

Meeting	Audit & Governance Committee
Date	28 September 2016
Present	Councillors N Barnes (Chair), Cuthbertson, Fenton, Flinders, Lisle, D'Agorne (Substitute for Councillor Kramm) and K Myers (Substitute for Councillor Dew) and Mr Mendus
In attendance	Councillor Warters
Apologies	Councillors Dew and Kramm and Mr Bateman

20. 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 Barnes declared a personal interest in agenda item 10 (Programme/Project Management Update) in respect of references to the Community Stadium, as his employer was a sponsor of York City Football Club.
- Councillor Flinders declared a disclosable pecuniary interest in agenda item 10 (Programme/Project Management Update), as he was employed as a project manager. He also declared a prejudicial interest in respect of any references to York Central and stated that he would refrain from participating in any discussion in respect of that project.

21. Minutes

Resolved: That the minutes of the meeting of 27 July 2016 be approved as a correct record and then signed by the Chair.

22. Public Participation

It was reported that there had been one registration to speak at the meeting under the council's Public Participation Scheme.

Ms Gwen Swinburn spoke in respect of agenda item 9 – Audit and Counter Fraud Monitoring Report and agenda item 4 – Annual Financial Report – Statement of Accounts. Ms Swinburn stated that she had participated in the statutory citizen audit of City of York Council accounts and had lodged a valid objection regarding procurement. She gave details of this objection, which related to officers being unable to locate finance and contract documentation which she had requested. Ms Swinburn also expressed concerns regarding findings detailed in the Internal Audit Report on Sub-Contracting Arrangements (Civil Engineering and Building Maintenance) which had been given a Limited Assurance opinion. Ms Swinburn quoted from the audit report and stated that the report highlighted concerns that had previously been raised regarding procurement. She asked that consideration be given as to whether the accounts should be signed off in these circumstances.

23. Annual Financial Report - Statement of Accounts 2015/16

Members considered a report which presented the final set of accounts for 2015/16. The report reflected the changes made since the draft pre-audit accounts had been presented to the committee on 27 July 2016.

Members' attention was drawn to paragraphs 12 and 13 of the report which outlined areas identified in 2015/16 which would form the basis of a structured improvement programme in the production of next year's accounts.

Officers were asked about the issue raised under the Public Participation agenda item regarding some financial documentation not being available to a member of public. Officers explained that policies and procedures, such as the Contract Procedure Rules, were in place and they were satisfied that in the majority of cases they were applied correctly. It was, however, *inevitable possible* that in an organisation which purchased goods and services to the value of around £130m, there would be occasions when not all of the documentation was available. The Finance Team's capacity was such that it had to focus its work on high spend or high risk areas. Much progress was being made in monitoring compliance and the Internal Audit team also contributed to this work. Compliance checks were carried out and action was taken when breaches had occurred. Officers confirmed that in instances when there

had been a variation from procedures, they did not believe that this undermined the robustness of the accounts.

[as amended at the meeting of 7 December 2016]

- Resolved:
- (i) That the matters set out in the Audit Completion Report presented by the external auditor be noted.
 - (ii) That the amended Annual Financial Report, at Annex A, be approved for signature by the Chair in accordance with the Accounts and Audit Regulations 2015.
 - (iii) That the letter of representation, as included in the Audit Completion Report, be approved for signature by the Director of Customer and Business Support Services.

- Reasons:
- (i) To ensure the proper consideration of the opinion and conclusions of the external auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.
 - (ii) and (iii) To ensure compliance with the International Auditing Standards and any relevant legislative requirements.

24. Mazars Audit Completion Report

Members considered the Audit Completion Report from Mazars which detailed the findings of their audit for the year ended 31 March 2016. Representatives from Mazars went through the key issues.

Members were informed that a local elector had lodged an objection to the Council's accounts and that Mazars were currently considering the Council's response to the issues raised in the objection. Mazars were intending to give an unqualified opinion on the statement of accounts and a Value For Money (VFM) conclusion on 30 September 2016. They would not, however, be able to certify completion of the audit until the objection had been determined, this was expected to be by the end of October 2016.

