
MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	29 JUNE 2009
PRESENT	COUNCILLORS B WATSON (CHAIR), BROOKS (VICE-CHAIR), SCOTT, KIRK, R WATSON AND GUNNELL (SUBSTITUTE)
APOLOGIES	COUNCILLORS BOWGETT AND JAMIESON-BALL

1. DECLARATIONS OF INTEREST

Members were invited to declare at this point in the meeting any personal or prejudicial interests they might have in the business on the agenda. No interests were declared.

2. MINUTES

With reference to part b) of the resolution under Minute 41 (Audit and Governance Committee Forward Plan 2009), a briefing note was circulated to Members containing the information requested on the granting of Landlord's Consent in respect of planning applications on Council owned land. It was noted that this document would be published with the minutes of the current meeting.

RESOLVED: That the minutes of the Audit and Governance Committee meeting held on 31 March 2009 be approved and signed by the Chair as a correct record.

3. PUBLIC PARTICIPATION

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

4. AUDIT AND GOVERNANCE COMMITTEE FORWARD PLAN 2009

Members considered a report which presented a plan of items expected to be presented to the Committee during 2009/10, together with proposals to increase the number of meetings following a Members' self assessment session against CIPFA best practice guidance for Audit Committees.

A plan of items proposed for the next two scheduled meetings of the Committee, in September 2009 and January 2010, was attached at Annex 1. Members were invited to identify any further items they wished to add.

At the self-assessment session, concerns had been expressed about the frequency of meetings and the number of items on each agenda. It was

therefore proposed to increase the number of meetings to six per year, as follows:

- September 2009 – as scheduled
- Early December 2009 (extra meeting) - outcomes of the CAA
- February 2010 (instead of January 2010)
- April 2010 – early consideration of draft Annual Governance Statement
- June 2010 – Statement of Accounts and associated reports
- July 2010 – all other reports that would have gone to the June meeting

A more detailed work programme, detailing the items planned for the revised and additional meetings, would be brought to the Committee in September.

RESOLVED: (i) That the Committee's forward plan for the period to January 2010 be noted.

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

(ii) That approval be given to increase the number of Committee meetings to six per year, in line with the proposals at paragraph 4 of the report.¹

REASON: To ensure the Committee has time to give full and effective consideration to all reports and proposals put before them.

Action Required

1. Liaise with Democratic Services to schedule appropriate meeting dates in corporate diary SA

5. REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2008/09

Members considered a report which advised them of the process and outcomes of the 2008/09 review of the effectiveness of the Council's system of Internal Audit, as required by the Accounts and Audit Regulations 2003

Work undertaken as part of the review was outlined in paragraph 14 of the report. Progress against the four recommendations for improvement in the 2007 Audit Commission report was set out in paragraph 16. The Audit Commission had raised no matters of concern regarding Internal Audit in their reports published in 2008/09 and reported to the Committee at previous meetings. The Code of Practice self-assessment checklist had been updated for 2008/09. Areas for development to be built into this year's work plans included updating the Terms of Reference and the Constitution to reflect the transfer of the service to Veritau Ltd. and a full skills audit of all Veritau staff. Results of the customer satisfaction surveys,

as summarised in Annex B, indicated an overall weighted average score of 77.3%. Benchmarking results for 2008/09, as summarised in Annex C, showed that York's internal audit function remained cost effective compared with other unitary authorities.

Based on the results of this review, the Council's system of internal audit was considered to be operating in accordance with accepted best practice and remained effective.

Members expressed their congratulations on the results of the customer satisfaction surveys. Queries were raised regarding the basis of the benchmarking results on cost effectiveness. Officers indicated that they could provide additional information about this if required.

RESOLVED: That the results of the review of the effectiveness of the Council's system of internal audit be noted.

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

6. ANNUAL REPORT OF THE CHIEF INTERNAL AUDITOR

Members considered a report which summarised the outcome of audit and fraud work undertaken during 2008/09 and provided an opinion on the overall adequacy and effectiveness of the Council's internal control arrangements.

The service had delivered 94.2% of the 2008/09 internal audit plan by 30 April 2009. Details were provided in Annex 2 to the report. A summary of the counter fraud work undertaken in accordance with the plan was provided in Annex 3. The opinion of the Chief Internal Auditor, as set out in Annex 1, was that the Council could continue to place reliance on the adequacy and effectiveness of its systems of internal control and the control environment.

