
MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	6 JUNE 2006
PRESENT	COUNCILLORS HYMAN (CHAIR), HOLVEY, KIRK (SUBSTITUTING FOR CLLR MOORE), SCOTT AND WATSON R
APOLOGIES	COUNCILLORS HILL, JONES AND MOORE

PART A – MATTERS DEALT WITH UNDER DELEGATED POWERS

1. **DECLARATIONS OF INTEREST**

The Chair invited Members to declare at this point any personal or prejudicial interests they might have in the business on the agenda. Cllr Scott declared a personal, non prejudicial interest in agenda items 8 and 9 (Annual Report of the Chief Internal Auditor and Audit and Fraud Plan for 2006/07), insofar as these items related to education issues, as a governor of Clifton Green Primary School.

2. **PUBLIC PARTICIPATION**

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

3. **COMMITTEE ROLE, REMIT AND KEY RELATIONSHIPS**

(See also under Part B Minutes)

Members considered a report which provided information on the role, remit and key relationships of the new Audit and Governance Committee.

The Committee had been introduced following the recent review of the Council's Constitution and was constituted as a non-executive sub-committee of Full Council. Guidance issued recently by the Chartered Institute of Public Finance Professionals (CIPFA) recommended that authorities formally approve a Statement of Purpose for their audit committees. A suggested Statement of Purpose was set out in paragraph 5 of the report for Members' consideration. CIPFA's definition of the core functions of an audit committee was outlined in paragraph 7. These functions had been reflected in the delegations for the Committee included in the Constitution.

The Committee would play a key role in formally approving the Council's overall audit strategy, reviewing work carried out by the Internal Audit Service and receiving and considering the work of the external auditor. It would report to the Executive on major issues of non-compliance and contravention but must also retain the ability to challenge the Executive if

necessary. It was therefore essential that the Committee not be chaired by a member of the Executive. The Committee shared some common concerns with the Standards Committee, but had a wider scope in that it would deal with the good governance and management of the organisation as a corporate entity, rather than matters relating specifically to elected Members. To be effective, the Committee must have a knowledgeable and experienced Chair and membership. Members' views were sought on the establishment of a training programme to support them in discharging their responsibilities.

The nature of the relationship between the Audit & Governance Committee and the Internal and External audit functions was discussed. It was noted that the development of a privacy/confidentiality protocol for the Committee required further consideration. In response to Members' questions, Officers advised that it was their understanding that the Committee had authority to agree its own Statement of Purpose but could refer this to Council for endorsement if desired. Audit committees must remain independent of the scrutiny process, but this did not mean that cross-membership with scrutiny was prohibited. With regard to training, it was noted that a Member training event on risk management had already been scheduled for 29 June.

RESOLVED: (i) That the contents of the report be noted and that the following Statement of Purpose (as set out in paragraph 5) be adopted and referred to Council for endorsement:

"The purpose of the Audit and Governance Committee is to act as the responsible body charged with governance at the Council. In doing so it will provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and will oversee the financial reporting process."

REASON: To ensure the effective management and operation of the Committee and promote understanding of its purpose and function at the Council.

(ii) That training be provided, for Members and substitute Members of the Committee, on the following topics:

- Risk Management (to include the training already scheduled for 29 June as well as more detailed training for Members of this Committee)
- Finance in the public arena
- Regularity and ethics (Members to be invited to attend any training already scheduled on this topic for the Standards Committee).

REASON: To support Members in the proper discharge of their responsibilities and to support the proper function of the Committee.

4. THE ROLE AND FUNCTION OF THE EXTERNAL AUDIT SERVICE - PRESENTATION

Members received a presentation by officers from the Audit Commission (formerly District Audit) on the role and function of the external audit service.

The presentation explained the legislation under which auditors were appointed and carried out their functions, their main responsibilities under the Code of Audit Practice, key audit reports and outcomes, and how auditors' judgements fed into the CPA process. Copies of the slides used for the presentation were circulated at the meeting.