Members' attention was drawn to section 3 of the Audit Completion Report, which detailed the significant findings. Members were informed that particular consideration had been given to the management override of controls and also to pension entries. The external auditors stated that their work had provided the assurance they sought and that there were no matters to bring to Members' attention.

The external auditors informed Members of a significant matter that had required discussion with management. This issue related to the revaluation of Council dwellings. Whilst Mazars had accepted officers' views on the matter, they had recommended that the Council reviewed its approach to the revaluation of Council dwellings in the years when a full revaluation was not carried out. Officers had accepted this recommendation.

Members were informed that the recommendation in last year's Audit Completion Report to resolve historic discrepancies in the Council's bank reconciliation had been fully implemented and there were no outstanding issues.

Members' attention was drawn to the Value for Money conclusion detailed in Section 6 of the report. The external auditors stated that the Council had a good record of budget delivery and had achieved a better than expected outturn for both the General Fund and HRA in 2015/16. It was noted that ongoing pressures on the public finances meant that the medium term financial position was challenging.

The external auditors explained that the additional detailed probe work had recently been concluded on the following:

- Overall programme and project management arrangements
- The Community Stadium Project
- The Older Persons' accommodation project
- Integration of health and social care and the operation of the Better Care Fund
- The "Future Shape and Size" programme, which considered the Council's future operating model and how services might be re-shaped to meet the challenges faced by the Council

A separate report, setting out detailed findings and conclusions, would be discussed with officers and presented to the

committee but summary conclusions were outlined in the Audit Completion Report and were as follows:

- Improvements had been made to overall programme and project management arrangements. It was, however, important that the recommendations arising from the recent review by Veritau were fully implemented.
- As the procurement in respect of the Community Stadium was not yet completed, there were restrictions as to the information that could be made public because of commercial sensitivities. The external auditors stated that the Council had good arrangements in place, including a well-run procurement process. It was the external auditors' view that the Council could have provided more in its reporting, which may have given more assurance, but it was acknowledged that officers had sought legal advice as to what could be disclosed in public.
- The work undertaken on the older persons' accommodation programme had comprehensively addressed the issues that had been raised by Mazars previously.
- As experienced nationally, there were some significant challenges in progressing the integration of health and social care services. The Council had managed this difficult situation but there continued to be pressures and risks.
- The Future Shape and Size programme was progressing well. The external auditors did, however, recommend that milestones be included to show how the Council would move from where it was now to where it aimed to be.

Members requested that they received a copy of the report detailing the findings once this was finalised¹.

Members' attention was drawn to the tables within the Audit Completion Report which outlined the Value For Money assessment.

The external auditors also drew Members' attention to the progress made to date in implementing the recommendations arising from the Public Interest Report. Particular attention was drawn to recommendations 4 and 5 which related to the putting in place of guidance. The External Auditors stated that they believed this guidance to be important.

The external auditors expressed their appreciation of the support that they had received from the Council's finance team during the carrying out of the audit.

Members sought clarification as to how the value of the Council's housing stock was determined. They were informed that this was a desk top exercise carried out by appropriately qualified professional valuers employed by the Council and who acted in accordance with the relevant guidance. The Finance Team would work with the Property Services team to ensure that the recommendation from the external auditors was taken on board and would be reflected in the next draft accounts.

The external auditors were asked how they were dealing with the valid objection that had been lodged to the accounts. They stated that they were currently considering the Council's response to the matter that had been raised and they outlined the options that were open to them.

Members queried the role of the Audit and Governance Committee in monitoring the implementation of the recommendations arising from the Public Interest Report. It was noted that the Executive were leading on this issue. Members requested that they be kept updated on progress regarding those recommendations which were still outstanding².

Resolved: That the matters set out in the Audit Completion Report presented by the external auditor be noted.