It was noted that the implementation of internal audit recommendations could not eliminate risk and Members' attention was drawn to the following significant control weaknesses considered relevant to the preparation of the 2008/09 Annual Governance Statement:

- Inconsistencies in the application of policies relating to the declaration of employees' interests and acceptance of gifts and hospitality
- Weaknesses in the Council's financial accounting arrangements, including the systems for accounting for fixed assets
- Weaknesses in financial and monitoring arrangements during 2008/09.

Management had already identified actions to address these issues, some of which had been reported to the Committee in March.

RESOLVED: (i) That the results of the audit and fraud work undertaken in 2008/09 be noted.

REASON: So that Members are aware of the implications of audit and counter fraud findings.

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

REASON: In accordance with the information provided in the report and the answers provided to Members' questions at the meeting.

(iii) That the significant control weaknesses identified during the year which are relevant to the preparation of the Annual Governance Statement (AGS) be noted.

REASON: To enable the AGS to be prepared.

(iv) That, in future annual reports, information be provided on the numbers of Housing and Council Tax Benefit fraud investigation cases opened and closed during the year.¹

REASON: To give a clearer picture of the work actually undertaken during previous year.

Action Required

1. Make arrangements to ensure this information is included SA
in future

**7. RISK MONITOR QUARTER ONE 2009/10 AND RISK MANAGEMENT
OUTTURN REPORT 2008/09**

Members considered a report which presented the quarter one risk monitor for 2009/10 and informed them of progress made during 2008/09 in embedding corporate risk management across the organisation.

The risk monitor, showing the position of the Key Corporate Risks (KCRs) at the end of the first quarter, was attached as Annex A to the report. Attention was drawn in particular to those identified as critical (red) risks, namely:

- KCR 0001 – Implementation of the new pay & grading structure
- KCR 0002 – Accommodation Review Project
- KCR 0003 – Waste Management Strategy Partnership

With reference to the further information requested by Members at the last meeting, details of the key risks and issues facing the Accommodation Review Project, as provided by the Director of City Strategy, were attached as Annex B and Officers from City Strategy were in attendance to present the information and answer Members' questions. Due to the complexity of the security and insurance concerns relating to the Mansion House and Civic Regalia, it was recommended that a separate report on these issues be brought to the Committee in September.

Overall, there was evidence that the organisation was considering risk in a much more positive way. Risk was now owned, managed and delivered as

part of good business practice by officers across departments and was no longer viewed as a separate bureaucratic process. A summary of changes in the KCR profile indicated that in most cases the number of risks had reduced over the course of the year. Work had been undertaken during 2008/09 to ensure that risk management would score at least a level 3 (Good) in the 2009 Use of Resources (CAA) assessment, having consistently scored level 2 (Fair) under the CPA inspection process. The 2009/10 work plan reflected a continued need to embed risk management into all Council processes, raise awareness through further training and align the risk register to the refreshed Corporate Strategy.

RESOLVED: (i) That the contents of the report, and progress made to date, be noted.

REASON: So that Members are aware of progress on risk management arrangements in the Council.

(ii) That the risks set out in paragraph 7 and Annex A to the report be noted.

REASON: So that Members are aware of progress made to date in developing the corporate monitoring and reporting arrangements for the Council's KCRs.

(iii) That an update on the financial risks of the Accommodation Review Project (including those identified as 'green' or low risk) be included in the report to the next meeting in September. ¹

REASON: To provide assurance that these risks are being appropriately managed by the organisation.

(iv) That a formal report on securing issues at the Mansion House be presented to the meeting in September. ²

REASON: To provide assurance that key risks associated with the Mansion House and Civic Regalia are being properly managed by the organisation.

Action Required

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| 1. Ensure this information is included in the report to Committee in September | SA |
| 2. Liaise with appropriate Officers to ensure this report is produced for the September meeting | SA |

8. 2008/09 ANNUAL GOVERNANCE STATEMENT

Members considered a report which invited them to approve the draft Annual Governance Statement (AGS) to be published as part of the Statement of Accounts for 2008/09.

Details of the processes followed by the Officer Governance Group (OGG) in compiling the draft AGS and evaluating control issues were set out in paragraphs 5 and 6 of the report. The draft itself was attached as Annex 1 to the report. It included three new significant control issues and five areas of ongoing work from the 2007/08 AGS. Since many of the areas highlighted in the AGS were already included in the refreshed Improvement Plan (IP) and the Resources Directorate Plan (RDP), it was not intended to produce a separate improvement plan for the AGS. The implementation of IP actions would be monitored by the Executive on a quarterly basis as a minimum, while the RDP was monitored monthly by the Director of Resources.

Officers highlighted a correction to paragraph 2.1.4 of the draft AGS, which should read as follows:

“Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.”