In response to questions from Members, it was explained that auditors' VFM ('value for money') judgements were based upon key criteria specified by the Audit Commission rather than on comparisons between local authorities. The judgements did not include consideration of policies adopted by individual authorities (such as sustainability) but looked at authorities' arrangements for getting to where they wanted to be.

RESOLVED: That the Audit Commission officers thanked for their presentation and that the information provided be noted.

5. THE ANNUAL AUDIT LETTER 2004/05 AND ACTION PLAN

Members considered a report which presented for approval an action plan prepared in response to the Annual Letter of the District Auditor, covering all the significant issues raised therein for internal monitoring and reporting purposes during 2006/07.

It was noted that, whilst the District Auditor had recognised the overall trend in 2004/05 as one of improvement, there were a number of significant matters requiring action. In particular, more work was needed to:

- Improve the Council's overall governance arrangements
- Improve the use of competition to achieve value for money and service improvement
- Improve planning linkages between key plans and strategies
- Ensure the delivery of a new Constitution.

The Annual Letter was attached as Annex A to the report and the action plan drawn up to address the issues raised was attached as Annex B. The plan would be monitored at an operational level by the Council's Corporate Management Team. Progress would be reported to the Audit and Governance Committee on the basis of a mid-term monitoring report and a final out-turn report.

It was noted that clarification was needed with regard to the due dates indicated in the plan against improvement of waste minimisation (page 50 of the papers) and Equalities (page 51).

RESOLVED: (i) That the content of the report be noted and that the Plan attached as Annex 1 be approved, for information and for on-going monitoring purposes.

REASON: To allow the effective on-going monitoring of progress against the agreed action plan, in order to address those matters identified as areas for improvement by the District Auditor.

(ii) That the reporting arrangements be approved, to be put in place for this Committee to monitor progress against the Plan during 2006/07.

REASON: To ensure the proper reporting of progress against the agreed action plan and effective monitoring by this Committee.

6. THE ANNUAL AUDIT PLAN 2006/07

Members considered a report which introduced the District Auditor's Audit and Inspection Plan for City of York Council for the year 2006-2007.

The Audit Plan, which set out the audit and inspection work to be conducted by the District Auditor in compliance with statutory duties, was attached as Annex A to the report. The Plan had been subject to a wide consultation with responsible Officers and had been approved in draft by the Corporate Management Team.

Members commented on the identification of waste minimisation as a key risk to the Council's financial health (page 70 of the papers) and on actions identified to help the Council reduce its audit fees (page 76). The former followed up on issues raised by an inspection of the waste management service in 2004. It was noted that there had been no change to the audit fees this year, despite an increase in the auditors' responsibilities.

RESOLVED: That the Audit and Inspection Plan be approved.

REASON: It is considered that the Plan sufficiently reflects the audit needs and interests of the Council and will help to ensure the effective deployment of scarce external audit resources to best effect.

7. THE ROLE AND FUNCTION OF THE INTERNAL AUDIT SERVICE - PRESENTATION

Members received a presentation by officers from the Internal Audit Service (IAS) on the role and function of the IAS.

The presentation focused on the key drivers for the existence of an internal audit service (legislation, best practice and the Council's own interests), the types of work undertaken by the service, its planning and performance

management arrangements and its key relationships. A summary of the role of the service, taken from the Financial Regulations, was circulated.

It was confirmed that the move towards reporting to Members was seen by the service as a positive step which enhanced, rather than altered, current reporting arrangements. In response to questions from Members, Officers outlined the relationship between Internal Audit and the courts and agreed to bring a report on privacy and confidentiality to a future meeting of the Committee.

RESOLVED: That officers be thanked for the presentation and that the information provided be noted.

8. ANNUAL REPORT OF THE CHIEF INTERNAL AUDITOR

Members considered a report which detailed the outcome of audit and fraud work undertaken in 2005/06 and provided an opinion on the overall adequacy and effectiveness of the Council's internal control arrangements.

