

Annual Audit and Inspection Letter

January 2006



# **Annual Audit and Inspection Letter**

**City of York Council**

**Audit 2004-2005**

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- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
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# Contents

<b>Key messages</b>	<b>5</b>
Context	5
Council performance	5
Financial position	6
Other accounts and governance issues	6
Action needed by the Council	7
<b>Background</b>	<b>8</b>
The purpose of this letter	8
Audit objectives	8
<b>Performance</b>	<b>10</b>
CPA scorecard	10
Direction of Travel report	11
Other performance work	13
Performance information	16
Working with other inspectorates and regulators	17
<b>Accounts and governance</b>	<b>18</b>
Audit of 2004/05 accounts	18
Report to those with responsibility for governance in the Council	18
Matters arising from the audit of the accounts	18
Overall governance framework	18
Financial standing	19
Systems of internal financial control	22
Standards of financial conduct and the prevention and detection of fraud and corruption	25
Legality of transactions	25
Osbalwick	25
<b>Use of resources judgements</b>	<b>27</b>
<b>Looking forwards</b>	<b>28</b>
Future audit and inspection work	28
Revision to the Code of Audit Practice	28

## 4 Annual Audit and Inspection Letter | Contents

<b>Closing remarks</b>	<b>29</b>
Availability of this letter	29
<b>Appendix 1 – Audit reports issued</b>	<b>30</b>
<b>Appendix 2 – Fees</b>	<b>31</b>
Inspection fee update	31

## Key messages

### Context

- 1 This has been an exciting year, with the introduction of the City of Festivals and the hosting of Royal Ascot. You have continued to develop York Pride and have also delivered your biggest ever capital programme, including the new Park and Ride at Monk's Cross. Your good financial performance has been maintained, and you have introduced a number of new corporate arrangements, including:
  - a new corporate service planning and performance system, including integrated financial and performance planning and monitoring;
  - investment in programme and project management skills, most evident in the management of the Easy@York programme;
  - the approval of an embryonic medium term financial strategy; and
  - investment in the management capacity, including the development of the Corporate Leadership Group and the Corporate Operations Group.

### Council performance

- 2 Our 2004 Annual Letter reported a mixed performance, and concluded that consistent corporate arrangements were needed to enable you to demonstrate value. These messages were reinforced by the peer review you commissioned this year, particularly the need to improve your approach to prioritisation, performance management and project management.
- 3 This year your overall trend is one of improvement:
  - 58 per cent of BVPIs have improved since 2002/03;
  - good performance in key services such as education and social services has been sustained; and
  - your service improvement programme has delivered improvements in performance in benefits, adult social care and planning.
- 4 We note, however, there has been little improvement in key areas such as waste minimisation and you remain a planning standards authority.
- 5 Your new council plan identifies key deliverables which link to your new service and performance planning and management arrangements and a three-year financial strategy has been adopted. Although these aspects improve arrangements you still have some weak service plans. To demonstrate your contribution to wider community outcomes you recognise the need to develop better performance management and outcome measures.

- 6 You are now making progress to address weaknesses identified in your Corporate Assessment through a management restructure and you are reviewing the role of Transforming York as a change programme.
- 7 As a low cost council, you have a good track record of achieving value for money through effective budgeting and cost management. You have achieved your early efficiency targets and introduced initiatives to sustain and improve value for money. These initiatives are not yet fully effective and they need to be supported by the introduction of an effective procurement policy and competition strategy.

## Financial position

- 8 Your financial management arrangements continue to perform well. After taking account of carry-forwards you reported an underspend of £706,000, 0.4 per cent of the £160 million net revenue budget. Your medium-term financial monitoring process shows that you currently face a £28 million budget gap over the next three years.
- 9 You need to make further improvements to the collection of arrears for both council tax and NNDR.

## Other accounts and governance issues

- 10 Last year, we highlighted our concerns about two key weaknesses:
  - the lack of clarity in how Members gain assurance about the adequacy and operation of the governance framework as a whole; and
  - procurement arrangements had not led to adequate levels of competition.
- 11 Despite some improvements in the governance framework, particularly risk management, internal audit and the governance of partnership arrangements, there has been a lack of progress on these key issues. Continued delays in agreeing and implementing a new constitution are impeding the roll-out of proposed improved arrangements.
- 12 We issued an unqualified opinion on your 2004/05 accounts on 27 October.

