

# Annual Letter

## York City Council

### INSIDE THIS LETTER

#### PAGE 2-3

- Key Messages

#### PAGES 3-4

- The purpose of this Letter
- Background to the audit and inspection programme
- Objectives of audit and inspection

#### PAGES 4-10

- Council performance

#### PAGES 10-14

- Financial aspects of corporate governance

#### PAGES 14-15

- Audit assurance work
- Audit and Inspection fees
- Strategic regulation: future audit work
- Status of our Audit and Inspection Annual Letter

#### PAGE 16

- Closing remarks

#### PAGE 17

#### Appendix 1

- Audit and Inspection reports issued during 2002/2003

<b>Reference:</b>	YO001-09-2003 AAL
<b>Date:</b>	January 2004

## KEY MESSAGES

### Overall

The City Council has set out a major programme of change aimed at improving services and becoming an excellent authority. While the programme is anticipated to involve investment over a number of years, progress is already starting to be made.

### Improvement agenda

The City Council has established a change programme, Transforming York including:

- vision and community leadership
- democratic arrangements
- performance management
- people management, and
- specific service areas.

Since May, new political priorities have taken shape focusing on the environment and community safety.

The Council needs to continue a sustained focus on all these changes in order to improve its services.

### Access to services

Along with the other local authorities in the North Yorkshire ICT Partnership, the Council is working with the external partner to deliver the IT infrastructure required to support its Access to Services and e-government objectives. The proposed contract start is 1<sup>st</sup> April 2004.

There is still much work to be done before the contract start date, including assessing affordability, agreeing the level of service to be provided by the Partner and developing appropriate performance measures and monitoring arrangements for the contract.

### Project management

The Council is involved in a large number of major projects that include:

- fundamental initiatives to transform the Council into an Excellent Authority, including 'Without Walls' partnership

- the biggest capital programme the Council has agreed
- the re-design of systems to deliver Access to Services objectives
- the replacement of some of the Council's most significant financial systems
- the PFI project
- the Barbican project
- the introduction of both performance and risk management.

While reflecting your ambition and intention to improve services, such a range of initiatives imposes significant pressure on both financial and staff resources to deliver project outcomes whilst maintaining service standards. The Council needs to ensure it has clear project management arrangements in place including:

- sponsorship
- clear objectives
- robust project planning, including resources, realistic timescales and actions
- project completion arrangements.

### Financial health

The Council's budgetary control system has been effective in identifying financial pressures and allowing time for corrective action to be taken. Features of 2002/2003 are:

- an under-spend against budget, £3.5m in 2002/2003, 1.4% of net revenue expenditure, due largely to non-recurrent events
- prudent levels of reserves, £2.3m above the minimum level recommended by CPA.

As a consequence of the funding settlement from central government, the future effect of current cost pressures and the cost of required service improvements, the Council is currently having to address a potential funding deficit of £8.5m for the 2004/2005 budget.

The Transforming Services project intends to address the short-term nature of financial control by developing a medium-term financial strategy supported by a service and financial planning system.

## Internal Audit

Internal Audit has again failed to achieve its planned coverage due to resource problems. While resources have been directed towards high risk areas, the repeated failure to achieve the plan demonstrates a need to improve your arrangements for obtaining assurance about your systems of internal financial control. It also increases the risk of undetected fraud and error.

We note your intention to address this issue following the restructure of the Resources Directorate and the steps being taken to appoint an Audit Manager and Principal Auditor.

## The purpose of this Letter

This is our second joint audit and inspection 'Annual Letter' for Members which incorporates our Annual Audit Letter. The Letter summarises the significant issues arising from our 2002/2003 audit and inspection programme and comments on other current issues.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Auditor's responsibilities are summarised in the Audit Commission's statement of key responsibilities of auditors. The responsibilities of Audit Commission Inspectors are detailed in section 10 of the Local Government Act 1999. What we say in this Letter should be viewed in the context of that more formal background.

## Background to the audit and inspection programme

To ensure councils receive a tailored service, integrated with the work of other inspectorates, the Audit Commission has appointed a Relationship Manager for each Council. The Relationship Manager, Mark Kirkham, is the Commission's primary point of contact with you and is also the interface between the Commission and other inspectorates, Government Office and other key stakeholders.