The 2005/06 Audit and Fraud Plan had been agreed by the Executive Member for Resources and Advisory Panel (EMAP) on 21 March 2005. Internal Audit had successfully delivered 91.3% of the Plan, as compared with 90% the previous year. Details of the audits completed and the reports issued were set out in Annex 2 to the report. Details of the Audit Plan variations, agreed by the Section 151 Officer (Director of Resources) and recommendations made to address any control weaknesses reported to Resources EMAP on 20th February, were set out in Annex 3. Annex 4 provided a summary of audit findings for all investigations into suspected financial irregularities completed during the year, together with identified. Annexes 5 and 6 summarised counter fraud work completed in accordance with the Plan, and prosecutions and sanctions achieved during the year.

With regard to external assessment, the Audit Commission's annual review of the work of the audit and fraud teams had reported a significant improvement in the teams' contribution to the Council's system of internal financial control. The self assessment undertaken in 2005 under the revised CPA process introduced by the Benefit Fraud Inspectorate (BFI) had scored 'security' as a 4 (excellent), thus contributing to an improvement in the overall Benefits Service CPA score from 1 to 3.

The opinion of the Chief Internal Auditor, based upon the results of work completed during the year, was set out in Annex 1 to the report. This confirmed that the overall adequacy and effectiveness of the Council's control environment was acceptable but drew attention to significant control weaknesses considered relevant to the preparation of the 2005/06 Statement of Control. These related to:

- Observing EU procurement legislation and Financial Regulations across the Council when tendering for goods and services
- The Council's recruitment and selection policy
- Controls over cash handling in the cashiers section
- Risk management arrangements.

RESOLVED: (i) That the results of audit and fraud work undertaken in 2005/06 be noted.

(ii) That the opinion of the Chief Internal Auditor on the adequacy and effectiveness of the Council's internal control environment be accepted.

(iii) That the significant control weaknesses identified during the year and their inclusion in the 2005/06 Statement of Internal Control, to be reported to the Committee on 26 June along with the Annual Statement of Accounts, be noted.

REASONS: For information and monitoring purposes and to enable the Annual Statement of Internal Control to be prepared.

9. AUDIT AND FRAUD PLAN FOR 2006/07

Members considered a report which sought their approval for a planned programme of audit and fraud work to be undertaken during 2006/07, together with arrangements to report on the results of audit work.

Under the new Constitution, the Audit and Governance Committee had delegated authority to approve the annual Audit Plan. The draft Audit Plan for 2006/07, prepared in consultation with the Council's Chief Executive, Chief Finance Officers and Directors, was attached as Annex 1 to the report and the Strategic Audit Plan was attached as Annex 2. It was noted that current staffing levels did not allow all the auditable areas to be reviewed in accordance with the required frequency. Priority had therefore been given to 'high' and 'medium' risk areas. There was also a shortfall of 90 days between available resources and the total number of days included in the Audit Plan. It was proposed that this initially be accommodated by variations occurring during the year. Any variations to the Audit Plan, resulting from new or changed priorities and / or risks, would be reported to Members.

The 2006/07 Counter Fraud Activity Plan was attached as Annex 3. This was based upon the resources currently available to the Fraud team and included details of planned activities, proactive work and resource allocation. The team's current workload remained well above caseload levels recommended by the BFI. Efforts were ongoing to ensure that resources were concentrated on those cases where the evidence of fraud was strongest, which should allow more time to be spent undertaking planned preventative work. Details of work completed against the Plan, and significant issues identified, would be reported to Members via monitoring and out-turn reports.

RESOLVED: (i) That the 2006/07 Audit and Counter Fraud Activity Plans be approved.

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

(ii) That the proposed monitoring and reporting arrangements be noted and agreed.

REASON: To enable Members to monitor the work of the Audit and Fraud teams effectively.

10. THE ROLE AND FUNCTION OF THE OFFICER GOVERNANCE GROUP AT THE CITY OF YORK COUNCIL

Members considered a report which advised them of the role, function and forward plan programme of the Officer Governance Group (OGG) and asked them to endorse a proposal for the OGG to report progress against the work plan to the Committee on a bi-annual basis.

