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Meeting	Audit & Governance Committee
Date	20 December 2016
Present	Councillors N Barnes (Chair), Dew (Vice-Chair), Cuthbertson, Fenton, Flinders, Kramm and Lisle and Mr Mendus
Apologies	Mr Bateman

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#### **41. Declarations of Interest**

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda.

Councillor Flinders declared a disclosable pecuniary interest in agenda item 4 (Programme/Project Management Update in respect of York Central), as a project manager and an employee of Network Rail. He stated that he would refrain from any debate in respect of the York Central project.

Councillor N Barnes declared a pecuniary interest in respect of references to the Community Stadium project referred to in agenda items 4, 6 and 8, as his employer was a sponsor of York City Football Club. He stated that he would vacate the Chair and leave the room during any discussion of this issue during agenda 8 (Mazars Value for Money Review 2015/16), because of the substantial references to the project in this report.

#### **42. Minutes**

Resolved: That the minutes of the meeting held on 7 December 2016 be approved and then signed by the Chair as a correct record.

#### **43. Public Participation**

It was reported that there had been two registrations to speak at the meeting under the Council's Public Participation Scheme and that one member of Council had also registered to speak. Ms Swinburn spoke in respect of the items on the agenda relating to internal and external audit reports. She stated that she had multiple concerns regarding issues within the audit reports, including the Internal Audit Report on School Governance, the Internal Audit Report on the Use of Interims, Specialists and Consultants, staff declarations of interests and officer conflict of interests. Ms Swinburn stated that she was particularly concerned that the 2015/16 annual accounts were to be signed-off without the committee having received the Internal Audit Report on Procurement. She outlined the objection that she had raised to the accounts and gave examples of concerns she had regarding procurement procedures, including the contract with Veritau which she stated was out of date and in breach.

Mr Whiteley spoke in respect of agenda item 5 – Audit and Counter Fraud Monitoring Report, with specific reference to annex 2 of the report – Variations to the 2016/17 Audit Plan. He expressed concern at the 25 days that were to be allocated to carry out a review of governance arrangements at Joseph Rowntree School, as requested by the Assistant Director, Education and Skills. Mr Whiteley stated that, as a former governor of the school, he believed that the school was well managed and appropriately governed, as evidenced by the support it was asked to give to Canon Lee School. He stated that the 25 days allocated to the audit appeared to be excessive and would be seen as a punishment by the school governors, who gave their services as volunteers.

Councillor Warters spoke in respect of agenda item 7 – Mazars Audit Progress Report. He drew Members' attention to the "valid objection" which had been referred to in the report. Councillor Warters stated that that the committee needed to receive the procurement reports from Mazars and from the Internal Auditors as soon as possible, and that a special meeting should be convened in January 2017 to consider these matters.

#### **44. Programme/Project Management Update Report**

Members considered a report which presented an update on the project management framework, detailed the areas of the framework that were being strengthened and provided an update on the major or “Large” projects.

Officers gave details of the improvements that had been implemented, as outlined in the report, and of further improvements that were to be implemented in 2017, including developments in the software and offering additional Verto training.

In response to questions from Members, officers confirmed that the Verto system did have the facility to include contract documentation in its document store.

Members asked if officers were confident that the Council had the expertise and capacity to deliver the current projects that were underway. They confirmed this to be the case.

Officers were questioned about the monitoring arrangements that were in place, including the role of CMT and within individual directorates. They gave details of the monitoring processes and reminded Members that the projects were also subject to the scrutiny of internal and external audit. Officers stated that they also valued the challenge that the committee gave through its consideration of the update reports.

Referring to the York Central project, Members requested that an Executive Member be named, in addition to the Lead Member Board.<sup>1</sup>

Members suggested that it would be useful to receive examples of the project management arrangements that were in place for those medium size projects which officers identified as being of interest to the committee, and to consider in more detail examples of mitigation that had been put in place to address risk. It was agreed that it would be useful to explore these issues in more detail in a briefing session prior to the presentation of the next quarterly update report.<sup>2</sup>

Officers were congratulated on the progress that had been made in project management, including the use of Verto for recording progress in all medium and large projects.

Resolved: That the update on the programme and project management be noted.

Reason: To ensure that the committee is kept updated on key programme and project activity.

Action Required

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| 1. Include requested information             | DA |
| 2. Provide briefing session ahead of meeting | DA |

**45. Audit and Counter Fraud Monitoring Report**

Members considered a report which provided an update on progress made in delivering the internal audit workplan for 2016/17 and on current counter fraud activity.

Officers stated that work was on track to complete the audit plan.