This Letter reports on a period of unprecedented change for the Council. In addition to the change programmes required to address national priorities, significant local features include:

- a new political leadership which has led to a re-evaluation of key corporate priorities with the launch of York Pride
- the Transforming York programme bringing together five projects with the aim of laying Council-wide foundations for the delivery of excellent services, to develop and support employees and to work with partners and stakeholders to lead the delivery of the Vision for York
- re-structure programmes, in Resources, Community Services and Chief Executive's departments.

## Objectives of audit and inspection

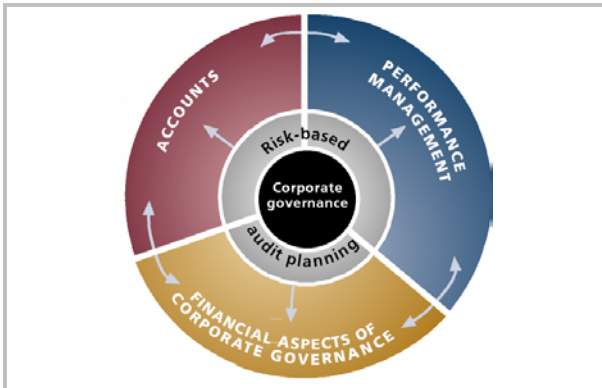
### Audit

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.

Your corporate governance arrangements are central to our audit which is structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 1.

**EXHIBIT 1**

**The three main elements of our audit objectives**



**Accounts**

- Opinion

**Financial aspects of corporate governance**

- Financial standing
- Systems of internal financial control
- Standards of financial conduct
- Legality of transactions

**Performance management**

- Use of resources
- Performance information
- Best Value Performance Plan

**Inspection**

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections that:

- enable the Council and the public to judge whether best value is being delivered
- enable the Government to assess how well its policies are being implemented
- identify failing services where remedial action may be necessary.

**Council performance**

**CPA Scorecard**

The City of York Council has maintained its services at the levels we saw last year. It has made good progress in improving capacity in social services and housing benefits. Strong levels of achievement in education have continued.

The Council is significantly changing the way it works and is seeking to make improvements through a programme of change. It also aims to improve the local environment and respond to residents' concerns about community safety. It needs to maintain a sustained focus on all these changes in order to improve its services. We will be monitoring progress over the next 12 months.

**CPA Improvement Report**

Following the good rating published in last year's CPA, and the change in administration, the Council has focused on its priorities for improvement and set out the intended actions in the Council Plan. The Plan recognises the need to invest in systems and capacity to build on attainment levels in the many service areas that are already strong, and to improve performance in weaker areas.

A new direction is being taken and a change management programme, Transforming York, has been established to improve: vision and community leadership; democratic arrangements; performance management; people management; and specific service areas. Since May new political priorities have taken shape that aim to improve the environment via the York Pride strategy and respond to residents' concerns about community safety.

The new ambitions reflected in the initiatives have yet to be fully embedded in performance and people management, and there are some indications that capacity is being stretched in some areas, which may jeopardise the delivery of the Council's ambitions if activities are not clearly prioritised. The Council Plan and BVPP is a robust document, and is a clear communication to residents.

### Priorities and future plans

The Council has made explicit its ambition to be excellent.

Last year we recognised the strengths the Council has in its approach to prioritising activity. York's first Council Plan was published in July and includes seven corporate objectives that are linked to clear outcomes.

The proposed community plan (known as City Vision) is intended to create an overarching vision for the City and progress in developing this has been delayed to make it more inclusive and so additional consultation can be undertaken. The Council recognises the need to finalise the community plan so that ambitions are more effectively understood and Council and partner services adjust their plans to meet new priorities.

Since the elections in May, resources have been diverted to meet the new political priorities and the Council recognises that objectives may have to be reassessed as a result of the extensive consultation taking place to develop the aims to be expressed in the City Vision. The Council is also putting in place an area-based approach to identify and tackle issues of local concern and will then need to incorporate emerging local priorities into its own and partner performance management arrangements so plans adapt to meet new aims.

In delivering the City Vision and the new political priorities, the Council will need to make sure potential tensions are recognised that include:

- balancing local and strategic objectives and the implications for service standards in both the city centre and suburbs
- the cost effectiveness of local rather than centrally managed teams
- improving weaker services while maintaining standards where service levels are already high.

At the time of the corporate assessment it was not clear what were not priorities for the Council and this has still not been made explicit. It is important for the Council to be clearer about non-priority areas because of the demanding programme of change and the financial constraints it has. The Council is facing significant cost pressures which will reduce the potential to achieve ambitions. Service and financial planning process needs to be more closely aligned to reflect agreed priorities.

