



Notice of a public meeting of

Audit & Governance Committee

To:	Councillors Pavlovic (Chair), Fisher, Lomas, Mason, D Taylor, Wann and Webb Mr Mann and Mr Mendus (Independent Members)
Date:	Wednesday, 5 February 2020
Time:	5.30 pm
Venue:	The George Hudson Board Room - 1st Floor West Offices (F045)

AGENDA

1. **Declarations of Interest**

At this point in the meeting, Members are asked to declare:

- any personal interests not included on the Register of Interests
- any prejudicial interests or
- any disclosable pecuniary interests

which they might have in respect of business on this agenda.

2. **Minutes** (Pages 1 - 10)

To approve and sign the minutes of the meeting of the Audit & Governance Committee held on 4 December 2019.

3. **Public Participation**

It is at this point in the meeting that members of the public who have registered their wish to speak can do so. The deadline for registering is by **5:00pm on Tuesday, 4 February 2020**.

To register please contact the Democracy Officer for the meeting, on the details at the foot of this agenda.

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The Council's protocol on Webcasting, Filming & Recording of Meetings ensures that these practices are carried out in a manner both respectful to the conduct of the meeting and all those present. It can be viewed at:

http://www.york.gov.uk/download/downloads/id/11406/protocol_for_webcasting_filming_and_recording_of_council_meetings_20160809.pdf

4. Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators (Pages 11 - 44)

This report asks Members to note the Treasury Management Strategy Statement and Prudential Indicators for 2020/21 to 2024/25, to be submitted to the Executive meeting on 13 February.

5. Counter Fraud Framework Update (Pages 45 - 98)

This report represents the third annual review of the council's 2017 counter fraud and corruption strategy and associated action plan, providing an update on progress against the actions in the strategy over the past three years and adding new actions for the next financial year.

6. Mazars Audit Update Report (Pages 99 - 112)

This paper introduces a report from Mazars on progress made in delivering their responsibilities as the council's external auditors.

7. Mazars Audit Strategy Memorandum (Pages 113 - 134)

This paper introduces a report from Mazars which summarises their audit approach, highlights significant areas of key judgements and provides details of their audit team.

8. Internal Audit Plan Consultation (Pages 135 - 140)

This report seeks Members' views on the priorities for internal audit for 2020/21, to inform the preparation of the annual audit plan.

9. Information Governance and Complaints

Report to follow

To receive a briefing report on Information Governance

10. Changes to the Constitution

To receive a verbal update from the Director of Governance on proposed changes to the Constitution, ahead of the meeting on 11 March 2020.

11. Audit & Governance Committee Forward Plan to December 2020 (Pages 141 - 148)

To consider the forward plan of reports expected to be presented to the committee up to December 2020.

12. Urgent Business

Any other business which the Chair considers urgent under the Local Government Act 1972.

Democracy Officer:

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Email: fiona.young@york.gov.uk

For more information about any of the following please contact the Democracy Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details are set out above.

This information can be provided in your own language.

我們也用您們的語言提供這個信息 (Cantonese)

এই তথ্য আপনার নিজের ভাষায় দেয়া যেতে পারে। (Bengali)

Ta informacja może być dostarczona w twoim (Polish)
własnym języku.

Bu bilgiyi kendi dilinizde almanız mümkündür. (Turkish)

یہ معلومات آپ کی اپنی زبان (بولی) میں بھی مہیا کی جاسکتی ہیں۔ (Urdu)

 (01904) 551550

City of York Council

Committee Minutes

Meeting	Audit & Governance Committee
Date	4 December 2019
Present	Councillors Fisher (Vice-Chair, in the Chair), Fitzpatrick (Substitute for Cllr Pavlovic), Lomas, Mason (except for Items 11 and 13), D Taylor and Wann Mr Mendus (Independent Member)
Apologies	Councillors Pavlovic (Chair) and Webb Mr Mann (Independent Member)

29. **Declarations of Interest**

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

Cllr Taylor declared a prejudicial interest in Agenda Items 8 (Settlement Agreements) and 11 (Whistleblowing Update), as he had made a protected disclosure under whistleblowing procedures several years ago, when employed by City of York Council. He left the room during consideration of those items and took no part in the discussions or decisions thereon.

30. **Minutes**

Resolved: That the minutes of the meeting held on 18 September 2019 be approved and then signed by the Chair as a correct record.

31. **Public Participation**

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

Gwen Swinburn spoke on internal audit and governance, as matters within the committee's remit. She raised concerns on a number of issues, including the involvement of residents in the review of governance arrangements, the social media policy, the Ombudsman's maladministration findings, the soundness of internal audit procedures and the handling of FOI requests.

32. Monitor 3 2019/20 - Key Corporate Risks

Members considered a report which presented an update on the council's key corporate risks (KCRs) for the third quarter of 2019/20, as set out in Annex A.

Since the last monitor report in September, changes had been made to KCRs 2 (Governance), 4 (Changing Demographics), 8 (Local Plan), 9 (Communities), 12 (Major Incidents) and 13 (Brexit). A detailed analysis of KCR8 was attached as Annex B, and the Assistant Director of Planning & Public Protection was in attendance to respond to any questions on that. Current gross and net risk ratings of all 13 current KCRs were summarised in Annex C. No risks had been added, removed, increased or reduced since the last monitor.

Members commented as follows on specific risk areas:

- KCR2 – whether the council had real controls in place in respect of Health & Safety monitoring;
- KCR3 (effective and strong partnerships) – the key role of partnerships, especially with the NHS, and the need for further information to be provided on this area;
- KCR7(capital programme) – there had been no update to the committee on major projects since 2017;
- KCR8 – the need to finalise the Local Plan as soon as possible to prevent speculative applications from developers.

Resolved: (i) That the key corporate risks detailed in Annex A and summarised in Annex C be noted.

(ii) That the information provided in Annex B in relation to KCR 8 (Local Plan) be noted.

(iii) That it be noted that the 2019/20 Monitor 4 report will include a detailed analysis of KCR9 (Communities).

(iv) That officers note Members' comments and provide the additional information requested.

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

33. Information Governance and Complaints

Members considered a report which provided an update on the council's performance from April 2019 to date on information governance, Information Commissioner's Officer (ICO) decision notices, publication of responses to Freedom of Information (FOI) and Environmental Information Regulations (EIR) requests, and Local Government & Social Care Ombudsman (LGSCO) complaints.

The following points were highlighted in the report and officers' presentation:

- Information governance figures for the first two quarters of the current year (Annex 1) showed improvements in the timeliness of responses across all areas during Quarter 2. Comparative data from previous years was provided in Annex 2, as requested.
- There had been one ICO decision notice in Quarter 2; this was summarised in Annex 3 and attached at Annex 3a. No actions were required; the council had correctly withheld the requested information but had not informed the requester within the timescale set out in the legislation.
- The backlog of FOI and EIR responses reported to the last meeting had been tackled, with responses to the end of July 2019 now published on the council's website. Work was ongoing towards compliance with new accessibility requirements requiring the removal of all pdf files from the site from March 2020.
- Cases concluded by the LGSCO were set out in Annex 4, with details of the decisions and actions recommended. The annual complaint report covering corporate, adult social care and children's social care complaints was available online with the agenda for the Customer & Corporate Services Scrutiny Management Committee meeting held on 11 November 2019.