RESOLVED: (i) That the content of the 2008/09 Annual Governance Statement, including the significant control issues identified, be approved.

REASON: To confirm that Members are satisfied with the effectiveness of the Council’s governance framework.

(ii) That the monitoring arrangements for the overall AGS action plan be noted.

REASON: So that Members are aware of the proposed monitoring arrangements.

(iii) That the Committee receive regular reports on governance issues in the future.¹

REASON: To ensure that these matters continue to be properly monitored.

Action Required

1. Schedule report on Committee's forward plan

SA

9. STATEMENT OF ACCOUNTS 2008/09

Members considered a report which asked them to examine and approve the Council’s pre-audit Statement of Accounts for 2008/09.

It was a statutory requirement for the Council to approve the Statement of Accounts by 30 June 2009. This function had been delegated to the Audit and Governance Committee by Full Council in January 2009. Printed copies of the draft pre-audit Statement of Accounts had been circulated to Members and made available to view on the Council’s website as Annex B to the report. A brief explanation and information on its constituent parts was provided at Annex A. Members had also received a presentation, on 22 June 2009, to enhance their understanding of the document. Once

approved, the accounts would be made available for public inspection on 13 July 2009. The audit would begin on 10 August and the Audit Commission expected to issue a report and opinion by the end of September.

A schedule of changes identified through the quality review after publication of the agenda was circulated at the meeting. These had now been included in the draft Statement as published on the Council's website.

Having questioned Officers on a number of points of detail in the draft Statement, it was

RESOLVED: That the pre-audit Statement of Accounts for the financial year ended 31 March 2009 be approved.

REASON: In accordance with statutory requirements and the authority delegated to the Audit & Governance Committee by Full Council to approve the Statement of Accounts.

10. DRAFT REVISED FINANCIAL REGULATIONS

Members considered a report which invited them to comment on the content and format of the draft revised Financial Regulations and to recommend the Regulations to the Executive for approval.

The draft Regulations, attached as Annex A to the report, were intended to be more flexible and concise, maintaining the key principles of the current regulations, whilst reflecting the more devolved decision making system adopted by the Council. The current Procurement Regulations had been separated into a devolved set of regulations and re-named the Contract Procedure Rules (CPRs). The Financial Regulations and CPRs were underpinned by a set of supplementary guidance documents to form a comprehensive set of financial procedures, as shown in paragraph 5 of the report. Key changes made to the Regulations were listed in paragraph 6.

It was noted that the revised CPRs were still at an early draft stage and would be brought to the Committee in September for consultation, together with the External Funding / Grant Guidance Manual.

Officers reported at the meeting the following amendments made to the draft Regulations since publication of the agenda, both relating to the budget monitoring procedures:

- Provision for overspends in departments be paid back within three years, subject to approval by the Chief Financial Officer (CFO)
- Provision for Directors to transfer 25% of their underspends into the service reserve, subject to approval by the CFO.

RESOLVED: (i) That Officers be requested to make the following amendments to the draft Regulations at Annex A:

- a) In paragraph 6d) of Part B, delete '*discretion*' and substitute '*a statutory duty*'.

b) In paragraph 11 of Part C, delete '*has the right to*' and substitute '*should*'.

c) In paragraph 9 of Part E, add a further sub paragraph:
'(i) *ensuring there is no conflict of interest with third parties.*'

(ii) That, subject to these amendments and the changes reported by Officers at the meeting, the draft Financial Regulations be recommended to the Executive for approval.

REASON: To ensure that the revised Financial Regulations are appropriate in maintaining the integrity of the Council's financial arrangements.

11. AUDIT COMMISSION DATA QUALITY REPORT 2008

Members considered a report which presented the results of the Audit Commission's 2008 review of the Council's Data Quality arrangements, together with details of action taken and planned to address these findings.

The Audit Commission's report was attached as Annex 1. Overall, the Council's corporate arrangements for ensuring data quality had been judged as 'adequate', equating to a CPA score of 2 out of 4. This was score common to most councils, in view of the time needed to implement the revised approach introduced in 2006. The report acknowledged that the Council had made significant progress in improving its data quality arrangements and taking action to address key challenges identified in previous audits. However some indicators required further work and one (BV215B) had been reserved. Action had since been taken to address the problems with this indicator.

Progress on addressing the findings of the Audit Commission's 2007/08 BVPI inspection was detailed in Annex 2. Areas for improvement that were being addressed as a matter of priority were listed in paragraph 11 of the report. A revised data quality action plan, updated to take account of these priority areas and the Audit Commission's latest recommendations was attached at Annex 3 for Members' approval. Progress on the improvements set out in the plan would be reported to the Committee every six months, as previously agreed.