The introduction of the Transforming York programme and new political priorities such as York Pride give the potential for a sharper focus on improvement. Transforming York also involves improving decision making arrangements and service delivery. Decision-making processes are being reviewed and it is not yet clear whether the existing arrangements will assist the Council to focus on the issues that matter.

### Capacity and investment

Strategic capacity has been improved through the appointment of a deputy chief executive and a restructure of some departments in which key posts have already been filled. An induction programme for Councillors has been delivered which is important given the relatively large number of newly elected Councillors. We note, however, that sickness and stress levels have started to increase which could affect the capacity of the Council to deliver the change programmes. In addition, further attention needs to be given to recruitment and retention in adult social services to achieve its priorities.

Partnership working is identified as important by the Council and progress has been made in areas such as social services. A high-level Health and Social Care Partnership Board has been established to take overall responsibility for the strategic planning and development of services. The Council is also a pilot authority in setting up a children's trust. Further progress in partnership working is important because the limited resources available to the Council will require more effective joint action to make improvements across service areas.

Progress has also been made in the development of strategic procurement and an action plan is being followed to improve the Council's approach but the required outcomes are not being delivered on time. It is important to set a council approach because some priority areas, such as waste management, are likely to require new procurement methods to deliver its aims.

We note other developments in:

- **Recycling** - where kerbside recycling has been introduced to 60,000 households and consultants have recently reported to the Council on options for a long-term waste management contract. This is a significant investment given the Council's weak performance in waste minimisation and reliance on landfill for waste disposal
- **Planning** - where additional staff have been recruited and new procedures and systems introduced to reduce delays in dealing with planning applications. Further actions are being examined to improve delegation arrangements
- **Housing** - where a new Assistant Director for the Housing Management Service has been appointed to implement the improvement plan and the recruitment of five additional Estate Managers has been agreed.

### Performance management

The Council recognises the need to improve performance management and the QPR System has been tested in education and is now being rolled out to other services. It will be important to use the system to manage the service improvements required in key areas like adult social services and delayed discharges. Significant improvements have been made by the Council in the proportion of staff receiving appraisal interviews but the take-up is still not universal (75%). It is important that the Council addresses this because staff need to understand their role in delivering the changes required under Transforming York.

An integrated housing management system is now live and will improve the information available to manage and improve the housing, as well as the Revenues and Benefits service.

While performance management and information have been recognised as key development areas to ensure changes are kept on track and real improvements are delivered to local people, it is too early to assess the likely effectiveness of the programme.

### Achievement

The Transforming York programme is expected to take up to four years to complete so it may be some time before the full impact on service standards is felt. In the meantime we note public satisfaction with the Council remains high with 76% of residents satisfied with Council services in 2002. The majority of performance indicators (53%) remain above the national average for similar councils and this year the Council met 55% of its targets.

Progress in the priority areas of education, social services, benefits and environment has been mixed.

### Environment

In environmental services, a new street environment service has been launched which has a number of features including enhanced education and enforcement, a single 'hotline' for enquiries and integrated cleansing and grounds maintenance teams. It is too early to adequately assess the impact of these arrangements. The Council has continued to improve its approach to transport policy and was named the Local Transport Authority of the Year in July 2003, at the National Transport Awards.

There has been some success in minimising waste. The amount of waste collected by the Council in 2002/2003 rose by only 1% compared to a national increase of 3% but the weight collected is above average for similar authorities. The Council's recycling rate has also improved and at 12.3% is above the Government target but still in the bottom quartile compared with other councils. Further, the targets the Council has set itself for the next two years are not ambitious and will not meet the more stretching targets set by the Government. The Council still sends more of its waste to landfill than similar authorities. This is important because you will face increasing costs to use landfill as taxes rise.

The proportion of people satisfied with local cleanliness has fallen to 47% (50% in 2001/2002) and the Council failed to meet its target that 65% of residents would be satisfied. We carried out an inspection of your street environment services and concluded they are fair with uncertain prospects for improvement. Positive features include the high levels of cleanliness in the city centre, a reduction in traffic, effective street lighting and improved access for wheelchair users. As well as reporting low satisfaction levels, customers do not know what to expect from the service and find it difficult to report problems. The Council is addressing the recommendations from our BV Inspection, to:

- improve access to the service by customers through a single hotline
- develop a clear business plan for improving the service
- secure a new contract to integrate street cleaning and other street services more effectively.