In response to questions from Members, officers confirmed that:

- The responses backlog had resulted largely from resource issues within the team over the past 8 months;
- Responses were normally published after 2 months, to ensure completion of essential pre-publication work;
- Refusing a request for information was also classed as a response;

- Providing updates to Scrutiny committees could be considered, although duplication of roles should be avoided;
- In respect of the ICO notice, the council had responded to the requester soon after the deadline of 28 working days;
- That deadline could be extended in cases where the complaint was 'complex and voluminous'.

Resolved: That the details contained in the report, and the improved performance levels, be noted.

Reason: To maintain a proper overview of information governance and complaints processes.

34. Mazars Audit Update Report

Members considered a report which introduced a progress update report from Mazars, the council's external auditors.

The update report was attached as Annex A. Part 1 was a summary of audit progress, which was currently at the planning stage; Part 2 provided information on publications by the National Audit Office. Officers from Mazars were in attendance to present their report and answer any questions. They confirmed that some of the reviews reported as under way had now been completed, with no matters arising.

The Chair highlighted the request for more detailed sector-specific guidance indicated in the responses to consultation on the new Code of Audit Practice (p.88 of Mazars' report) and the need to ensure that reforms to business rates (p.90) were not detrimental to the council's funding.

Resolved: That the matters set out in the Mazars progress report at Annex A be noted.

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

35. Treasury Management Mid-Year Review and Prudential Indicators 2019/20

Members considered a report which provided an update on Treasury Management activities for the period 1 April to 30

September 2019. This report had also been presented to the Executive meeting on 28 November 2019.

The report, prepared in compliance with CIPFA's Code of Practice on Treasury Management, provided: an economic update for the first part of the 2019/20 financial year; a review of the Treasury Management Strategy Statement and Annual Investment Strategy; the prudential indicators; reviews of the council's investment portfolio and borrowing strategy; and a review of compliance with the Treasury and Prudential Limits.

It was confirmed that during the financial year 2019/20 to date, the council had operated within the treasury limits and Prudential Indicators, as set out in the report and Annex A. The increased cost of borrowing highlighted in paragraph 25 did not affect the council this financial year but would be kept under close review.

Resolved: (i) That the Treasury Management activities to date during 2019/20 be noted.

(ii) That the Prudential Indicators set out in Annex A, and the compliance with all indicators, be noted.

Reason: To ensure the continued performance of the council's Treasury Management function.

36. Settlement Agreements

Members considered a report which informed them of the process to be followed in respect of settlement agreements, as agreed by Staffing Matters & Urgency Committee (SMUC) following the recommendations made by Audit & Governance (A&G) Committee on 6 March 2019.

At their meeting on 5 August, SMUC had agreed with A&G Committee's recommendations and approved changes to the protocol and business case, as attached at Annexes 1 and 2 to the report. The process now would involve consulting the relevant Executive Member in each case, asking them to approve the parameters of the settlement agreement through the business case outlined by the chief officer. If agreed, negotiations would commence. A & G Committee would receive an annual report on the use and cost of settlements.

In response to questions from Members, officers confirmed that:

- Trades unions would be consulted on the process and provided with the documents;
- The independent advice referred to in paragraph 4 of annex 1 would be funded by the council at a rate of £350 +VAT in each case;
- Any breach of an agreement would be referred to the Legal team;
- The first annual report would be brought in April 2020.

Resolved: (i) That the report be noted.

(ii) That Audit & Governance Committee have oversight of the process via receipt of an annual report on the settlement agreements made throughout the year, including their cost.

Reason: To provide assurance and oversight by Members, as agreed by the Staffing Matters & Urgency Committee.

37. Audit & Counter Fraud Monitoring Report

Members considered a report which provided an update on progress towards delivering the council's internal audit work plan for 2019/20 and on current counter-fraud activity.

As of 20 November 2019, internal audit had completed 28% of the 2018/19 audit plan, compared to 15% at the same time last year. It was anticipated that the 93% target would be exceeded by the end of April 2020. Audits completed since the last update were detailed in Annex 1 to the report, agreed variations to the audit plan in Annex 2, and the current status of audits in the plan in Annex 3.

Counter fraud work had been undertaken in accordance with the approved plan and was summarised in Annex 4. Up to 31 October, the team had achieved £212k in savings for the council, against a target of £200k. Successful outcomes had been recorded for 65% of investigations completed.

Members queried the lack of detail provided in respect of internal fraud. Officers explained that this was to avoid disclosure of exempt information that might identify individuals. However, fuller information on categories of cases could be provided in future. With reference to the information requested

at the last meeting (Minute 24 refers), officers advised that the Health & Safety team had confirmed that all the outstanding actions were on course to be completed in time.

Resolved: That the progress made in delivering the 2019/20 internal audit work programme, and on current counter-fraud activity, be noted.

Reason: To confirm that Members have had the opportunity to consider the implications of audit and fraud findings.

38. Review of the Audit & Governance Committee Effectiveness

Members considered a report which sought their views on whether and how to undertake a review of the Audit & Governance Committee's effectiveness.

The last review had been conducted in 2012 and had resulted in a number of changes to the committee's terms of reference and operating arrangements. Options for how the review, if agreed, might be undertaken were set out in paragraph 4 of the report. Postponing the review was also an option.

The Chair queried whether this was the best time to begin a review, in the light of imminent changes at senior officer level. Having discussed the matter, Members

Resolved: That the review, and consideration of options in respect of its conduct, be deferred until the new Director of Governance is in post.

Reason: To enable the new Director to advise on the review from the outset.

39. Whistleblowing Update

Members considered a report which invited them to make their final comments on a proposed new whistleblowing policy for the council.

The final draft policy, attached at Annex 1, included tracked changes showing amendments to the version brought to the committee on 6 February 2019. The amendments had been made in the light of the views expressed at that meeting and the

comments of the Joint Standards Committee task group convened to consider the policy. Subject to any further comments, it would be considered by the council's Corporate Management Team in January prior to its approval by the Chief Executive. Veritau would continue to provide support and would report annually to Audit & Governance Committee on reports made under the policy, and any significant trends and issues raised.

During their debate, Members discussed how the policy could be extended to workers who were not council employees, suggesting that for contractors this could form part of the procurement process. It was confirmed that the council had no power to apply the policy to academies.

- Resolved: (i) That officers be asked to make the following additional amendments to the policy at Annex 1:
- Paragraph 3.5 - remove the words '*much less powerful, and*' from the second sentence;
 - Paragraph 2.2 – clarify how contractors working for the council will be able to use the policy;
 - Paragraph 4.1 – include a reference to contractors raising a concern.
 - Paragraph 5.7 – insert the words '*progress and*' between '*the*' and '*outcomes*' in the final sentence.
- (ii) That the arrangements for the policy to be approved by the Chief Executive, as outlined in the report, be noted.

Reason: In accordance with the committee's responsibility to assess the effectiveness of the council's counter-fraud arrangements, including the whistleblowing policy, and other relevant counter fraud policies and plans.

40. Social Media Policy and Process - a Review

Members considered a report which described the implementation of the council's social media policy and its impact to date and provided an update on the media protocol, as requested by the committee when they discussed draft versions of these documents on 21 June 2017 (Minute 7 of that meeting refers).