## Action needed by the Council

- 13 We expect you to form your own action plan in response to this letter. Key over-arching actions are:
- improve performance management of community objectives;
  - review the Transforming York programme, and its progress in driving corporate change;
  - implement a procurement strategy and competition strategy;
  - improve your collection of both council tax and NNDR; and
  - improve the role of members in the governance framework.

## Background

### The purpose of this letter

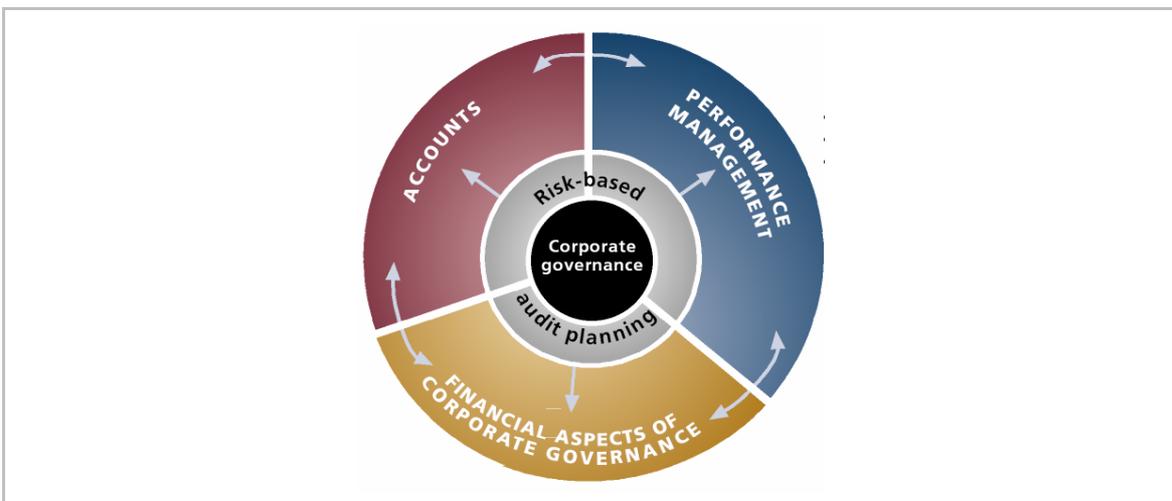
- 14 This is our Audit and Inspection 'Annual Letter' for members letter summarises the conclusions and significant issues arising from our recent audit and inspections work. We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 1 for information.
- 15 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 16 Appendix 2 provides information about our fee.

### Audit objectives

- 17 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 18 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

**Figure 1 Code of Audit Practice**

Code of practice responsibilities



## **Accounts**

- Opinion.

## **Financial aspects of corporate governance**

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

## **Performance management**

- Use of resources.
- Performance information.
- Best value performance plan.

## Performance

York continues to perform well.

### CPA scorecard

- 19 York is a council that is improving adequately and demonstrating a three-star overall performance.

**Table 1 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Overall, the Council is improving adequately.
Current performance	4
Children and young people	3
Social care (adults)	3
Use of resources	3
Housing	2
Environment	2
Culture	3
Benefits	
Corporate assessment/capacity to improve, not reassessed in 2005	Good

*(Note: 1=lowest, 4=highest)*

- 20 The CPA judgements have applied the revised methodology: CPA - the harder test. As the title implies, CPA is now more stringent and emphasises outcomes for local people and value for money. Our Direction of Travel judgement confirms that under the new framework the Council is improving adequately.

## Direction of Travel report

- 21** You have a track record of delivering service improvement. This year you have sustained a high level of performance in key services such as education whilst achieving significant improvement in adult social care. There have also been targeted improvements in weaker performing services such as benefits and development control. Most key deliverables identified through the service planning process have been achieved. However, there have been some notable exceptions such as a failure to achieve your targeted reductions in waste to landfill and despite reporting better performance in your planning performance indicators (PIs) you remain a planning standards authority.
- 22** You have made improvements in line with community priorities, particularly in respect of street cleanliness and the built environment, through the York Pride initiative. You can demonstrate a contribution to wider community outcomes, for example, the City of Festivals programme has successfully promoted cultural activities and the council has contributed to the health agenda through promotion of the healthy schools standard. However, more appropriate performance management for the local strategic partnership is required before impact against community objectives can be measured and the achievement of objectives which cut across service plans can be demonstrated.
- 23** You are delivering planned improvements in a number of outward-facing areas, but have been slower to address weaknesses in corporate capacity. This year, progress has been made through the introduction of the corporate leadership group, the corporate operations group and the leadership development programme. A management restructure is in progress to strengthen corporate capacity and user focus. To ensure that the objectives of the restructure are achieved this will need to be supported by cultural change.
- 24** You are still developing an approach to ensure the needs of all sectors of the community are understood and addressed. Improving access to services is an established priority, delivered primarily through the Easy@York project. Early successes have included significant increases in electronic access to services. Improvements to the website include access to GoDisabled which provides information on disabled access to public and private sector facilities, and you have also been successful in increasing the take-up of benefits.
- 25** You recently adopted an improved equalities strategy, which you have assessed as being adequate to satisfy Level 2 of the equalities standard for local government. However, to successfully deliver the strategy you need to identify clearly areas of deprivation and exclusion before appropriate actions can be agreed and embedded in service planning and delivery.