Performance in the planning service is still poor and only 18% of major applications were determined within 13 weeks, compared to the Government target of 60%. This poor performance will not assist the Council with your aim of attracting additional investment into the city.

### Education

The Council scored four for its performance in education last year which is the highest rating. This rating has been maintained this year.

### Social services

The Council has been assessed by the Social Services Inspectorate (SSI) as providing a service for children that serves most people well and has excellent capacity for improvement. For services to adults and older people it has been assessed as serving some people well with promising capacity to improve which is the same rating as last year. However, the SSI has noted there have been significant initiatives in services for older people that aimed to reduce delayed transfers and help other people to remain at home with support. These initiatives have yet to have a full impact and as a result the rating has remained the same. The City Council received an overall rating of 2 stars which is the same as last year. The Council has received an overall rating of two stars by the SSI which is the same rating as last year.

### Benefits

The Benefits fraud Inspectorate (BFI) has recently inspected the Council's benefits service and has judged it to be fair towards good. This represents a significant improvement on the BFI's previous assessment of the service.

### Housing

Tenant satisfaction with the Council's housing service is at its highest level with 89% of respondents indicating that they were satisfied or very satisfied with the service. This follows a consultation exercise in the previous year which showed that 93% of tenants responding wished to retain the Council's landlord service.

## Other performance work

### People management

In modern Local Government, Members, managers and staff are faced with the challenge of continuously improving services with limited financial resources in a rapidly changing environment whilst subject to a high level of public scrutiny. This demands the very best management of Human Resources.

Last year we reported:

- the need for a clear people management strategy to ensure Council-wide ownership of the aims and objectives

- lack of capacity has led to delays in delivering major corporate initiatives and is impeding service delivery in many areas
- improved arrangements are needed to clarify the role and function of the HR section
- while managers are generally positive about working for the Council, team work is not well developed and this has impeded the delivery of significant projects.

Since then you have appointed a new experienced Head of HR and established the Transforming People project to address these issues and:

- collate people management strands from the other Transforming York projects
- deliver a corporate HR strategy
- assess capacity and develop a plan to direct human resources to deliver.

#### **Local Public Service Agreement (LPSA)**

Your LPSA covers 12 areas where better outcomes are planned by December 2005 in return for:

- pump-priming grant £929k
- a package of freedoms and flexibilities
- reward grant of £3.4m upon the achievement of the targets.

Our review of the central coordination and monitoring arrangements and work underway to achieve a sample of four specific targets found:

- the Performance Improvement Team (PIT) had no formal monitoring arrangements for co-ordinating your response to the LPSA targets
- despite the short time-frame there was a slow response by departments, particularly in developing action plans
- there was no agreement on how to measure one target.

The Council has responded positively ensuring all targets have agreed measures and developing coordination and monitoring arrangements which can challenge progress, identify potential problems and help develop an appropriate response, including a system for assessing both reward grant for current performance levels and future projections.

#### **Decision making arrangements**

In last year's Letter we raised a number of concerns about your new political arrangements. Since then the new administration has undertaken a review of the decision making processes. We have not had the opportunity to review these in detail but have invited officers to report progress with particular reference to the clarity and efficiency of decision-making particularly:

- the autonomy of the Scrutiny function
- strengthening the arrangements for Scrutiny.

#### **Delayed discharges**

York was identified as a hot spot for delayed discharges and is consequently being monitored by the Change Agent. A significant financial risk would follow the introduction of 'Fines'. We note you are currently managing this risk through the allocation of both revenue and capital resources, including grants, to key services with:

- partnership working with Health bodies
- enhanced Homecare services, including the Rapid Response service, Overnight Homecare and Additional Care Management
- residential facilities developed at Morrell House and Haxby Hall.

#### **Responding to Audit Commission reports**

It is the Council's responsibility to ensure that agreed actions for improvement are implemented. Authorities rated 'Excellent Council' have been found to be learning organisations, open to external challenge, and have robust mechanisms for developing responses to issues raised.

A number of recent Audit Commission reports have been followed by a significant delay in agreeing the action plan. The reports have now been followed up and way forward agreed:

- Community Planning – you have made significant progress and we will assess that as part of future work
- Homelessness, Democratic Renewal, Governance – you have made progress, which has been followed up this year and a more relevant action plan agreed



- People Management - the original action plan has been discussed and agreed to be still relevant.