Members requested further information on the current status of the reserved indicator BV215B, relating to repairs carried out on network operator controlled street lighting. Officers agreed to circulate this by e-mail.¹

RESOLVED: That the revised data quality action plan at Annex 3 to the report be approved.

REASON: To ensure that continual improvement is made to the Council's data quality arrangements, which will also help to support the CAA.

Action Required

1. Circulate this information as requested

SA

12. AUDIT COMMISSION 2008/09 REVISED PLAN AND 2009/10 PLANS

Members considered a report which presented the following plans and associated fee structures received from the Audit Commission:

- Supplementary Opinion Audit Plan 2008/09 (Annex 1)
- Annual Audit Plan 2009/10 (Annex 2)
- Annual Inspection Plan 2009/10 (Annex 3).

The District Auditor (DA) was in attendance to explain the plans and respond to any questions from Members. In response to queries about the fees, the DA confirmed that these were related to the amount of work done. Effective use of the web portal for the Statement of Accounts working papers could help reduce the time spent on audit work and, consequently, the fees.

RESOLVED: (i) That the matters set out in the Audit Plans presented by the District Auditor and the CAA Lead Inspector be noted.

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

(ii) That the Plans be agreed.

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

13. SUMMARY OF AUDIT COMMISSION NATIONAL REPORTS

Members considered a report which provided an overview of national reports produced by the Audit Commission during 2009 and invited them to comment on any areas for further consideration by the Committee or by Officers.

Summaries were provided of the following reports:

- Tired of hanging around: using sport and leisure activities to prevent anti-social behaviour by young people (published 28 January 2009)
- CAA framework and guidance (published 25 February 2009)
- Final Score: the impact of the Comprehensive Performance Assessment of local government 2002-08 (published 5 March 2009)
- Risk and return: English local authorities and the Icelandic banks (Published 26 March 2009)
- Working better together? Managing local strategic partnerships, (Published 21 April 2009)
- Summing up: A review of financial management in local government 2005-2008. (Published 23 April 2009)
- Managing the transition to IFRS. (Published 4 May 2009)

- Room for Improvement: A review of strategic asset management in local government (Published 17 June 2009)

Officers suggested that, where the reports did not impact directly on governance or internal control arrangements, the appropriate method for further consideration might be via the Council's Scrutiny process.

RESOLVED: (i) That the overview be noted and that the following report of the Audit Commission be referred to the Council's Scrutiny section for further consideration:¹

"Tired of hanging around: using sport and leisure activities to prevent anti-social behaviour by young people" (published 28 January 2009)

(ii) That information on the following report be brought to the next meeting of the Committee, in September:²

"Room for Improvement: A review of strategic asset management in local government" (Published 17 June 2009)

REASON: To ensure that the Council can benchmark, learn from and meet best practice requirements derived from external audit national activity and enhance its governance frameworks as a result.

Action Required

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| 1. Liaise with the Scrutiny section re how this referral can be dealt with | SA |
| 2. Bring report to next meeting | SA |

14. ANNUAL INTERNAL AUDIT AND FRAUD PLAN FOR 2009/10

Members considered a report which sought approval for a planned programme of internal audit and fraud work to be undertaken during 2009/10.

The draft 2009/10 Internal Audit Plan was attached as Annex 1 to the report. As in previous years, priority had been given to 'high' and 'medium' risk areas because current resources did not allow all areas to be reviewed in accordance with the required frequency. Account had also been taken of the results of consultation with senior officers and the views of the Audit & Governance Committee, following the consultation report to the Committee in March. The draft 2008/09 Counter Fraud Activity Plan was attached at Annex 2. This was based upon current resources and included details of activity in relation to fraud awareness, detection and investigation, and proactive work.

In response to questions from Members, Officers confirmed that there would be no penalty imposed on the new shared service, Veritau Ltd., for failing to meet targets as this would simply fall upon the participating councils. However, Director and Member representation on the Board,

together with monitoring arrangements, would ensure the effectiveness of the service.

RESOLVED: (i) That the 2009/10 internal audit and counter fraud activity plans be approved.

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

(ii) That an update report on the progress of the service towards meeting its performance targets be scheduled on the Committee's Forward Plan. ¹

REASON: To ensure that the new shared service is performing effectively.

Action Required

1. Schedule update report on forward plan

SA

B Watson, Chair

[The meeting started at 5.30 pm and finished at 8.50 pm].