Reconciliations are currently completed on an annual basis, as part of preparing the year end accounts, whereas good practice recommends they are completed monthly or at least on a quarterly basis. Compensating controls are in place however, and officers are satisfied that these controls adequately mitigate the perceived risk.

We have set a date of 27 August for the public to exercise their rights of inspection etc. and this date has been advertised. We have discussed current technical accounting issues with the Council at a local level and in addition to this Mazars has held a series of workshops for public sector finance staff on accounting and auditing issues relating to the closedown and preparation of the 2012/13 statement of accounts. The workshop was free for our clients, and your officers attended the event in York in February 2013.

We have agreed a timetable with officers for the audit of your accounts and fieldwork is due to commence on 5 August 2013.

3. Advisory work

Following a meeting with the Director of Customer and Business Support Services, we have been commissioned to undertake a review of adult social care services in relation to:

- the operation and application of controls within care management systems designed to ensure effective budget management;
- the quality of management information to support decision making for assessments, financial and performance data;
- the comparative cost of health related care.
- high level business management arrangements, including budgetary control; variance analysis; market management; and forecasting.

This work is still in its initial stages and our findings will be reported to management in due course. Arrangements have been put in place to manage the perceived independence threat to our audit work, by ensuring that staff engaged in the audit below Director level will not be involved in this review.

3. National publications, events and other updates

VFM profiles and financial ratio tools (February 2013)

The Audit Commission has updated its VFM profile and financial ratios tool for 2011/12 outturn data and these are available to all authorities. We review and consider these profiles as part of our value for money work each year.

http://www.auditcommission.gov.uk/technicaldirectory/vfm1213/5.5_Supporting_VFM_tools_and_review_guides.htm

2013/14 fees and work programme consultation (Audit Commission, December 2012)

The Audit Commission has consulted on its 2013/14 proposed work programme and scales of fees. The Audit Commission proposed that scale audit fees are set at the same level as the fees applicable for 2012/13 and published the final work programme and scales of fees for 2013/14 in April 2013.

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme/>

Health and Wellbeing Boards guidance, LGA – February 2013

The Local Government Association has recently published "Health and wellbeing boards - A practical guide to governance and constitutional issues". The guidance explains the background and roles of the boards and progress made in establishing them in England. It also highlights a number of questions councils may wish to consider.

£1 billion of fraud, found! (March 2013)

The National Fraud Initiative (NFI), established in 1996, has helped identify over £1 billion potentially lost to fraud, overpayment or error, across the UK. The outcomes include the prevention and detection of 15,000 cases of pension overpayments worth £450 million, almost 100,000 cases of council tax single person discounts incorrectly awarded worth £160 million and over £250 million of housing benefit overpayments.

<http://www.audit-commission.gov.uk/2013/03/1-billion-of-fraud-found/>

The Future of Public Audit

The Government has published its response to the pre legislative scrutiny report by the draft Local Audit Bill Committee.

<https://www.gov.uk/government/publications/government-response-to-the-pre-legislative-scrutiny-report-by-the-draft-local-audit-bill-committee>

The Bill is now before Parliament. Detail can be found at <http://services.parliament.uk/bills/2013-14/localauditandaccountability/documents.html>

Audit Committees in the Private Sector

The Financial Reporting Council (FRC) has published guidance on the role of Audit Committees in the private sector. Members might find this of interest.

<http://frc.org.uk/Our-Work/Publications/Corporate-Governance/Guidance-on-Audit-Committees-September-2012.aspx>

Contact details

If you would like further information on any items in this briefing, please contact me or the Senior Manager.

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