The Council has established arrangements to improve response times and work proactively to follow up agreed action plans. We have followed up in detail the action achieved in the following areas.

**Homelessness**

We have agreed an updated action plan with the Adult Services Group Manager – Access and Support. The original report commended many positive initiatives already undertaken both to prevent homelessness and to reduce the reliance on expensive and often inappropriate B&B accommodations. It did however pose significant challenges regarding:

- the adequacy of the management arrangements to deliver service improvements
- the clarity of the policies and procedures for dealing with homeless applications
- the timeliness of the decision making process regarding homeless applications.

Recruitment issues have hampered progress. A Homelessness Service Manager has been in post since May and:

- much of the quality standard framework is now complete, and is being translated into specific guidance for case workers by April 2004
- a training programme is planned to support the delivery of this
- the achievement of these standards will be monitored through quarterly performance monitoring reports
- the Executive has reviewed the decision making process for Homelessness applications and has agreed to delegate this to a senior officer panel.

Homelessness applications are still rising and officer resources remain below agreed establishment due to recruitment difficulties and problems with long-term sickness which need to be addressed.

**Special Educational Needs (SEN)**

Our original report, issued in February 2002, noted that the LEA had done much to ensure that provision appropriate to the needs of SEN pupils was in place and that there was a determination to improve its arrangements. We are pleased to note that progress has been made in respect of the key messages arising from our review.

**EXHIBIT 2**

Issue	Progress
The method of allocation of non-statutory SEN funds to schools bore little relation to the level of pupils identified SEN in individual schools.	A formula has been developed in consultation with schools to link the value of funds delegated to needs. It is to be phased in over three years. Earlier intervention to reduce the number of statements is intended.
The absence of any specific monitoring or evaluation of school's use of delegated SEN funds.	The introduction of a system to monitor and evaluate school's SEN strategies and practices and track interventions was hindered by the absence of a dedicated SEN manager, but progress has been made.
Improved links between mainstream and special schools that would facilitate an increased level of inclusive education.	The Council has significantly increased the proportion of SEN pupils who are now successfully supported in mainstream schools. Closer links have been established through training and teacher secondments.

**Protecting Cultural Property**

The Council is the guardian of important collections of cultural property which reflect the great historic and cultural heritage of the City. Our report, *Protecting Cultural Property*, was issued in February 2002 and raised a number of key issues that included:

- incomplete inventories at both the Museums and Archives Service
- no systematic way to assess the risk of individual items of cultural property
- problems with storage which increase risk of deterioration.

Since the publication of our report, two fundamental changes to the management and delivery of the services have been progressed, which have led to delays in the achievement of the agreed action plan:

- the Museum Service has been transferred to an autonomous Museum Trust
- a timetable has been established for deciding how City Archives will be managed.

The Museum Trust has now developed a collections management plan, *Unlocking the Potential of our Collections*, which sets out the actions the Trust will undertake to meet custodial obligations. The plan sets out the actions required and sets appropriate timescales for their achievement.

The location of the future partnership to manage the City Archives will be decided by March 2004, with the move being completed by July 2005. How partners can work with the Council to address the collection management issues we raised is to be included in the selection criteria.

We will follow up your progress at a later date.

### The future of CPA

The Audit Commission has consulted on the future arrangements for CPA and intends to:

- introduce a new CPA framework in 2005/2006 and again in 2010, to enable assessments to be made in the context of an agreed set of local and national policy priorities
- publish annual improvement reports in December 2003 and December 2004.

The CPA programme from January 2005 will seek to reflect the impact of the Council in their locality and to recognise the leverage, co-ordination and leadership the Council provides to achieve a wider improvement agenda.

The precise shape and nature of this approach has yet to be finalised.

## Financial aspects of corporate governance

### Financial standing

*The Council has arrangements in place to ensure its financial standing is soundly based. The budgetary control system has been effective in controlling expenditure and maintaining adequate balances. The Council has recognised the need to improve the alignment of service and financial planning.*

The financial health of the Council has attracted media attention recently as concerns regarding future funding levels have been expressed.