The current versions of the **social media policy and process**, approved by the Chief Executive in April 2018, were available online. These had attracted some comment as to whether they restricted human rights, but the legal position was that they did not. A social media plan had been drafted to manage the council's 81 social media accounts and training had been provided for members and officers on the policy. Corporate sites were monitored, with monthly evaluation reports to the Executive and Chief Officers. The majority of residents used the sites appropriately. In September 2019 a social media panel, chaired by the Corporate Director of Economy & Place, had reviewed accounts that had been blocked for infringing the policy and agreed the actions set out in paragraph 20 of the report. No further accounts had been blocked since then. The **media protocol** had been further updated in October 2019 and published online following Chief Executive approval.

In response to questions from Members, it was confirmed that:

- The Head of Communications was responsible for determining what constituted 'inappropriate' language; an example would be coarse language with a sexual content.
- Nobody had been blocked as a result of comments about individual council officers or their conduct.
- Details of blocked accounts could not be made public, as this would risk revealing information about individuals.
- If an account was blocked, after a year the account holder could appeal and another panel would be convened.

Resolved: (i) That the progress made in implementing the social media policy and process be noted, along with the next steps to be taken, namely to:

- Continue with the implementation of the policy and process and
- Progress a review and implementation of the plan to manage council social media accounts, as set out in paragraph 25 of the report.

(ii) That the progress of the media protocol be noted.

Reason: In accordance with the previous request for an update.

(iii) That Members receive further details of blocked social media accounts as exempt information at the next meeting.

Reason: To provide an oversight of the operation of the social media policy and process.

41. Audit & Governance Committee Forward Plan to September 2020

Members considered a plan of reports expected to be presented to future meetings of the committee, up to September 2020.

Resolved: That the plan be approved, subject to the following additions:

- Exempt information in respect of the social media policy (for the meeting on 5 February 2020)
- Annual update on non-disclosure agreements (meeting date tbc).

Reason: So that the committee has a planned programme of work in place, and in response to requests made at the meeting for additional information.

Cllr T Fisher, Chair

[The meeting started at 5.30 pm and finished at 7.08 pm].



Audit and Governance Committee**5 February 2020**

Report of the Head of Corporate Finance & Commercial Procurement (interim s151 officer)

Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2020/21 to 2024/25**Summary**

1. This report is a statutory requirement setting the strategy for treasury management and specific treasury management indicators for the financial year 2020/21. The strategy is set against a context of projected interest rates and the Council's capital expenditure programme and leaves investment criteria and limits largely unchanged.
2. The Council has significant investments and borrowing which bring with them financial risk including the loss of invested funds and the revenue impact of changes in interest rates. It therefore requires an overall strategy as well as practices and procedures to identify, monitor and control the risks.

Background

3. The Treasury Management Strategy Statement and Prudential Indicators 2020/21 to 2024/25 are attached at annex A and cover the:
 - Integrated treasury management strategy statement including the annual investment strategy and the minimum revenue provision policy statement;
 - Prudential indicators
 - Revised treasury management policy statement
 - Specified and non-specified investments schedule
 - Treasury management scheme of delegation and role of the section 151 officer
4. There are no significant changes to the strategy other than to include a 4th criteria for investments. After security, liquidity and yield the council will now also consider responsible investments as set out in paragraphs 76 to 82 of the report attached at annex A.

Consultation

5. Treasury management strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council. Both the revenue and capital budgets have been through a process of consultation, details of which are outlined in the budget reports to be considered by Executive on 13th February 2020.

Options

6. It is a statutory requirement for the council to operate in accordance with the CIPFA Prudential Code.

Council Plan

7. The treasury management strategy statement and prudential indicators are aimed at ensuring the council maximises its return on investments and minimises the cost of its debts whilst operating in a financial environment that safeguards the council's funds. This will allow more resources to be freed up to invest in the council's priorities, values and imperatives as set out in the Council Plan.

Implications

Financial

8. The revenue implications of the treasury strategy are set out in the revenue budget report to be considered by Executive on 13th February 2020.

Legal Implications

9. Treasury Management activities have to conform to the Local Government Act 2003 and statutory guidance issued under that Act, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Other Implications

10. There are no HR, Equalities, crime and disorder, information technology or other implications as a result of this report

Risk Management

11. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Recommendation

12. Audit and Governance Committee are asked to:

note the treasury management strategy statement and prudential indicators for 2019/20 to 2023/24 at annex A.

Reason: So that those responsible for scrutiny and governance arrangements are properly updated and able to fulfil their responsibilities in scrutinising the strategy and policy.

Contact Details	
Author	Chief Officer responsible for the report
Debbie Mitchell Head of Corporate Finance and Commercial Procurement Ext 4161	Debbie Mitchell Head of Corporate Finance and Commercial Procurement (interim s151 officer)
Emma Audrain Principal Technical Accountant Ext 1170	
	Report approved <input checked="" type="checkbox"/>
Wards affected	All

Annexes

Annex A – Treasury Management Strategy Statement and Prudential Indicators for 2020/21 to 2024/25

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Executive**13 February 2020**

Report of the Head of Corporate Finance & Commercial Procurement (interim s151 officer)

Treasury Management Strategy Statement and Prudential Indicators for 2020/21 to 2024/25**Report Summary**

1. The purpose of this report is to seek the recommendation of Executive to Full Council for the approval of the treasury management strategy and prudential indicators for the 2020/21 financial year.

Recommendations

2. Executive are asked to recommend that Council approve:
 - The proposed treasury management strategy for 2020/21 including the annual investment strategy and the minimum revenue provision policy statement;
 - The proposed addition of ethical, social and governance as a 4th criteria for investments after security, liquidity and yield as set out in paragraphs 78 to 82 of this report
 - The prudential indicators for 2020/21 to 2024/25 in the main body of the report;
 - The specified and non-specified investments schedule (annex B)
 - The scheme of delegation and the role of the section 151 officer (annex D)

Reason: To enable the continued effective operation of the treasury management function and ensure that all council borrowing is prudent, affordable and sustainable.

Background

3. The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first function of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate

with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

4. The second main function of the treasury management service is funding of the council's capital programme. The capital programme provides a guide to the borrowing need of the council, essentially the longer term cash flow planning, to ensure that the council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet council risk or cost objectives.
5. The contribution the treasury management function makes to the council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
6. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
7. CIPFA (Chartered Institute of Public Finance and Accountancy) defines treasury management as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

Reporting requirements – Capital Strategy

8. The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare an additional report, a capital strategy report, which will provide the following:
 - a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability

9. The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
10. This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:
 - The corporate governance arrangements for these types of activities;
 - Any service objectives relating to the investments;
 - The debt related to the activity and the associated interest costs;
 - The payback period (MRP policy);
 - The risks associated with each activity.
11. Where a physical asset is being bought, details of market research, advisers used, ongoing costs and investment requirements will be disclosed, including the ability to sell the asset and realise the investment cash.
12. Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.
13. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

Reporting requirements – Treasury Management

14. The council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. The three reports are:
 - **Treasury management strategy statement and prudential indicators report** (this report) – which covers the capital plans including prudential indicators, the minimum revenue provision policy, the treasury management strategy and the annual investment strategy;
 - **Mid year treasury management report** – updates members as to whether the treasury activities are meeting the strategy, whether any policies require revision, amending prudential indicators if necessary;

- **Annual treasury report** – updates on treasury activity/ operations for the year and compares actual prudential indicators with estimates in the strategy.