- 26 You have a good track record in achieving value for money; council tax levels and spend per head of population are amongst the lowest in the country. A transparent budget-setting process supported by a programme of service reviews has enabled you to meet early national efficiency targets. You are taking steps to ensure that value for money continues to improve, including more integrated management of service and financial performance. Your existing framework needs to be developed to bring it up-to-date and to include a competition strategy and a corporate approach to procurement.
- 27 You have some robust plans for improving elements of corporate and service performance, although others, such as Transforming York, lack clarity. As the key driver of organisational development, clarity about this programme is needed if you are to respond effectively to the changing local government agenda.
- 28 Action has already been taken to improve corporate planning and performance management processes to ensure alignment between the council plan and community priorities and a more integrated approach to service and financial management. A three-year financial strategy has been developed, although the links to your strategies for human resources or IT could be improved so that savings identified can be reflected in your financial plans. While a detailed plan exists for Easy@York, there is less clarity about detailed actions in relation to other community priorities such as Safer City.
- 29 You have a number of plans to improve services in response to inspections and national government requirements. You have clear improvement plans for education, transport and benefits. There are, however, opportunities to develop the improvement plan for waste management. The achievement of your long-term ambitions for waste management are dependent on the development of a county-wide waste management strategy.
- 30 Although you continue to manage your finances within tight constraints funding issues relating to some key projects remain unresolved. There are examples of effective operational partnerships and good use of procurement to deliver financial savings on the provision of supplies and services. You need to establish a strategic procurement policy to ensure that procurement is consistently used in a strategic way to drive improvement across all services.

## Other performance work

- 31 In addition to our CPA work, we have reviewed some specific aspects of your performance arrangements. The key messages are summarised below.

### Service and financial planning

- 32 In 2004/05, you successfully introduced an integrated service and financial planning and reporting system. The new corporate approach, developed by the Transforming York Service Planning and Performance project, is making a positive impact. Service managers applied the standard planning methodology and as a result reported improvement in:
- the role of service plans in driving improvement;
  - the integration of risk management into service planning and, therefore, the achievability of performance objectives; and
  - the clarity of the links between service performance and financial resources.
- 33 A new system of reporting operational and financial performance to members in a single, integrated report is now in place to allow a fuller understanding of how services are performing, both financially and in delivering key outcomes.
- 34 The service planning process is relatively new, and there are areas where arrangements need to be developed. These areas include the need to:
- evaluate the benefits of a corporate approach assess whether all directorates should follow the standard process;
  - ensure a consistent approach to involving users on cross-service issues; and
  - consider workforce planning issues within the service plan framework.
- 35 There are currently 50 service plans which clearly link to the Council's 69 objectives, however there is no explicit linkage to the priorities of the Council. Without this link, it is difficult for officers and members to assess how the individual service contributes to the achievement of the Council priorities.
- 36 The service planning process has identified those activities which are critical success factors within each service plan. These were then developed and prioritised into the 'key deliverables' for each service, by the Corporate Leadership Group. However, as a key theme for effective integration of service and financial planning is the support and engagement of members, there is scope to improve the involvement of members in this prioritisation process.
- 37 You have produced a three-year medium-term financial strategy. This identifies your key budgetary challenges and plans how you intend to manage the funding gap. The linkages from this strategy to your strategies for human resources or IT could be improved. Without these links there is a risk that your key plans are not consistent with each other, and are therefore unachievable.

- 38 The financial strategy outlines the concept of benchmarking which will be a significant step forward in demonstrating that budgets are linked to priorities. Benchmarking will identify services which are high-cost in comparison to other councils. Also assessed will be the performance of the service and the importance of the service in respect of its links with the achievement of local priorities and statutory functions. This will allow you to make informed decisions on whether a service requires more resource or possible disinvestment based on performance and importance. The benchmarking reviews are at an early stage, and as such we have not been able to measure their impact.
- 39 You apply a transparent system to demonstrate budgetary growth and savings are linked to your priorities. You do not, however, currently demonstrate that resource shift occurs in the base budgets to reflect the importance of a service in the achievement of priorities and objectives. You plan to use the benchmarking information to assess the adequacy of the budget for key services.