In 2002/2003, strong budgetary control enabled you to effectively identify and respond to financial pressures. The outturn report for 2002/2003 shows an underspend of £3.5m against a net revenue budget of £145m, ie 1.4%. Almost 50% of this underspend was due to non-recurrent events:

- almost £1.5m is due to slippage which has been carried forward to 2003/2004
- approximately £0.8m was due to staffing savings, mainly delays in filling posts
- the short-term nature of savings.

The 2003/2004 half yearly monitoring report to Executive in October highlights a potential overspend of £1.9m. The impact would be to reduce the level of total reserves to £5.6m, only £400k above the AC prudent minimum level.

Departments predicting overspends have been required to bring expenditure under control and identify savings.

Your forecast for the Council's financial position in the medium-term projected a budget gap of £5.7m as a best case scenario for 2004/2005, and £8.4m as a worst case scenario.

We note that you are undertaking a budgetary review process to:

- identify waste and inefficiency
- assess the need for the provision of discretionary services
- maximising income from fees, charges and government
- reviewing council tax.

It is essential the Council takes a coordinated, medium-term perspective during this budget review to ensure resources are matched with priorities. Difficult decisions about which services are of lower priority will need to be made and the review should challenge managers to demonstrate current budget levels are appropriate to planned outcomes.

Developing an integrated service and financial planning system is a cornerstone of your Transforming York agenda.

**HRA**

The HRA has again made a surplus, £358k, increasing the cumulative surplus to £2.2m, which represents 4.7% of HRA expenditure.

A plan to achieve the Decent Homes Standard using the Tennant's Choice scheme has been approved. The buoyant housing market has led to a reduction in available contractors and an increase in costs above the budgeted 3.4%. As a consequence, the number of houses upgraded in 2003/2004 will be lower than planned. The Council is monitoring the impact of programme changes on the achievement of the decency standard.

**Capital programme**

Last year we commented on:

- the increased size of the programme
- the level of slippage.

These pressures have continued in 2002/2003. The programme has increased from £25.6m in 2001/2002 to £39.6m in 2003/2004. Exhibit 3 shows that the level of slippage is growing.

**EXHIBIT 3: CAPITAL OUTTURN IN PREVIOUS TWO YEARS**

	2001/ 2002	2002/ 2003
Capital programme - £m	25.6	30.3
Outturn - £m	22.2	25.7
Slippage - £m	3.4	4.6
Slippage - %	13	15

Officers have identified several issues contributing to the under-delivery and an action plan has been developed which involves:

- a three year capital programme reducing the short-term nature of bidding and allowing appropriate project management timescales
- improving the project planning process to ensure that the programme is supported by robust and realistic plans
- the allocation of staff resources to deliver the whole programme.

The Council continues to explore new and innovative methods of financing capital requirements:

- the schools PFI
- the Barbican project
- direct grant funding for individual projects
- the establishment of the museums trust.

With effect from April 2004 the Prudential Code will allow greater flexibility in financing capital expenditure. It is therefore essential that project management issues are addressed before any further increase in activity.

## **Systems of internal financial control**

*The Council has some arrangements in place to satisfy itself that its systems of internal control are effective. We continue to have concerns about Internal Audit and therefore the reliability of the arrangements.*

### **Internal Audit (IA)**

Last year's Letter referred to our concerns about the adequacy of IA, in particular the capacity of the section to deliver agreed plans. While the quality of the detailed work has improved this year we still have concerns about:

- capacity and the consequences for fulfilling the audit plan
- the status of IA within the Council.

We review IA's work for two reasons:

- to optimise the use of audit resources by seeking to place reliance on their work
- to assess their contribution to the internal financial control framework.

Working standards comply with the Cipfa Code and that IA has reviewed the adequacy of all the key financial systems in the year, but:

- only 69% of planned audits for 2002/2003 were completed
- the 2003/2004 Audit Plan was under-resourced by 100 days
- problems of coverage continue into 2003/2004
- the section is still heavily dependent on temporary staff
- the information systems used to monitor audit input are not reliable.

While the status of IA within the Council is difficult to quantify there are a number of issues which point to low impact:

- delayed agreement of reports
- slow response to implementing agreed action plans
- little involvement in key projects.

We note the steps being taken to improve the capacity and status of IA:

- an Assistant Director is now responsible for Audit and Fraud

- a recruitment campaign is underway
- the section is investing in new management information systems.

We will continue to monitor IA's coverage and effectiveness during 2003/2004.

### **SX3**

The SX3 project to transfer your Housing Benefit, Council Tax and Housing Rents system onto new software posed two significant risks, service delivery and financial risk.