15. These reports are required to be scrutinised before being recommended to the council. This scrutiny role is undertaken by Audit & Governance Committee.

16. The CIPFA code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers is also periodically reviewed.

Treasury management strategy for 2020/21

17. The treasury management strategy for 2020/21 covers two main areas:

Capital issues

- the capital programme and prudential indicators;
- minimum revenue provision (MRP) policy.

Treasury management issues

- prudential indicators which will limit the treasury management risk and activities of the Council;
- the current treasury position;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- creditworthiness policy;
- investment strategy;
- policy on use of external service providers;
- scheme of delegation and the role of the S151 officer

18. These elements cover the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Communities and Local Government (MHCLG) Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

Treasury management consultants

19. The council uses Link Asset Services, Treasury solutions as its external treasury management advisors.
20. The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.
21. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The capital prudential indicators 2020/21 – 2024/25

22. The council's capital expenditure plans are the key driver of treasury management activity and are the subject of a separate report on this agenda. The output of the capital programme is reflected in the capital prudential indicators, which are designed to assist member's overview of the council's capital programme to ensure that the capital expenditure plans are affordable, sustainable and prudent.
23. The capital prudential indicators along with the treasury management prudential indicators are included throughout the report:
- PI 1: Capital expenditure
 - PI 2: Capital financing requirement
 - PI 3: Ratio of financing cost to net revenue stream
 - PI 4: External debt
 - PI 5a: Authorised limit for external debt
 - PI 5b: Operational boundary for external debt
 - PI 6: Maturity structure of debt
 - PI 7: Surplus funds invested >364 days

24. **Prudential indicator 1 - capital expenditure.** This prudential Indicator is a summary of the council's capital expenditure plans forming part of this budget cycle. 2019/20 is included as a comparator. Detailed information on the individual schemes is provided in the capital monitor 3 and capital strategy report.

Capital Expenditure	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
General fund (Non HRA)	85.7	110.4	128.6	94.4	33.8	16.3
Housing revenue account	35.8	46.3	49.5	37.9	34.6	8.3
Total	121.5	156.7	178.1	132.3	68.4	24.6

Table 1: Capital expenditure

25. Table 1 details the capital expenditure of the council, based on the capital programme strategy report, excluding other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. There are no new PFI schemes forecast to be entered into in 2020/21.
26. Further details on this capital expenditure, and how it is funded, are included within the Capital Programme report elsewhere on this agenda.
27. **Prudential indicator 2 - the capital financing requirement (CFR) (council's borrowing need)**; the second prudential indicator is the council's capital financing requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.
28. The CFR does not increase indefinitely, because the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.
29. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the council's overall borrowing requirement, these types of scheme include a borrowing facility and so the council is not required to separately borrow for these schemes. As set out in paragraph 47 table 5 the projected level of debt is significantly below the CFR over the 5 year period.
30. Table 2 below, shows the capital financing requirement, excluding other long term liabilities:

Capital Financing Requirement	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Non Housing	244.7	304.0	320.1	331.0	326.5	320.9
Housing	146.4	146.4	146.4	146.4	146.4	146.4
Other Long Term Borrowing*	46.3	49.2	48.0	46.8	45.7	44.7
Total CFR	437.4	499.6	514.5	524.2	518.6	512.0

*Other Long Term is for PFI/PPP & Leases

Table 2: Capital financing requirement (CFR)

Minimum revenue provision (MRP) policy statement

31. The council is required to pay off an element of the accumulated general fund capital expenditure each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).
32. MHCLG regulations require full council to approve an MRP statement in advance of each year. A variety of options are provided to councils, so long as there is prudent provision. Full Council is recommended to approved the following MRP statement:
33. For capital expenditure incurred before 1 April 2008 the MRP policy will be:
 - **Asset life method (local approach)** - MRP will be based on the average life of the overall asset base of 33 years. This will be calculated as 3% on a fixed, straight line basis.
34. This provides for a 3% reduction in the borrowing need (CFR) each year.
35. From 1 April 2008 for all borrowing (including PFI and finance leases) the MRP policy will be:
 - **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
36. This option provides for a reduction in the borrowing need over approximately the asset's life. The asset life is an absolute maximum and wherever possible debt is repaid over a shorter period. Estimated asset life periods will be determined under delegated powers. With all debts, the longer the repayment period the higher the amount of interest incurred over the period of the loan and accordingly it is deemed prudent to reduce the period over which the repayments are made.
37. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).
38. Repayments included in annual PFI or finance leases are also applied as MRP.

Affordability prudential indicators

39. The prudential indicators mentioned so far in the report cover the overall capital programme and the control of borrowing through the capital financing requirement (CFR), but within this framework prudential indicators are required to assess the affordability of capital investment plans. These provide an indication of the impact of the capital programme investment plans on the council's overall finances.

40. Prudential indicator 3 - ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) and compares it to the council's net revenue stream.

Financing Costs	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %
Non-HRA	12.27	15.86	20.48	21.14	21.83	22.64
HRA	11.80	11.59	11.29	10.98	10.67	10.40
Total Ratio	12.17	14.98	18.54	18.95	19.37	19.89

Table 3: Ratio of financing costs to net revenue stream

41. The estimates of financing costs include current commitments and the proposals in the capital budget report considered elsewhere on this agenda.

42. The capital prudential indicators set out above ensure that the council's capital expenditure plans are affordable, sustainable and prudent. The treasury management function ensures that cash is available to meet the council's requirements in accordance with the Local Government Act 2003 and relevant professional codes

43. The treasury management function involves both the forecasting of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the prudential / treasury indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

44. The council's treasury portfolio position at 31st December 2019 is detailed below in table 4:

Institution Type	Principal	Average Rate
<u>Public Works Loan Board</u> PWLB (55) – Money borrowed from the Debt Management Office (Treasury Agency)	£229.1m	3.63%
<u>Market Loans</u> LOBO Loans (1) – Lender Option Borrower Option	£5.0m	3.88%

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West Yorkshire Combined Authority WYCA (4) – Zero interest loans the purpose of which are to help to fund York Central infrastructure projects	£2.4m	0.00%
Total Gross Borrowing (GF & HRA)	£236.5m	3.61%
Total Investments	£28.5m	0.73%

Table 4: Current position at 31st December 2019

45. The council had £236.5m of fixed interest rate debt, of which £139.0m was HRA and £97.4m general fund. The cash balance available for investment was £28.5m. As the capital programme has progressed the level of cash available for investment is gradually decreasing as expected as the Council is using previously held balances to fund the programme.
46. Within the prudential indicators, there are a number of key indicators to ensure that the council operates its activities within well defined limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. One of these is that the council needs to ensure that its total gross debt does not, except in the short term, exceed the total of the capital financing requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows the flexibility to borrow in advance of need but ensures that borrowing is not undertaken for revenue purposes.
47. **Prudential indicator 4 – external debt** Table 5 shows that the estimated gross debt position of the council does not exceed the underlying capital borrowing need. The Director of Customer & Corporate Services (s151 officer) confirms that the council complies with this prudential indicator and does not envisage difficulties for the future.