### **Easy@York**

- 40 In last year's letter, we noted your withdrawal from the North Yorkshire ICT partnership and the need to develop an alternative approach to deliver both national e-government requirements and your priority of improving access to services. You have now established the Easy@York project.
- 41 The programme is set to cost the Council £18 million over the next eight years, and aims to deliver fundamental change to the way in which services are delivered. Early successes have included significant increases in electronic access to services. You reported the achievement of your e-government target for 31 December 2005 with all relevant transactions being e-enabled.
- 42 It is important that the objectives, and expected benefits, for the programme are clearly measurable. In the first version of the programme initiation document outputs are not specified, and the level of improvement is not detailed. You intend to identify and levels of improvement as part of the ongoing service improvement stream. This is essential as without these it will not be possible to assess the success of the project and whether value for money has been achieved from the investment.
- 43 The project involves the management and co-ordination of six streams. You have adopted a robust project management methodology, PRINCE. We raised some issues around management at programme rather than project level. These have been reviewed and the revised arrangements look more workable.
- 44 Our initial concerns about change management and championing for the programme have now been resolved.
- 45 In order to ensure that our work is timely and relevant, we expect to maintain regular contact with the programme management team and consider the individual components of the programme as they develop.

## Local public service agreement (LPSA)

- 46 In last year's letter we noted that you were working with the ODPM to develop a second local public service agreements (LPSA) by December 2005. You are currently awaiting confirmation from Government Office finalising the agreement. You are currently agreeing:
- the final measures, ensuring that they are linked to corporate priorities; and
  - the required improvements to performance for individual targets balancing the need to challenge key services against achievability.
- 47 You have agreed an improved framework for managing delivery that includes:
- the allocation of pump priming grant to services being linked to the receipt of target holder action plans which achieve an agreed corporate standard;
  - an early challenge built into the LPSA2 process to ensure that performance being monitored is in accordance with agreed definitions; and
  - a monitoring profile for each target based on milestones and performance.

## Value for money (VFM) follow-up

### Protecting cultural property

- 48 In 2001/02, we reviewed your arrangements to protect your collections of cultural property. We agreed an action plan, focused on three areas, museums, archives and the Mansion House. Following a lack of progress in dealing with the agreed recommendations in 2003, we have undertaken further follow-up work this year. We are pleased to note that the majority of recommendations in respect of the Museums and the Mansion House have either been implemented or form part of the service plan actions. However, there is still a need to set clear timescales for the cataloguing of all artefacts and to monitor progress against these targets.
- 49 Little progress has been made regarding the agreed action plan for the archives. In our 2002 report, you were about to decide the future location of the archives. No decision has been made. You need to address this issue if envisaged improvements to the service are to be delivered and compliance with both your access to services agenda and the Disability Discrimination Act is to be achieved.

### Follow-up - homelessness

- 50 We are pleased to report that you have implemented the majority of recommendations from the agreed action plan in our 2003 homelessness report. This has led to improved service procedures which should facilitate improvements in performance.
- 51 However, the monitoring of the ethnicity of applicants and the respective outcome of their application remains weak. Without effective monitoring it is difficult to demonstrate fair and equitable treatment of all homelessness applications.

## Performance information

### National PIs

- 52 The success of the new performance reporting and management arrangements in delivering improved service performance is underpinned by the quality of the performance information. Table 2 shows that for the second consecutive year we have reported an improvement in the accuracy of your national indicators, BVPIs.

**Table 2 Quality of performance information**

Issue	2003/04	2004/05
Qualification	4	3
Not qualified because external agencies	1	1
Recalculations	16	8
Total number of incorrect PIs	21	12
Total number of PIs	162	144
Percentage of incorrect PIs	13%	8%

- 53 The increasing reliability of performance information has been achieved through further improvements to your central quality assurance arrangements. These arrangements aim to verify the accuracy of the information you report. There are, however, opportunities to improve your arrangements further and make them more timely to support the improvements in your performance management system by enhancing the culture of ownership of both interim and year-end performance information within directorates.

### Local PIs

- 54 To help measure the achievement of your objectives you use local indicators. We have raised concerns about the accuracy of these PIs. Our assessment of a small sample identified a 40 per cent error rate (20 per cent last year). You need to improve quality assurance arrangements for local indicators.