As the systems represent your main contact with the citizens of York, the continued accuracy of the information is vital to your reputation. In addition, the Housing Benefit system provides vital support to some of the most vulnerable people in the City.

The systems are fundamental in financial terms and any errors in the information could have a significant impact on your financial standing.

The initial SX3 Project was postponed as it became clear that project was not on track to deliver your requirements. Since the project restarted we have more confidence in the way the project is being managed and many of the issues we raised have already been addressed.

The improvement in project management can partly be attributed to the appointment of a dedicated Project Manager and the implementation of the formal methodology.

Key issues for future projects are:

- ensure they are formally managed
- appoint experienced Project Managers at the start of the project
- ensure adequate capacity and resources.

It is imperative that lessons learned are not lost and we recommend that a formal Post implementation Review be undertaken before staff move on to new projects.

## **Standards of financial conduct**

*The Council has arrangements in place to maintain proper standards of financial conduct.*

### **Overall arrangements**

The Council has key policies and procedures in place although our work has identified two areas of potential improvement:

- the anti-fraud culture could be strengthened through increasing staff awareness of policy and procedures
- limited capacity in IA means the amount of fraud prevention work has reduced.

**National Fraud Initiative (NFI)**

NFI is the Audit Commission’s data matching exercise. Its main aim is to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud. The NFI is carried out every two years and data matches were provided to you in April 2003.

Our review of your arrangements for following up data matches highlighted the following areas for improvement:

- prioritisation of data matches
- documentation of evidence to support action taken
- clarification of instructions to staff.

Recent discussions suggest that action is being taken to address these issues.

**Legality of transactions**

*The Council has arrangements in place to ensure the legality of transactions.*

Our review of your overall arrangements has not identified any significant issues. We also considered the following risk areas:

- Access to services
- PFI.

**Access to services and the North Yorkshire ICT Partnership (NYICTP)**

The Council has ambitious plans for how customers should be able to access services. To deliver these plans you have joined the NYICTP. The Partnership is recognised by the ODPM as an innovative approach to e-government and in recognition of this is providing £1.4m of capital funding to support the initiative.

Because of the risk that arises from such a major undertaking, both in financial and service delivery terms, we have paid particular attention to the governance framework and considered whether commitments made would be properly authorised and whether arrangements were in place for effective project management. We have approached this through an ongoing review of documentation, a continuing dialogue with the Chairman of the Project Board and the Treasurer as well as attendance at some NYICTP meetings.

We note that the basic governance arrangements for the NYICTP were set out in a concordat agreed by the member authorities that had been prepared by professional legal advisors. We also note that the officers who sit on the Project Board are chief officers who have the necessary mandates from their Members.

The achievement of your plans for access to services and electronic delivery of services is dependent on the capacity of the Partnership to deliver the appropriate infrastructure. Much work is still to be done before the proposed contract start date on 1<sup>st</sup> April 2004, including:

- assessing affordability
- determining whether to be involved at level 1, 2 or 3
- identifying internal resources that will be needed in both IT and the Services
- developing an appropriate contract including performance monitoring arrangements.

The Partnership may become narrower as other councils find alternative ways to deliver their e-government and access targets. The City of York Council needs to ensure that if the breadth of the Partnership narrows the solution still:

- provides best value for money
- delivers the required service objectives.

**PFI**

As part of your PFI project to provide four new primary schools you have issued the Invitation to Negotiate, received three bids and selected your preferred partner within the established programme. Our review of the project arrangements in August 2003 highlighted two key concerns:

- the timescale
- the affordability.

The project team are currently successfully delivering the scheme to timetable and affordability is being addressed with a package of measures which maintains the original scope of the project.

The Council has established a tight timetable leading to contract sign-off in March 2004.

Failure to achieve this timetable may lead to:

- a delay in the improved service delivery that the PFI scheme is designed to achieve
- increased costs.

There are three key areas of activity that need to be tightly managed to achieve the timetable:

- obtaining detailed planning permission for the schemes and allowing for the three month judicial review period
- managing the partner negotiations, none of the bids received were fully compliant with the Council's requirements
- optimising the use of the limited internal and external advice.

In addition, the financial risks attached to the affordability package need to be managed to ensure that the project is deliverable.

## Data protection and Freedom of Information

The Government's public sector modernisation drive includes strategies to join up activities with key components being:

- sharing data to improve services
- making information available to the citizen.