	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Gross projected debt	312.8	382.7	412.5	438.6	450.3	460.2
Total CFR	437.4	499.6	514.5	524.2	518.6	512.0
Under/(over) borrowed	Under	Under	Under	Under	Under	Under

Table 5: External debt < capital financing requirement

48. Table 5 shows a gap between actual and estimated borrowing and the CFR (driven by the use of internal funds to finance capital expenditure). The decision as to whether to continue to do this will take into account current assumptions on borrowing rates and levels of internal reserves and balances held by the council. The figures above show a decrease in the

gap between CFR and external debt as borrowing is taken to support capital expenditure, however this will be determined by the s151 officer and the figure above is a current broad assumption. Actual borrowing will be determined by the circumstances that prevail at the time on borrowing rates and levels of cash balances.

Prudential indicators: limits on authority to borrow

49. Prudential indicator 5A – authorised borrowing limit - It is a statutory duty under Section 3 (1) of the Local Government Act 2003 and supporting regulations, for the council to determine and keep under review how much it can afford to borrow. This amount is termed the “authorised borrowing limit”, and represents a control on the maximum level of debt. This is a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full council. It reflects the level of external debt, which, while not desired, could be afforded in a short term period of one to five years, but is not sustainable in the longer term.

Authorised Limit	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Gross projected debt	312.8	382.7	412.5	438.6	450.3	460.2
Total CFR	437.4	499.6	514.5	524.2	518.6	512.0
Operational Boundary	463.2 (£463.2m set at 19/20 Strategy)	509.6	524.5	534.2	528.6	522.0
Other long term liabilities	30.0	30.0	30.0	30.0	30.0	30.00
Total	493.2 (£493.2m Set at 19/20 Strategy)	539.6	554.5	564.2	558.6	552.0

Table 6: Authorised borrowing limit

50. Prudential indicator 5B – operational boundary. In addition to the “authorised borrowing limit”, the operational boundary is the maximum level of debt allowed for on an ongoing operational purpose. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

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Operational Boundary	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Gross projected debt	312.8	382.7	412.5	438.6	450.3	460.2
Total CFR	437.4	499.6	514.5	524.2	518.6	512.0
Short term liquidity	10.0	10.0	10.0	10.0	10.0	10.0
Total	463.2	509.6	524.5	534.2	528.6	522.0
	(£463.2m set at 19/20 Strategy)					

Table 7: Operational boundary

Prospects for interest rates

51. Current interest rates and the future direction of both long term and short term interest rates have a major influence on the overall treasury management strategy and affects both investment and borrowing decisions. To facilitate treasury management officers in making informed investment and borrowing decisions, the council has appointed Link Asset Services as its treasury adviser. Part of their service is to assist the council in formulating a view on interest rates. Table 9 below gives Link's central view:

	Bank rate %	PWLB borrowing rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2020	0.75	2.40	3.30	3.20
Dec 2020	0.75	2.50	3.50	3.40
Mar 2021	1.00	2.60	3.60	3.50
Dec 2021	1.00	2.90	3.80	3.70
Mar 2022	1.00	2.90	3.90	3.80
Dec 2022	1.25	3.20	4.10	4.00
Mar 2023	1.25	3.20	4.10	4.00

Table 9 – Link's interest rate forecast

52. The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

53. It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty

over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

54. The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.
55. In addition, PWLB rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.
56. Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Investment and borrowing rates

57. Investment returns are likely to remain low during 2020/21 with little increase in the following two years.
58. Borrowing interest rates were on a major falling trend during the first half of 2019/20 but then increased by 100bps on 9th October 2019. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

59. There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

Borrowing strategy

60. The borrowing strategy takes into account the borrowing requirement, the current economic and market environments and is also influenced by the interest rate forecast. The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the capital financing requirement), has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. Consideration will also be given to the maturity profile of the debt portfolio so the council is not exposed to the concentration of debt being in any one year.

61. Against this background and the risks within the economic forecast, caution will be adopted with the treasury operations. The section 151 officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

62. The HRA strategy for borrowing will be the same as the borrowing strategy described above for the whole council. The HRA Business Plan will guide and influence the overall HRA borrowing strategy.

63. All decisions will be reported to the appropriate decision making body (Executive and Audit and Governance Committee) at the next available opportunity.

Prudential Indicator 6 – Maturity of borrowing

64. Officers will monitor the balance between variable and fixed interest rates for borrowing and investments to ensure the council is not exposed to adverse fluctuations in fixed or variable interest rate movements. This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, a higher variable rate

exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investment rates are expected to rise.

65. The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions. The council does not currently have any variable rate debt.
66. The upper and lower limits for the maturity structure of fixed rate borrowing are set out below (with actual split for the current financial year included for comparison). This gross limit is set to reduce the council's exposure to large fixed rate sums falling due for refinancing in a confined number of years.

Maturity structure of borrowing				
	Lower	Upper	2019/20 Debt (%)	2019/20 Debt (£)
Under 12 months	0%	30%	6%	£15.0m
12 months to 2 years	0%	30%	2%	£4.0m
2 years to 5 years	0%	40%	8%	£18.9m
5 years to 10 years	0%	40%	30%	£71.6m
10 years and above	30%	90%	54%	£126.9m
Total Borrowing			100%	£236.4m

Table 10: Maturity structure of borrowing at 31st December 2019

Policy on borrowing in advance of need

67. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds..
68. Borrowing in advance will be made within the constraints of the CIPFA Prudential Code that:
- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
 - The authority would not look to borrow more than 36 months in advance of need
69. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt rescheduling

70. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

71. If rescheduling was done, it will be reported to the Executive / Audit & Governance Committee at the earliest meeting following its action.

Municipal Bond Agency

72. The establishment of the UK Municipal Bonds Agency was led by the Local Government Association (LGA) following the 2010 Autumn Statement which resulted in higher PWLB rates, greatly increasing the cost of new borrowing and refinancing. The purpose of the Agency is to deliver cheaper capital finance to local authorities. It will do so via periodic bond issues and by facilitating greater inter-authority lending. The Agency is wholly owned by 56 local authorities and the LGA. The council is a shareholder in the Agency with a total investment of £40k and will make use of this new source of borrowing as and when appropriate.

Annual investment strategy

Investment policy – management of risk

73. The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

74. The Council’s investment policy has regard to the following:

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018

75. The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return).

76. The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

- i. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

- ii. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
- iii. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- iv. This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in annex B under the categories of ‘specified’ and ‘non-specified’ investments.
 - Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.
 - Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
- v. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix
- vi. tables in annex B.
- vii. Transaction limits are set for each type of investment.
- viii. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see annex C).
- ix. This authority has engaged external consultants, (see paragraphs 19 to 21), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
- x. All investments will be denominated in sterling.
- xi. As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, (MHCLG), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a

statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

77. However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 93). Regular monitoring of investment performance will be carried out during the year.

Responsible investments

78. This is a topic of increasing interest. However, investment guidance, both statutory and from CIPFA, makes clear that all investments must adopt SLY principles – security, liquidity and yield: any other ethical issues must play a subordinate role to those priorities.

79. Link Asset Services is looking at ways in which they can incorporate these factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, they continue to review the options and will update as progress is made.

80. The Council has determined that the FTSE4Good index is a suitable measure to enable the inclusion of these measures within our investment criteria. The majority of the the banks and building societies we invest with directly are included in the top 50 UK companies listed on this index. However, there is currently no index that covers money market funds, or any non UK banks, so the index does not fully cover all our counterparties.