### Statutory best value responsibilities

- 55 We have issued an unqualified opinion in our statutory report. We have reported elsewhere in this letter that you do not yet have a corporate approach to competition. Without such a framework it is unclear how competition will be stimulated within individual services and how you fulfil your statutory duty.

## Working with other inspectorates and regulators

- 56** An important aspect of the role of the relationship manager is to work with other inspectorates and regulators who also review and report on your performance. These include:
- Ofsted;
  - Commission for Social Care Inspection (CSCI);
  - Benefits Fraud Inspectorate (BFI);
  - DfES; and
  - Local Government Office contact.
- 57** We share information and seek to provide 'joined up' regulation. During the last year, you have received annual performance assessments (APA) from other inspectorates.
- 58** The Benefits Fraud Inspectorate judged that the overall performance of your benefits service is good, reflecting mixed performance across the four performance standard themes. This is a significant improvement from the overall score of one last year. Your arrangements to support security and resource management were assessed as excellent, complemented by fair arrangements for claims administration and poor user focus - reinforcing comments elsewhere in this letter.
- 59** You have improved most aspects of adult social services identified for attention in last year's APA, and continue to consolidate your working partnerships with other agencies to develop and implement strategies, which will deliver national priorities and objectives. Overall, you are judged as consistently delivering above the minimum requirements for users.
- 60** Your APA for education and children's social care services judged your performance as well above the minimum requirements for users, with excellent capacity to improve further.

## Accounts and governance

We have given your accounts an unqualified audit opinion.

We have made some recommendations to improve the arrangements for members to fulfil their responsibilities.

### Audit of 2004/05 accounts

- 61 We gave an unqualified opinion on your accounts on 27 October 2005.

### Report to those with responsibility for governance in the Council

- 62 We are required by professional standards to report to those charged with governance any changes to the accounts which would have a material impact on the readers understanding, or any issues raised by the audit with which the Council disagree. For the second consecutive year, we have not needed to prepare a report to those charged with governance

### Matters arising from the audit of the accounts

- 63 The published accounts are an essential means by which you report your stewardship of public funds and its financial performance in the use of those resources. Your statement of accounts, including the statement of internal control, were reviewed by the Resources Scrutiny Committee on 18 July 2005 and approved by full council on 27 July 2005.
- 64 In last year's letter, we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline is brought forward in line with the Government's requirement. Despite this earlier date for approval, you maintained the quality of the accounts. You are already planning how to meet the increasingly difficult deadlines for future years.
- 65 The supporting working papers were better but there is, scope to develop these further, particularly for both creditor and debtor balances. We are working with you to develop an understanding of exemplary working papers.

### Overall governance framework

- 66 Your governance framework is the series of policies and internal controls which operate to ensure that your decisions and transactions are conducted within the law, with probity and to achieve your objectives. It is from the successful operation of this framework that members are able to gain the assurance required to discharge their responsibility.

- 67 In the 2003/04 Annual Letter, we reported that although there are some reporting arrangements in place, it was not clear to us how members gained assurance about the adequacy and operation of the framework. Although improvement to your reporting arrangements is planned as part of the constitutional review there has been no change during 2004/05.
- 68 There has been improvement in the following specific areas:
- the contribution of Internal Audit to the system of internal financial control;
  - the governance and performance management framework for partnership working; and
  - the integration of risk management into decision-making.
- 69 We still have significant concerns in the following areas:
- as reported last year, there are no transparent arrangements in place to monitor the overall operation of the governance framework, including the role of members and the information received by the section 151 officer;
  - the delay in delivery of the constitutional review and realising the proposed improvements to governance that will derive from it; and
  - the arrangements to deliver competition.
- 70 We issued our draft report in July and discussed it with officers but we have not yet received detailed comments or an action plan.

## Financial standing

- 71 Your financial management arrangements continue to perform well. You have managed your net expenditure in line with your agreed budget. Table 3 shows that after carry forwards you have an underspend of £706,000.