Referring to an issue raised under the Public Participation agenda item, officers were asked about the reasons for allocating 25 days to a review of governance arrangements at Joseph Rowntree School. Officers stated that the audit had been requested by the Assistant Director Education and Skills and had been agreed by the Headteacher, Governing Body and Senior Leadership Team. The intention of the review was to help the school and it was not a punitive action. It was agreed that further information on this audit plan variation would be circulated to Members following the meeting.<sup>1</sup>

Referring to a further matter that had been raised under the Public Participation item, Members sought confirmation that a contract was in place between the Council and Veritau. They were informed that a current contract was in place and had not been breached.

Referring to the “reasonable assurance” opinion that had been given to the audit on the Use of Interims, Specialists and Consultants, officers were asked if this opinion would be revisited once the investigation into issues arising from the internal audit report on Procurement had been completed. They stated that this would not be the case as the audit had been an assessment of the current arrangements that were in place.

The breaches of the council's financial regulations that had been referred to in paragraph 11 of the monitoring report related to a different time period when the current arrangements had not been in place.

Clarification was sought as to when the audit report on procurement would be available to the committee. Officers stated that, although this report had not been published pending the outcome of the investigation, it would be possible for the committee to receive an overview report on procurement, which outlined how the contract procedure rules and procurement policies were being implemented. The Corporate and Scrutiny Management Policy and Scrutiny Committee had also given consideration to this issue. Members agreed that it would be useful to include this as an agenda item for a future meeting.<sup>2</sup>

Members expressed concern at the issues identified in the Schools Themed Audit – Information Governance which had been given a limited assurance opinion. They sought assurances that appropriate and timely actions were being taken to address the issues that had been identified. Officers confirmed that most of the targets were due to be implemented by July 2017 so, unless an earlier report was requested, the committee were scheduled to receive an update at their meeting in September 2017. Members were informed that each school was its own data controller but the Local Authority had a role in providing support and guidance. Further work in this area would be included in next year's audit plan. Members expressed concern that five schools had not responded to the audit. They requested that an interim report be presented to the committee outlining the actions that were being taken to address the issues raised and the implications for the Council.<sup>3</sup>

Resolved: That the progress made in delivering the 2016/17 internal audit work programme, and current counter fraud activity be noted.

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

#### Action Required

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| 1. Provide briefing note for circulation to the committee | MS |
| 2. Include on committee's work plan                       | EA |
| 3. Include on committee's work plan                       | EA |

#### **46. Mazars Annual Audit Letter 2015/16**

Members considered a report from Mazars – the Council's external auditors, which summarised the outcome of their audit of the Council's 2015/16 annual accounts and their work on the value for money conclusion.

Members' attention was drawn to the future challenges, as detailed in Section 5 of the report. It was noted that the major technical change in the need to account for highways infrastructure on a depreciated replacement cost basis, as required by the local government accounting code, was now to be implemented in 2017/18 and not in 2016/17 as had been stated in the report.

The external auditors were asked if they were satisfied with the Council's response to the recommendations arising from the Public Interest Report. They drew Members' attention to their comments on progress, as detailed in Annex A of the report and stated that, in respect of one or two recommendations, they had asked that actions be given priority in the near future although they acknowledged the reasons why they had not yet been completed. Officers gave an update on the situation in respect of recommendations 4 and 5 which related to the issuing of guidance regarding council-owned companies. At the request of Members, details were also given of the proposed arrangements for the single member decision making committee which would act as shareholder and oversee the business of all Council trading companies. It was noted that these meetings would be held in public although the rules in respect of exempt information would apply.

Resolved: That the matters set out in the Annual Audit report presented by Mazars be noted.

Reason: To ensure Members are aware of Mazars' progress in delivering their responsibilities as external auditors.

#### **47. Mazars Audit Progress Report**

Members considered a report from Mazars which reported on progress in delivering their responsibilities as external auditors.

The External Auditors detailed the present position in respect of the objection to the accounts, as set out in their written report. They stated that they had co-operated closely with Veritau and had had sight of the findings of the internal audit report. An action plan had been produced and many of the actions had already been completed. The External Auditors stated that they were satisfied that action was being taken. In response to questions from Members, the External Auditors confirmed that certification of completion of the audit would not be affected by the investigation instigated by the Chief Executive. They confirmed that the issue that had been identified related to controls around procurement and stated that all of the findings would be in the public domain. In response to questions from Members they confirmed that the objection was different in nature to the one which had previously resulted in the issuing of a Public Information Report, but that both were significant and required public reporting and action to be taken.

The External Auditors went through the factors that had been taken into account before issuing their unqualified opinion on the Council's financial statements and their Value for Money Conclusion. Their work had included testing to ascertain whether there were material errors in the accounts.

The Chair stated that he had been briefed by the Chief Executive on the position in respect of the Procurement Report. The Chief Executive had also expressed her willingness to meet with the Audit and Governance Committee. Members agreed that it would be useful for such a meeting to be arranged.<sup>1</sup>

The External Auditors were asked about the services offered by Mazars to support improvements in governance, including assessment surveys that could be undertaken by the Audit and Governance Committee. The External Auditors outlined some of the services that were available, including a tailored package that would include surveying members of the Audit and Governance Committee. These services would, however, incur a financial cost. The Chair commented that the committee had carried out a self-evaluation survey sometime ago and consideration could be given to repeating a similar exercise in the future.