81. To be included in the FTSE4Good Index, companies must, for example, support human rights, have good relationships with the various stakeholders, make progress to become environmentally sustainable, ensure good labour standards not only for their own company but for companies that supply them as well, and fight bribery and corruption. An independent committee of experts develop the criteria and regularly update and review conformity to their Ethical, Social and Governance (ESG) standards.

82. Companies automatically excluded from the index series are tobacco companies, manufacturers of nuclear weapon systems, manufacturers of whole weapons systems, utilities involved in producing electricity from nuclear power, and businesses involved in the mining or processing of uranium. Oil and gas companies are not dismissed out-of-hand; instead, they are evaluated based on their efforts to reduce production of fossil fuels and evolve their business into more environmentally-friendly operations.

83. In future a 4th criteria to consider the FTSE4Good index, or any suitable alternative responsible investment index to be decided by the s151 officer, will be applied to all investments to ensure that the issues outlined above are considered and this report asks members to approve this formal amendment to the Treasury Strategy.

Creditworthiness policy

84. This council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modeling approach with credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

85. This approach combines credit ratings, credit watches, credit outlooks in a weighted scoring system which is then combined with an overlay of CDS (credit default swap) spreads for which the end product is a series of colour code bands, which indicate the relative creditworthiness of counterparties. These colour codes are also used by the council to determine the duration for investments. The council will therefore use counterparties within the following durational bands:

- Yellow* 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

**The yellow category is for UK Government debt or its equivalent (government backed securities) AAA rated funds*

86. The Link Asset Services creditworthiness model uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weighting to just one agency's ratings.

87. Typically the minimum credit ratings criteria the council use will be a short term rating (Fitch or equivalents) of F1 and Long Term rating A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

88. All credit ratings are monitored on a daily basis. The council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service:

- If a downgrade results in the counterparty/investment scheme no longer meeting the council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the council will be advised of information in movements in credit default swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the councils lending list.

89. Although sole reliance is not placed on the use of this external service, as the council uses market data and market information, information on government support for banks and the credit ratings of that supporting government, the suitability of each counterparty is based heavily on advice from Link.

90. Whilst the council has determined that it will not limit investments to UK banks, it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in annex C. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

Investment strategy

91. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

92. On the assumption that the UK and EU agree a Brexit deal, including the terms of trade, by the end of 2020 or soon after, then Bank rate is forecast to increase slowly over the next few years to reach 1% by quarter 1 2023. Bank rate forecasts for financial year ends (March) are:

2020/21	0.75%
2021/22	1.00%
2022/23	1.25%

93. For its cash flow generated balances, the council will seek to utilise a combination of business reserve accounts (call accounts), short notice accounts, short dated fixed term deposits and money market funds. In addition, the council will look for investment opportunities in longer dated

term deals with specific counterparties that offer enhanced rates for local authority investment. All investment will be undertaken in accordance with the creditworthiness policy set out above.

94. The council will use an investment benchmark to assess the performance of its investment portfolio of 7 day LIBID rate. These benchmarks are simple guides to maximum risk, so they may be breached from time to time depending on movements in interest rates and counter party criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change.

95. **Prudential indicator 7** - total principal investment funds invested for greater than 364 days. This limit is set with regards to the council's liquidity requirements and are based on the availability of funds after each year-end. A maximum principal sum to be invested for greater than 364 days is £15m.

	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Maximum limit per year for Investments > 364 days	15.0	15.0	15.0	15.0	15.0	15.0

Table 11: Investments over 364 days

96. At the end of the financial year, the council will report on its investment activity as part of its annual treasury report. It should be noted that the Investment policy, creditworthiness policy and investment strategy are applicable to the council's overall surplus funds and are also applicable to the HRA.

Consultation and options

97. The treasury management function of any business is a highly technical area, where decisions are often taken at very short notice in reaction to the financial markets. Therefore, to enable effective treasury management, all operational decisions are delegated by the council to the Director of Customer & Corporate Services, who operates within the framework set out in this strategy and through the treasury management policies and practices. In order to inform sound treasury management operations the council works with its treasury management advisers, Link Asset Services. Link Asset Services offers the council a comprehensive information and advisory service that facilitates the council in maximising its investment returns and minimise the costs of its debts.

98. Treasury management strategy and activity is influenced by the capital investment and revenue spending decisions made by the council. Both the revenue and capital budgets have been through a corporate process of consultation and consideration by the elected politicians. The revenue budget and capital budget proposals are included within this agenda.
99. At a strategic level, there are a number of treasury management options available that depend on the council's stance on interest rate movements. The report sets out the council's stance and recommends the setting of key trigger points for borrowing and investing over the forthcoming financial year.

Council Plan

100. The treasury management strategy statement and prudential indicators are aimed at ensuring the council maximises its return on investments and minimises the cost of its debts whilst operating in a financial environment that safeguards the council's funds. This will allow more resources to be freed up to invest in the council's priorities, values and imperatives, as set out in the Council Plan.

Implications

Financial

101. The financial implications of the treasury strategy are set out in the Financial Strategy Capital Strategy reports also on this agenda.

Human Resources (HR)

102. There are no HR implications as a result of this report

Equalities

103. There are no equalities implications as a result of this report

Legal Implications

104. Treasury management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Other implications

105. There are no crime and disorder, information technology or property implications as a result of this report

Risk management

106. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Report authors:	Chief officer responsible for the report:		
Debbie Mitchell Head of Corporate Finance & Commercial Procurement Tel: 01904 554161	Debbie Mitchell Head of Corporate Finance & Commercial Procurement		
Emma Audrain Principal Accountant	Report Approved		Date
Tony Clark Accounting Technician			
Wards Affected: Not Applicable			

For further information please contact the author of the report

Background papers

none

Annexes

Annex A – Interest rate forecast

Annex B – Specified and non-specified investments categories schedule

Annex C – Approved countries for investments

Annex D – Scheme of delegation and the role of the section 151 officer

Link Asset Services Interest Rate View

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Bank Rate														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	-	-	-	1.00%	-	-	-	-	-
5yr PWLB Rate														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.34%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	2.34%	2.40%	2.50%	2.50%	2.60%	-	-	-	2.80%	-	-	-	-	-
10yr PWLB Rate														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.55%	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	2.55%	2.60%	2.70%	2.80%	2.80%	-	-	-	3.10%	-	-	-	-	-
25yr PWLB Rate														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	3.07%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	3.07%	3.00%	3.10%	3.20%	3.20%	-	-	-	3.40%	-	-	-	-	-
50yr PWLB Rate														
	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	2.90%	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	2.90%	3.00%	3.10%	3.20%	3.20%	-	-	-	3.50%	-	-	-	-	-

Specified and non-specified investments categories**Annex B**

A variety of investment instruments will be used, subject to the credit quality of the institution, to place the council's surplus funds. The criteria, time limits and monetary limits applying to institutions or investment vehicles are listed in the tables below.

Investments are split into two categories of specified investments and non-specified Investments. Specified investments are relatively high security and high liquidity investments, which must be sterling denominated and with a maturity of no more than a year. Non-specified investments are those investments with a maturity period of greater than one year or are still regarded as prudent but may require more detailed scrutiny and assessment procedures.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this council. To ensure that the council is protected from any adverse revenue impact, which may arise from these differences, treasury officers will review the accounting implications of new transactions before they are undertaken.