**Table 3 Comparison of outturn against budget with last year**

	<b>2003/04 £000</b>	<b>2004/05 £000</b>
Net revenue budget	157,602	160,472
Outturn - underspend	3,024	2,633
Carry forward	759	1,927
Revised outturn	(2,265)	(706)
Carry forward as percentage budget	1.44%	0.44%

- 72 Each year you carry-forward the budget on specific projects which have not been completed within the year, but are still necessary to support the achievement of your service objectives. The level of carry forward has increased by £1.2 million this year to 1.2 per cent of the net revenue budget. You have a process to assess the need to carry forward budget. However, as resources become tighter it is important to test this against current budget requirements, and review the impact of project management arrangements on the timeliness of delivery.
- 73 In last year's Annual Letter, we reported that you were predicting a gross budget gap of £17 million, net £10 million, for 2005/06, and that you didn't have a medium-term financial strategy on how to address this. We also raised concerns about the use of one-off funding to support the 2004/05 budget.
- 74 You achieved a balanced budget for 2005/06. This was achieved through a combination of:
- savings, £6.1 million;
  - approved use of general fund reserves £0.9 million;
  - use of ear-marked reserves £0.433 million; and
  - one-off funding and income £1.6 million.
- 75 You have developed a medium-term financial strategy for the three years 2006/07 to 2008/09. You are currently predicting a budget gap of £9.8 million in 2006/07 and a total budget gap of almost £25 million over the next three years. For 2006/07 this budget gap includes discretionary pressures of £5.7 million.
- 76 After planned annual 5 per cent efficiency savings, and individual project savings the medium-term budget gap is £5.5 million. The Director of Resources is working with other directors, service managers and members to develop plans to address both the short-term and medium budget gaps.

### **Income collection and arrears**

- 77 You need to improve your arrangements for collecting council tax, otherwise you could jeopardise your financial position. Last year, problems with the arrears collection system meant that you collected £2.4 million less than targeted and £420,000 less rents. Although collection rates have improved in 2004/05, Table 4 shows that they are still relatively low for both council tax and NNDR, both are lowest quartile performance.

**Table 4 Comparison of collection rates**

	2002/03	2003/04	2004/05
Percentage of council tax collected	97.4	93.5	95.1
Percentage of NDR	97.9	95.7	96.7
Percentage rent collected	95.7	93.7	95.8

- 78** These figures show the in-year collection rates. They do not show whether you have been successful at collecting the increased arrears from 2003/04. During the year, you have improved your information and you are able to identify who owes what debt. You have also improved your monitoring arrangements with monthly monitoring of performance to the Director of Resources.
- 79** You have increased your bad debt provision for council tax by £720,000, to £2.8 million, in 2004/05. This is money that cannot be spent on services. At the year end you have almost £7 million of council tax income outstanding:
- £3.8 million from previous financial years and has been summonsed; and
  - £2.9 million from 2004/05.
- 80** The older debt becomes the harder, and more costly it is to collect. It is, therefore, essential that you continue to improve your arrangements to collect both in-year and old debt.

### **Housing revenue account**

- 81** Your housing revenue reserve has increased by £1.9 million to £4.86 million; £3.6 million more than originally budgeted. It represents 6 per cent of your housing revenue account annual turnover, £77 million. There are a number of reasons for this unbudgeted surplus, but the most significant is the impact of slippage in the capital schemes which has reduced the revenue funding required this year by £1.7 million. Your HRA business plan shows that the HRA balance is to be used to support the capital investment in council houses required to achieve the decent homes standards by 2010.

### **Capital programme**

- 82** The new management arrangements introduced to improve the delivery of the capital programme, have helped you achieve your largest ever capital programme. Table 5 shows that despite a £7 million, 21 per cent, increase in the agreed capital programme for 2004/05, overall slippage has reduced by £0.4 million, from 7.8 per cent of the total programme to 5.6 per cent. This is a significant improvement.

**Table 5 Comparison of capital outturns**

	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>
Agreed programme - £000s	30.3	33.0	40.4
Outturn - £000s	22.2	30.4	38.2
Slippage - £000s	3.4	2.6	2.2
Slippage	13%	7.8%	5.6%

### School balances

- 83 The amount of money your schools have in balances at the bank has increased from £8.3 million 2003/04 to £9.4 million this year. The proportion of the total balance held by secondary schools has reduced, whilst that held by primary schools has increased. You have recognised that the high level of school reserves is an issue and have taken action:
- the new BAFS scheme has introduced an interest charge on individual school balances; and
  - members have approved a scheme which allows funding to be clawed back if schools maintain excessive balances in the medium-term.

### Pension fund deficit

- 84 Your total future liability for pensions earned by your employees has risen from £65 million to £104 million this year. This figure is provided by the actuary for the pension scheme based on his assessment of the current value of liabilities and investments. While the fund value fluctuates you should use this information to develop your own assumptions about the future liability and how you will fund it.