Resolved: That the matters set out in the progress report be noted.

Reason: To ensure that Members are aware of Mazars' progress in delivering their responsibilities as external auditors.

Action Required

1. Arrange for committee to meet with Chief Executive JC

**48. Mazars Value for Money Review 2015/16**

*[Councillor N Barnes withdrew from the meeting and Councillor Dew took the Chair]*

Members considered a report from Mazars which gave consideration as to whether the Council's arrangements over some of the major programmes of work were effective in terms of governance, management of risk and project delivery.

The representatives from Mazars gave details of their findings in respect of the following areas of work, as detailed in Annex A of the report:

- **Overall Programme and Project Management Arrangements** – There had been a substantial improvement in this area. The role of the Audit and Governance Committee in this process was also acknowledged.
- **Community Stadium Project** – The complexity of the programme was acknowledged, as was the change in the scope of the project over time. Good practice had been identified in many areas including governance, project-management, a well-run procurement process and appropriate technical resourcing. It was the view of Mazars that the project was being managed effectively but that more information could have been made available to the public in respect of costs of the project, whilst recognising the need to exercise commercial sensitivity.
- **Older People's Accommodation Programme** – The programme was being managed well and being taken forward in a very effective way.
- **Better Care Fund and Integration** – The Council continued to play its part in this national initiative. As experienced nationally, there remained challenges in this area.
- **Future Shape and Size Initiative/Operating Model for Children's Prevention and Early Intervention Services**



– It was noted that the “Future Shape and Size” initiative had continued some of the themes of the previous Rewiring Public Services programme. The Council had taken the opportunity to clarify the direction of its transformational activity and the work would now be taken forward through individual projects within the new corporate programme.

Referring to recommendations 15 and 16 in respect of the Community Stadium project, Members sought clarification as to the “options on phasing” that could have been considered. The External Auditors stated there may have been a case for the Council to step back and consider the different options that were available. A strength of the new project management arrangements was the gateway approach, as this provided an opportunity to consider different options at stages of the project.

*[Councillor N Barnes rejoined the meeting and took the Chair]*

The External Auditors were asked if they believed that the Corporate Management Team had sufficient time and independence to effectively carry out their role in respect of project management. The External Auditors stated that there was a risk but, as evidenced in the reports that had been presented to the Audit and Governance Committee, more robust project management arrangements were now in place.

Clarification was sought as to how the implementation of the recommendations detailed in Annex A would be monitored. The External Auditors stated that the actions had been agreed with officers in the relevant areas and would be followed-up through their ongoing audit work. Officers confirmed that the actions would also be monitored internally and progress would be summarised in the Annual Governance Statement. Members requested that an update on progress be presented to the committee at their meeting in July 2017.<sup>1</sup>

The External Auditors were questioned about their comments in respect of financial information being made available to the public. They were also asked how other councils handled this issue. The External Auditors stated that their comments had been specific to the Community Stadium project and that City of York Council was not unusual in the approach that it took regarding making information public.

Resolved: That the report be noted.

Reason: To ensure that Members are aware of the issues and the action being taken by the Council.

Action Required

1. Include on committee's work plan

EA

**49. Audit and Governance Committee Forward Plan**

Members considered a report which presented the future plan of reports expected to be presented to the committee during the forthcoming year to September 2017. Members were invited to identify any further items they wished to add to the Forward Plan.

Clarification was sought as to the mechanism by which changes to the Council's Constitution were implemented, and the committee's role in this process. Officers confirmed that a standard item on changes to the Constitution was included on the committee's work plan. A suggestion was put forward that consideration be given to a review of the Council's Constitution. It was agreed that it would be useful for the committee to receive an overview report outlining the changes that had been made to the Constitution and seeking the Monitoring Officer's view as to how well it was functioning before determining whether a review of the Constitution was required.

Resolved: That the committee's Forward Plan for the period up to September 2017 be approved subject to the inclusion of the following additional agenda items:

- Audit Procurement Report to be presented to the committee as soon as possible after completion of the investigation (February 2017 if possible).
- Report on current procurement arrangements and procedures.
- Report on the actions arising from the School Governance Internal Audit Report and the implications for City of York Council.
- Implementation of progress in addressing actions arising from the Value for Money external audit reports.
- Overview report on the Council's Constitution

Reason: To ensure that the committee receives regular reports and briefings in accordance with the functions of an effective audit committee and can seek assurances on any aspect of the Council's internal control environment in accordance with its roles and responsibilities.

Councillor N Barnes, Chair

[The meeting started at 5.30 pm and finished at 8.00 pm].