The establishment of an officer group to deal with corporate governance issues had been agreed at a meeting between the District Auditor and the Council's Chief Executive and Director of Resources. The OGG had been constituted as a sub-committee of the Corporate Management Team (CMT) and comprised a core membership of senior Officers, supported by a number of associate members. Their remit was to oversee the delivery of an integrated programme of work to support the development of robust corporate governance arrangements and to keep implementation under review.

The OGG's work programme, covering September 2005 to March 2007, was attached as Annex A to the report. It was intended to update and extend this programme as required and to report progress to Members on a bi-annual basis. Officers reported that the OGG would be discussing its forward agenda at a meeting on 8 June and copies of the agreed agenda would be circulated to Members.

RESOLVED: (i) That the content of the report, and the role and function of the Officer Governance Group, be noted.

(ii) That the work programme for the OGG, as set out in Annex A to the report, be noted.

(iii) That the proposal for the OGG to report progress against the work plan, on a bi-annual basis, to the Audit and Governance Committee be endorsed.

REASON: To ensure the effective management of Committee business and the working relationship with the OGG.

11. FORWARD AGENDA PROPOSALS

Members considered a report which set out proposals for the Audit and Governance Committee's forward agenda up to and including April 2008.

The Committee was scheduled to meet on a quarterly basis. However, due to the need to arrange the inaugural meeting in early June (Committee Members having been appointed at Annual Council on 25 May) and a special meeting in late June to take the Statement of Accounts, the timetable for the current year was slightly out of line with key items for approval. In order to achieve a better match in the next municipal year, it

was suggested that Members agree their forward meeting dates for 2007/08 at this, their inaugural meeting. Proposals as to those items which must, as a minimum, be considered at each meeting up to April 2008 were detailed in Annex A to the report.

Officers reported a number of amendments to Annex A, including:

- Revisions to the time periods covered by the cyclical mid point follow-up review reports scheduled between June 06 and April 08
- The potential deferral of the report on the Barbican scheduled for 26 June
- Additional reports to be scheduled for the meeting on 4 October, to also include Privacy/confidentiality Protocol, Audit Commission Mid-term Client Monitoring report, Audit Commission report to those charged with Governance

RESOLVED: (i) That the forward plan proposals set out in Annex A to the report, and the amendments reported by Officers at the meeting, be noted and a revised version of Annex A circulated to Members.

REASON: To ensure the effective management of Committee business.

(ii) That a report on privacy and confidentiality be prepared by Officers, in consultation with the Chair, for consideration as the first item on the agenda for the meeting on 4 October.

REASON: To enable this item to be considered prior to the item on Breaches and Waivers scheduled for the same meeting.

12. TIMES OF FUTURE MEETINGS

With the consent of the Chair, Members discussed the matter of the start time for future meetings of the Audit and Governance Committee.

RESOLVED: That meetings of this Committee begin in future at 5:30 pm, with the exception of the next meeting (26 June), which shall begin at 5:00 pm.

REASON: To ensure that all Members are able to attend at the start of the meetings.

PART B – MATTERS REFERRED TO COUNCIL

13. COMMITTEE ROLE, REMIT AND KEY RELATIONSHIPS

(See also under Part A Minutes)

Members considered a report which provided information on the role, remit and key relationships of the new Audit and Governance Committee.

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In response to Members' questions, Officers advised that it was their understanding that the Committee had authority to agree its own Statement of Purpose but may choose to refer this to Council for endorsement if desired. Audit committees must remain independent of the scrutiny process, but this did not mean that cross-membership with scrutiny was prohibited. With regard to training, it was noted that a Member training event on risk management had already been scheduled for 29 June.

RECOMMENDED: That Council endorse the following Statement of Purpose for adoption by the Audit and Governance Committee:

"The purpose of the Audit and Governance Committee is to act as the responsible body charged with governance at the Council. In doing so it will provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and will oversee the financial reporting process."

REASON: To ensure the effective management and operation of the Committee and promote understanding of its purpose and function at the Council.

[The meeting started at 5.00 pm and finished at 8.15 pm].