Specified investments:

Counterparty type	Minimum 'high' credit criteria/colour band	Maximum investment limit per counterparty institution	Maximum maturity period
DMADF – UK Government	UK sovereign rating	£15m	6 months
UK Government Treasury Bills	UK sovereign rating	£15m	1 year
UK Government Gilts	UK sovereign rating	£15m	1 year
Term deposits - local authorities	UK sovereign rating	£15m	1 year
Part-nationalised UK Banks	Blue	£15m	1 year
Term Deposits - UK Banks and Building Societies	Orange Red Green	£15m £15m £8m	1 year 6 months 100 days
Term Deposits - Non-UK Banks (with a sovereign rating of AA-)	Orange	£15m	1 year
Certificates of Deposits issued by Banks and Building Societies	Orange/Blue	£15m	1 year
Collective investment schemes structured as open ended investment companies (OEICs) as below:-			

1. Money Market Funds CNAV	AAA	£15m	Liquid
2. Money Market Funds LVNAV	AAA	£15m	Liquid
3. Money Market Funds VNAV	AAA	£15m	Liquid
4. Ultra-Short Dated Bond Funds	AAA	£15m	Liquid
5. Bond Funds	AAA	£15m	Liquid

CNAV – constant net asset value**LVNAV – low volatility net asset value****VNAV – variable net asset value****NON-SPECIFIED INVESTMENTS:**

A maximum of 100% can be held in aggregate in non-specified investment

1. Maturities of ANY period

Counterparty type	Minimum credit criteria	Maximum investment limit per counterparty institution	Maximum Maturity Period
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Orange Blue Red Green	£15m £15m £15m £8m	1 Year 1 year 6 months 100 days
Certificates of Deposits issued by Banks and Building Societies	Red Green	£15m £8m	6 months 100 days
Floating Rate Notes	Long-term AAA	£15m	1 year
Property Funds: <i>the use of these investments may constitute capital expenditure</i>	AAA-rated	£15m	5 years

2. Maturities in excess of 1 year

Term Deposits– local authorities	UK Sovereign Rating	£15m	> 1 year
Term deposits – Banks and Building Societies	Yellow Purple	£15m £15m	5 years 2 years
Certificates of Deposits issued by Banks and Building Societies not covered by UK Government guarantee	Yellow Purple	£15m £15m	5 years 2 years
UK Government Gilts	UK sovereign rating	£15m	> 1 year

Collective investment schemes structured as open ended investment companies (OEICs) as below:-			
1. Bond Funds	Long-term AAA	£15m	> 1 year
2. Gilt funds	Long-term AAA	£15m	> 1 year

Approved countries for investments**Annex C**

This list is based on those countries which have sovereign ratings of AA- or higher, (based on the lowest available rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

This list is as at 03/01/20

AAA

- . Australia
- . Canada
- . Denmark
- . Germany
- . Luxembourg
- . Netherlands
- . Norway
- . Singapore
- . Sweden
- . Switzerland

AA+

- . Finland
- . United States of America

AA

- . Abu Dhabi (United Arab Emirates)
- . Hong Kong
- . France
- . United Kingdom

AA-

- . Belgium
- . Qatar

Treasury management scheme of delegation**Annex D****(i) Executive / Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy and annual outturn

(ii) Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities

(iii) Audit & Governance Committee

- receiving and reviewing reports on treasury management policies, practices and activities
- reviewing the annual strategy, annual outturn and mid year review.

(iv) Director of Customer and Corporate Services (section 151 officer)

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- all operational decisions are delegated by the council to the Director of Customer & Corporate Services, who operates within the framework set out in this strategy and through the treasury management policies and practices
- Approving the selection of external service providers and agreeing terms of contract in accordance with the delegations in financial regulations.

The treasury management role of the section 151 officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- all operational decisions delegated by the council to the Director of Customer & Corporate Services (s151 officer), who operates within the framework set out in this strategy and through the treasury management policies and practices
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
 - *Risk management, including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management, including methodology and criteria for assessing the performance and success of non-treasury investments;*
 - *Decision making, governance and organisation, including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
 - *Reporting and management information, including where and how often monitoring reports are taken;*
 - *Training and qualifications, including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

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**Audit and Governance Committee**

5 February 2020

Report of the Head of Internal Audit

Counter Fraud Framework Update

Summary

- 1 The council approved a new counter fraud and corruption strategy and associated action plan in 2017. This report represents the third annual review of the strategy. It updates the committee on progress against the actions set out in the strategy over the past three years and adds new actions for the next financial year. In addition the council's counter fraud risk assessment has been updated to reflect fraud risks currently facing the council.

Background

- 2 Fraud is a serious risk to the public sector in the UK. When fraud is committed against the public sector, money is diverted from vital public services into the hands of criminals. Fraudsters are constantly refining their tactics and techniques in order to circumvent the checks and controls put in place to prevent fraud from occurring. In order to protect income and assets public sector bodies must continuously develop their counter fraud activity to meet the evolving threat.
- 3 This report documents the annual review of the council's counter fraud framework which includes a counter fraud strategy and action plan, counter fraud policy and fraud risk assessment. In addition it informs the committee of national and local counter fraud developments.

National Picture

- 4 CIPFA's annual Fraud and Corruption Tracker report (annex 1) was recently released. The report details levels of fraud detected by local authorities across the UK in 2018/19. Key findings of the report include the following.

- Adult social care fraud was perceived as one of the three largest areas of concern for local authorities in 2018/19. Whilst the number of cases of fraud in this area declined from the previous financial year, the amount of loss recorded more than doubled. The average value associated with an adult social care fraud investigation nationally is £29k, though CIPFA report that this is in part due to some very large frauds detected.
 - Procurement Fraud is another area seen as being a high risk for local authorities. Fraud can take place at any point in the supply chain of goods and services making it difficult to detect. CIPFA reports that 12% of cases detected involved insider fraud and 5% involved serious and organised fraud.
 - The largest area of loss for local authorities is in council tax related discounts, e.g. single person discounts and council tax support. The amount of fraud detected has risen by over £5m since 2016/17 to £30.6m.
 - Levels of housing fraud detected nationally (in terms of both subletting and fraudulent right to buy applications) has fallen. However the average loss per case remains high at £32k. Councils nationally built the most new council homes since 1990 in 2018/19 and this investment in social housing continues to be at risk from false applications, illegal subletting and fraudulent right to buys.
- 5 Procurement fraud, adult social care fraud and council tax are all areas of focus for the counter fraud team in 2020/21 and specific actions are contained within the counter fraud strategy action plan (annex 2) and the counter fraud risk assessment (annex 3).
- 6 The most recent Fighting Fraud and Corruption Locally (FFCL) Strategy for local government was published in 2016 and runs until 2019. A new strategy is expected to be published in 2020 by the FFCL board which is hosted by CIFAS and made up of volunteers from relevant local and national bodies. Veritau participated in a regional meeting in October to help shape the strategy. Once published the new FFCL strategy will inform the council's own strategy. An action to revise the council's current strategy is also contained in the counter fraud strategy action plan.
- 7 In 2019, the Department for Work and Pensions (DWP) began joint working with local authorities to tackle fraud relating to both government managed benefits (e.g. housing benefit and universal credit) and council managed benefits (e.g. council tax support). To date, the amount of joint working in York has been modest. There

are nine investigations ongoing at present, but it is not possible at this stage to evaluate the pros and cons of joint working for the council.