## Systems of internal financial control

### Assurance framework

- 85 It is your responsibility to ensure that you maintain adequate systems of internal financial control. Officers who manage financial systems should clearly document the system, identify key controls and use performance measures and validation against other data to ensure the system is operating effectively. This standard is not achieved consistently.

- 86 There is currently no formal system to provide the section 151 officer and members with assurance that systems are effective and key controls are operating. We have recommended that you develop a range of performance measures to report the operation key controls. These should form part of your performance appraisal arrangements, and should be reported periodically to the section 151 officer.

### Internal Audit

- 87 In previous Annual Letters, we have reported concerns about the low level of delivery by Internal Audit, (IA) against the agreed plan. In 2004/05, IA achieved 90 per cent coverage of their plan by the end of April, a significant improvement. We have been able to place reliance on the work of IA where appropriate and adopt the managed audit approach at York.
- 88 Last year, we reported that the Director of Resources, supported by the new audit team had taken significant step to improve arrangements for IA. Our detailed work this year, following up the 2003/04 agreed action plan shows further progress. Table 6 summarises the key recommendations and actions achieved. The key issue outstanding is member awareness and use of audit information.

**Table 6 Summary of action achieved by Internal Audit**

<b>2003/04 recommendation</b>	<b>Summary of position</b>	<b>Conclusion</b>
The IA plan should be linked into the risk management system.	The corporate risk register was a key source in the preparation of 2005/06 IA plan.	Satisfactory.
Members should understand the role of IA, and use their findings to assess the governance framework.	Resources EMAP is informed of progress against the IA plan. This also raises any critical issues arising from IA work. It is not clear to us how members use this information.	Satisfactory reporting but issues around governance.
Formal process for following up recommendations must be introduced.	Self-assessment is completed by the client six months after the audit. Responses are substantively tested for high priority recommendations.	Partially implemented Outcomes should be reported to members.
Internal and external audit continue to review opportunities to develop joint working.	Quarterly meetings are held between IA and Audit Commission, and evidence of working together in areas such as PIs.	Satisfactory.
Professional qualifications should be reviewed.	Seven of the eight full-time staff either are qualified or are training.	Satisfactory.

## **Risk management**

- 89** An established risk management system based on your corporate priorities that allow you to change behaviour or resource allocation is increasingly important as resources become tighter. Last year, we reported that the system needed to be developed to improve consistency and the consideration of risk implications in the decision-making process. We also raised concerns about the roll-out of a system to manage operational risks. Our follow-up shows significant progress as:
- each directorate now has a risk champion to co-ordinate risk identification and management at both directorate and service level;
  - risk management training has been provided to service managers across all directorates, except education;
  - the service planning and performance system requires the identification of operational and strategic risks as part of the service planning process, and consideration of how to manage these risks; and
  - the new project management standards include risk management.
- 90** We still have concerns about the level of member involvement in the risk management process. There has been no specific member training and the management of risks is not considered overtly within reports to members. To improve this position, you have appointed a member champion who will work with the risk manager to embed risk management.

## **Partnership arrangements**

- 91** Partnership working presents an opportunity to use different skills and resources to improve services in a way that one organisation working alone could not achieve. You have embraced these opportunities and are involved in a large number of partnerships. It is essential that robust governance arrangements are maintained to ensure value for money and probity of transactions.
- 92** Our review of your corporate arrangements for monitoring and supporting partnerships shows that you have strengthened your arrangements for both effective partnership working and:
- the publication of partnership guidelines outlining corporate good practice requirements in the management of partnerships;
  - this has been supported by a training programme;
  - the partnership database has been overhauled to ensure that it is up to date and comprehensive;
  - the aims of the database have been reviewed to improve the quality and relevance of information held; and
  - streamlining has reduced the number you are involved in from 219 to 173.

- 93 You have not yet incorporated partnerships into your risk management processes to ensure all risks are identified and considered. This is an important issue as although the benefits of working with partners can be considerable these need to be evaluated against any increased risks.

## Standards of financial conduct and the prevention and detection of fraud and corruption

- 94 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption. We have recommended that improvement is needed in the level of officer awareness of your fraud and corruption strategy and response plan, and your whistleblowing arrangements. Nine out of ten staff we interviewed were not aware of your anti-fraud and corruption policy or whistleblowing policies.

## Legality of transactions

- 95 We have not identified any significant weaknesses in the framework established for ensuring the legality of your significant financial transactions.