The Data Protection Act 1998 and the Freedom of Information Act 2000 are the cornerstones of the Government's information policy.

The Council has recognised the need to develop a corporate approach to managing information and records management and has taken a significant step by establishing the post of Information Management Officer.

### Data protection

We followed up our 2001 review of compliance with the Data Protection Act 1998. We agreed that the Council should:

- ensure a stronger corporate overview of Data Protection compliance

- review the policy on maintaining records of systems holding personal data, and consider developing such records, whether these are held centrally or within Departments.

### Freedom of Information

We also undertook a review of your arrangements for the implementation of the Freedom of Information Act and have agreed the Council needs to:

- establish clear sponsorship of information issues at Senior Officer and a Member levels
- establish a formal project plan and clearly defined milestones for the implementation of the Freedom of Information requirements
- involve all Services in the preparations
- identify the skills and competencies required to achieve adequate record management and develop an appropriate training and awareness programme.

## Audit assurance work

### Accounts

*We issued an unqualified audit opinion on 18<sup>th</sup> December.*

### Reporting to the Council

Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance' requires us to report issues arising from our audit to Members before we give our audit opinion on your financial statements.

We reported to Resources EMAP under SAS 610 on 15<sup>th</sup> December 2003.

### Best value performance plan (BVPP) audit

*The Council's 2003/2004 BVPP complies in all significant respects with statutory requirements.*

*Arrangements for coordinating and producing performance information have improved, but these are yet to deliver improvements in the accuracy of the indicators.*

We have a duty to audit your BVPP under the Local Government Act 1999. The statutory audit report was issued on 12<sup>th</sup> December and includes:

- an unqualified opinion
- no formal recommendations
- no recommendations to the Audit Commission or the Secretary of State.

As performance management improves it is critical that the information used to set targets, allocate resources and monitor service delivery is accurate. To achieve this your Performance Improvement Team has established a framework for the production and quality assurance of performance information. Our detailed audit of the accuracy of the Audit Commission Performance Indicators (ACPIs) shows that, despite this apparent improvement in arrangements, progress has not yet been made in the quality of the outturn figures. In particular we have concerns about:

- the significant delays in producing some of your key corporate PIs that rely on outside agencies for information
- the reliance on the production of an addendum to the Council Plan to allow for corrections to performance information.

### **Audit and inspection fees**

The proposed fee for the 2002/2003 audit and inspection programme was set out in our Audit and Inspection Plan at the start of the year. The table over compares actual and planned fees.

**EXHIBIT 4 – AUDIT FEEDS**

<b>Audit area</b>	<b>Plan 2002/2003 £</b>	<b>Actual 2002/2003 £</b>
Accounts	57	57
Financial aspects of corporate governance	53	53
Performance	27	27
TOTAL CODE OF AUDIT PRACTICE AUDIT FEE	137	137
Inspection	0	0
TOTAL AUDIT FEE	137	137

### **Strategic regulation: future audit and inspection work**

Strategic Regulation contributes to improvement in public services by ensuring regulators collaborate to identify your priorities for improvement, and provide assessments that are useful to managers, politicians and the public.

For the first time we have brought together co-ordinated audit and inspection plans that make clear how our work supports the improvement agenda of each single tier and county council. These plans are now available on the Audit Commission website.

Audit and Inspection planning for 2004/2005, linked to your improvement plan, will be carried out in early 2004.

### **Status of our Audit and Inspection Annual Letter**

Our Annual Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. The Letter is prepared by the Relationship Manager and District Auditor and is addressed to Members and officers. It is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director or officer in their individual capacity, or to any third party.

## **Closing remarks**

This Letter will be discussed and agreed with senior officers and the Executive. A copy of the Letter will be provided to all Members and will be presented to the Executive in January.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit and inspection which makes a positive and practical contribution which supports your improvement agenda. We recognise the value of your co-operation and support.



**Mark Kirkham**  
**District Auditor and Relationship Manager**  
**January 2004**



**Audit and Inspection reports issued during 2002/2003**

Audit plan	April 2003
Grant Claim report	April 2003
PFI letter	August 2003
SX3 memo	August 2003
Supporting people report	August 2003
LPSA report	September 2003
Data Protection Act	September 2003
People Management	September 2003
Governance Report	September 2003 – draft
Best Value Report	November 2003
Freedom of information	November 2003 – draft