Reason: To ensure the proper consideration of the opinion and conclusions of the external auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.

Action Required

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| 1. Arrange for report to be circulated/included on committee's work plan | EA |
| 2. Arrange for update to be provided to the Committee | JC |

25. Update on the Older Persons' Accommodation Review

Members considered a report that provided an update on progress in delivering the Older Persons' Accommodation Programme. Officers stated that progress on the project was on

target and they detailed some of the work that had taken place since they last reported to the committee. Officers responded to Members' questioning on particular aspects of the project and options that were being considered.

Members' attention was drawn to the risks outlined in the report and the mitigation that had been put in place.

The Chair reminded Members that the committee had requested that regular reports on the project be included in the committee's work plan because a previous audit had given only a limited assurance opinion. Members were asked to consider whether, in view of the progress that had now been made, the updates on the project should now be incorporated into the general project management updates that were presented to the committee.

Resolved: (i) That the report be noted.

(ii) That future updates on the programme be incorporated into the quarterly project management reports presented to the committee.

Reasons: (i) To ensure that the committee is kept updated and engaged on a key programme activity.

(ii) In view of the progress that had been made Members were content to receive future updates within the overall project management quarterly reports to the committee.

26. Key Corporate Risk Monitor 2 2016/17

Members considered a report which presented an update on the Key Corporate Risks for City of York Council and the refreshed Key Corporate Risk (KCR) Register 2016.

Members gave particular attention to the risk in respect of the Flood Risk Management which had been identified as a significant risk area. Members noted that there was no single agency tasked with the management of risk in relation to floods and that a collaborative approach was taken.

Officers were asked if the prioritisation of sites for the surface water work had been based on risk. They stated that a risk

based approach had been adopted and that this had also been applied in respect of the gulley cleansing programme.

Referring to KCR 09, officers were asked if the scrutiny review report on Ward Funding would be presented to the Audit and Governance Committee. Members were informed that it was not usual practice for the committee to receive scrutiny review reports as these went to the Executive, although they could request that this be included in the committee's work plan if the report identified issues which the committee wished to consider. The internal audit report on ward funding would, however, be presented to the committee in accordance with current reporting arrangements.

Officers were questioned about the arrangements that were in place to mitigate KCR 06 – workforce/capacity, including managing the loss of experience and expertise. Members were informed that a Workforce Development Plan was in place, and of some of the initiatives that were taking place including the apprenticeship scheme.

Officers gave details of the ways in which a more joined up approach was taken to risk management and project management, as outlined in paragraphs 28 and 29 of the report.

Members commented that it would be helpful if the direction of travel was indicated in future risk ratings to identify where risks had increased or decreased.

Resolved: (i) That the key corporate risks, detailed at Annex A of the report, be noted.

(ii) That the relevant responsibility for the management of flood risk be noted.

Reason: To provide assurance that the authority is effectively understanding and managing its key risks.

27. Internal Audit Follow Up Report

Members considered a report that provided the regular six monthly update to the committee on progress made by council departments in implementing actions agreed as part of internal audit work.

Members noted that, of the 68 agreed actions, 49 (72.1%) had been satisfactorily implemented and 11 (16.2%) were no longer needed.

Referring to recruitment checks 2015-16, Members expressed their concern that this action had not been completed due to other work commitments. Members stated that, in view of the importance of such checks, this action should have been prioritised. Officers clarified that the action related to the issuing of guidance to recruiting managers to help ensure DBS clearance was obtained and the establishing of a programme of reviews. DBS checks were being carried out. Members requested that they received further information on this issue to assure them that appropriate arrangements were in place.¹

Clarification was sought as to why no priority rating had been given to the audit recommendations in respect of the Better Care Fund, in view of its significance to the Council's budget. Officers stated that this had been an advisory audit.

Officers stated that they believed that, in general, good progress had been made by council departments to rectify weaknesses identified through internal audit work although there were actions that had not yet been implemented. In overall terms the implementation of actions was in line with that of previous years.