## Osbalwick

- 96 We have undertaken a specific review of your arrangements to dispose of significant piece of land at Metcalfe Lane, Osbalwick. This followed the receipt of correspondence from two residents and the local MP. We considered:
- whether there is a need to exercise any statutory audit responsibilities in respect of the proposed transaction; and
  - your arrangements to secure value for money and maintain probity.
- 97 In 1999, you entered into partnership with Joseph Rowntree Foundation, (JRF), to develop a 'model village' design for the site. You considered this innovative approach so important you agreed to accept a reduced capital receipt to achieve it. In 2002, the nature of the arrangement changed from an agreement for JRF to oversee the preparation of the land for sale, to an agreement to sell the land to JRF for £8.5 million. This was supported by a legal agreement specifying the outcomes of the partnership and agreeing to compensate JRF with £1.25 million, subject to agreed conditions, if you do not proceed with the disposal.
- 98 Due to weaknesses in the controls over the selection and agreement of the partnership arrangements with JRF, at the inception of the project you did not demonstrate:
- how you were to achieve best value for your council tax payers; and
  - that you were acting lawfully.

- 99 However, in response to our audit you have demonstrated that members considered relevant performance criteria about JRF at the time of the selection and reported that you have not contravened EU procurement regulations. On the basis of the information obtained during the audit there are no grounds for the exercise of statutory audit responsibilities.

## Use of resources judgements

- 100** Our use of resources assessment focuses on how well financial management supports your priorities and delivers value for money. It is to be carried out annually as part of the CPA framework. You are performing well and we are pleased to note that none of the arrangements we assessed were deemed to be below minimum requirements. However, the need to develop your governance arrangements is reflected in the lower scores for internal control.

**Table 7 Use of resources scores**

Element	Assessment
Financial reporting	3
Financial management	3
Financial standing	3
Internal control	2
Value for money	3
<b>Overall</b>	<b>3</b>

*(Note: 1=lowest, 4=highest)*

- 101** The scores reflect your continued focus on sound budgetary control and cost management. You are also delivering a number of improvements to corporate processes aimed at supporting sustained improvement in service delivery, for example, the new service and financial planning and monitoring system, the service improvement programme, the improvement of programme and project management and the new equalities strategy linked to consultation.
- 102** It is important that the corporate success of these initiatives is reviewed. You have a number of examples of good practice which could be shared, or where the success of a new policy is not measured, most notably:
- the service improvement programme has had some positive results in benefits, planning and adult social care, but the level of improvement is not quantified and therefore cannot be evaluated against the cost;
  - equity information has been used to improve the take up of benefits and to improve the design of the service; and
  - there have been some notable developments in procurement practice but these are not yet within the framework of a consistent strategy.
- 103** Two key challenges facing you to improve further and they are:
- increasing the involvement of stakeholders in service development; and
  - developing the role of members as strategic managers, who set policy and challenging targets and hold officers to account in their achievement.

## Looking forwards

### Future audit and inspection work

- 104** We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 105** We have sought to ensure, wherever possible, that our work relates to your improvement priorities. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with others to deliver a co-ordinated approach to regulation.

### Revision to the Code of Audit Practice

- 106** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 107** The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan. The key changes include:
- the requirement to draw a positive conclusion regarding your arrangements for ensuring value for money; and
  - a clearer focus on overall financial and performance management arrangements.

## Closing remarks

- 108 This letter has been discussed with the Chief Executive and the Director of Resources. A copy of the letter will be presented at the meeting of the Executive in February 2006.
- 109 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the assistance and co-operation provided.

## Availability of this letter

- 110 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

MJ Kirkham  
District Auditor and Relationship Manager  
January 2005

## Appendix 1 – Audit reports issued

**Table 8**

<b>Report title</b>	<b>Date issued</b>
Audit Plan	March 2005
Governance Report	June 2005
Updated Cultural Property Action Plan	
Updated Homelessness Action Plan	
Service and Financial Planning	July 2005
Interim Report on Easy@York	July 2005
Best Value Report	October 2005
Report on Financial Statements	October 2005

## Appendix 2 – Fees

**Table 9      Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05 £</b>	<b>Actual 2004/05 £</b>
Accounts	50,000	50,000
Financial aspects of corporate governance	75,350	80,600
Performance, including best value	134,650	134,650
Total Code of Audit Practice fee	260,000	265,250
Additional – voluntary improvement work	0	0
<b>Total</b>	<b>260,000</b>	<b>265,250</b>

- 1 The difference between the planned fee and actual fee for governance work is the £5,215 fee charged for our additional work in relation to legal challenge.

### Inspection fee update

- 2 The full year inspection fee, included in the performance line in Table 9, is £35,000. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.