Resolved: That the progress made in implementing internal audit agreed actions, as detailed in paragraphs 5-14 of the report, be noted.

Reason: To enable Members to fulfil their role in providing independent assurance on the council's control environment.

Councillor D'Agorne requested that his concerns regarding the DBS checks action not having been completed, be recorded in the minutes.

Action Required

1 Arrange for information to be provided to the committee MB

28. Audit and Counter Fraud Monitoring Report

Members considered a report that 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 workplan.

Referring to paragraph 9 of the report, Members sought clarification as to whether the housing department had been set a target in respect of savings through housing fraud investigation. Officers agreed to provide information on this issue following the meeting.¹

Officers were asked if the target completion dates were realistic. They stated that managers were aware of the follow-up processes and hence the need to ensure that actions could be achieved within the dates set.

Officers were asked about the arrangements that had been put in place to address issues identified in the Sub-Contracting Arrangements (Civil Engineering and Building Maintenance) audit report which had been given a limited assurance opinion. Officers explained that an investigation had taken place into the issues that had been raised in the report. They stated that mechanisms were in place to ensure that the council met its statutory responsibilities and protected the public purse but that these arrangements did deter some local providers from tendering.

Referring to the Direct Payments audit, officers were asked if it would be possible to put in place alternative arrangements for the six customers who received Direct Payments into a personal dedicated bank account in order to address the issue that had been identified. Officers agreed to look into this issue and report back². Members agreed that the Health and Adult Social Care Policy and Scrutiny Committee should be made aware of the findings of the Direct Payments Audit Report.

Members expressed concern that a number of follow-up actions from the Health and Safety audit were still outstanding, several of which were priority two actions. Concerns were expressed that any failure to abide by the requirements of health and safety legislation could have severe consequences for the Council. Members sought assurances that the agreed actions were on target to be completed within the specified timescale and requested that a report on this be provided at the next meeting.

- Resolved: (i) That the progress made in delivering the 2016/17 internal audit work programme, and current counter fraud activity, be noted.
- (ii) That the Health and Social Care Policy and Scrutiny Committee be made aware of the findings of the internal audit report on Direct Payments³.
- (iii) That, at the next meeting, a report be received on the implementation of the required actions arising from the internal audit of Health and Safety⁴.

Reason: To enable Members to consider the implications of audit and fraud findings and ensure that appropriate follow-up is being progressed.

Action Required

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| 1. Arrange for information to be provided to the committee | MT |
| 2. Arrange for information to be provided to the committee | MT |
| 3. Refer to Health and Adult Social Care Policy and Scrutiny Committee | JC |
| 4. Include in committee's work plan | EA |

29. Programme/Project Management Update

Members considered a report which provided an update on the project management framework, including areas of the framework that were being strengthened. The report also provided an update on “large” projects.

In response to questions from Members, officers confirmed that large and medium projects that had been identified had been transferred to Verto – the corporate project management system.

Resolved: That the updates to the programme and the project management approach be noted.

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

30. **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 July 2017. Members were invited to identify any further items they wished to add to the Forward Plan.

A suggestion was put forward that the committee may wish to give consideration to issues in respect of procurement. Members noted that the Corporate and Scrutiny Management Policy and Scrutiny Committee had requested reports on this issue and it was therefore agreed that, to avoid duplicating work that was already taking place, the Audit and Governance Committee would not request further information on this issue at this time.

Resolved: That the committee's Forward Plan for the period up to July 2017 be approved subject to the following amendments¹:

- Project management quarterly update report to be presented at the meeting on 7 December 2016.
- Report on the implementation of actions arising from the internal audit report on health and safety to be presented at the meeting on 7 December 2016.
- Report on the detailed probe work that had been carried out by Mazars.

Reason: To ensure that the committee receives regular reports 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.

Action Required

1. Update Forward Plan

EA

Councillor N Barnes, Chair

[The meeting started at 5.30 pm and finished at 8.05 pm].