Local Picture

- 8 The total amount of fraud detected up to quarter 3 of 2019/20 is £190k. The majority of loss comes from one area, adult social care, which accounts for 66% of all losses detected. A single case of fraud accounted for £86k of loss to the council. The investigation into the offence was successful, the debt was repaid in full and one person was successfully prosecuted. This was the council's first prosecution of an adult social care fraud.
- 9 When ongoing loss due to fraud is stopped or a debt that has arisen in the course of an investigation is repaid then this is recorded as an actual saving for the council. At the end of quarter 3, the counter fraud team helped to produce £235k of actual savings against an annual target of £200k.
- 10 In 2018 the council asked Veritau to oversee management of the council's whistleblowing policy. A review of the current policy and procedures against good practice guidance was completed in 2019 and an updated policy was subsequently drafted. Following consultation, the new policy was approved in January 2020. The promotion of the new policy to employees and managers is an action in the strategy action plan at annex 2.

Counter Fraud Framework Review

- 11 The council's Counter Fraud and Corruption Strategy 2017-19 was approved in February 2017. The strategy takes into account the national collaborative counter fraud strategy for local government in the UK (Fighting Fraud & Corruption Locally). No changes are required to the strategy itself, however the associated action plan, in annex 2, has been updated to reflect action taken, and the addition of new objectives for 2020/21.
- 12 It is recognised good practice for councils to assess their risk of fraud on a regular basis. The overall counter fraud risk assessment for the council is updated annually - the latest update is included in restricted annex 3.
- 13 A review of the council's Counter Fraud Policy has also been undertaken in January 2019 although no changes are currently required.

Consultation

- 14 Not relevant for the purpose of the report.

Options

- 15 Not relevant for the purpose of the report.

Analysis

- 16 Not relevant for the purpose of the report.

Council Plan

- 17 The work of internal audit and counter fraud supports overall aims and priorities by promoting probity, integrity and honesty and by helping to make the council a more effective organisation.

Implications

- 18 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 19 The council will fail to comply with proper practice if counter fraud and corruption arrangements are not reviewed periodically.

Recommendations

- 20 Members are asked to;
- comment on the updated Counter Fraud and Corruption Strategy Action Plan in annex 2

Reason

In accordance with the committee's responsibility for assessing the effectiveness of the Council's counter fraud arrangements.

- comment on the updated Fraud Risk Assessment and proposed priorities for counter fraud work set out in Annex 3.

Reason

To ensure that scarce audit and counter fraud resources are used effectively.

Contact Details

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Customer and Corporate Services
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**Report
Approved**



Date 24 January
2020

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

Fighting Fraud & Corruption Locally - The local government counter fraud and corruption strategy 2016 - 2019

Annexes

Annex 1 – CIPFA Fraud and Corruption Tracker 2019

Annex 2 – Counter Fraud and Corruption Strategy Action Plan

Exempt Annex 3 - Counter Fraud Risk Assessment

fraud and corruption tracker

Summary Report 2019



**CIPFA COUNTER
FRAUD CENTRE**

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- 3** Foreword
- 4** Introduction
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Foreword



Rob Whiteman
Chief Executive, CIPFA

As stewards of public money, it's the responsibility of each and every public sector organisation to take an active role in the fight against corruption, bribery and fraud. The impact of financial crime on the public sector is enormous. The diversion of funding from vital public services undermines public trust, financial sustainability, organisational efficiency and makes the vulnerable people in our communities that much worse off.

The CIPFA Fraud and Corruption Tracker (CFaCT) aims to provide a current national picture of public sector fraud and corruption for local authorities and to help identify counter fraud actions that must be taken. The report's findings provide valuable insights designed to help counter fraud practitioners in local government better understand national trends and emerging risks.

This publication is part of CIPFA's commitment to support the public sector and promote the principles of strong public financial management and good governance. Not only do our findings shed valuable light on the fraudulent activities happening in public organisations across our country, but they also showcase the important role that counter fraud measures play in the larger fight against fraud and corruption.

The findings from the 2019 CFaCT survey should not be understated. Understanding the emerging risks that similar sectors face can help organisations in the broader public sector increase their individual awareness, collaborate more effectively and take tailored action to prevent illegal activity from growing in the public sphere.

By working together, all agencies involved in protecting public resources can improve clarity and efficiency in tackling fraud. Ultimately the improved outcomes that result will benefit all communities.

The survey was supported by:

**Fighting
Fraud &
Corruption**
LOCALLY

**Local
Government**
Association

The CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre (CCFC) was launched in 2014. Building on CIPFA's 130-year history of championing excellence in public finance management, we offer a range of products and services to help organisations detect, prevent and recover fraud losses. We support the national counter fraud and anti-corruption strategy for local government, Fighting Fraud and Corruption Locally and were named in the UK Government's 2014 Anti-Corruption Plan and in the 2017–22 Anti-Corruption Strategy as having a key role to play in combating corruption, both within the UK and abroad. Through the annual CFACT survey, we lead on measuring and monitoring fraud, bribery and corruption activity across local government.



**CIPFA COUNTER
FRAUD CENTRE**

Acknowledgements

CIPFA would like to thank all the organisations that completed the survey along with those that helped by supporting, contributing insights and best practices, including:

- Local Government Association
- Home Office
- The Fighting Fraud and Corruption Locally board

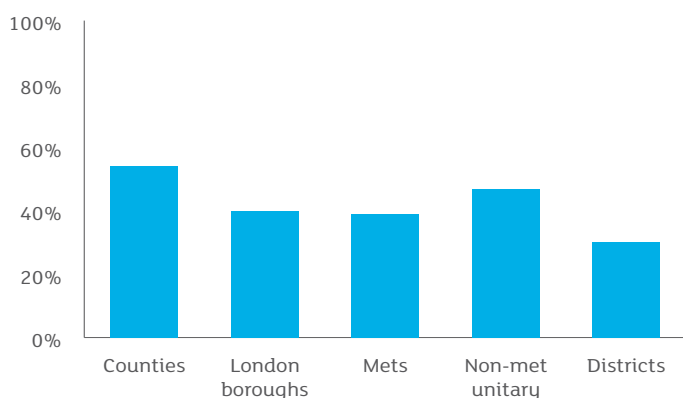
Introduction

CIPFA recognises that each pound lost to fraud represents a loss to the public purse and reduces the ability of the public sector to provide services to people who need them. According to the Annual Fraud Indicator 2017, which provides the latest set of government sanctioned estimates, fraud costs the public sector at least £40.3bn annually, £7.8bn of which is specifically in local government.

Fraud is a widespread cause of concern in the public sector and remains a constant financial threat to local authorities. This is an ongoing issue in the sector and partners such as the Local Government Association (LGA), the National Audit Office and the Home Office actively work towards new ways of finding solutions to the challenges unique to government.

CIPFA conducted its fifth annual CFaCT survey in May 2019, with the aim of creating a national picture of the types of fraud and amount prevented or detected in local authorities. The results were received from local authorities in all UK regions, allowing CIPFA to estimate the total figures for fraud across England, Scotland, Wales and Northern Ireland.

Response rate



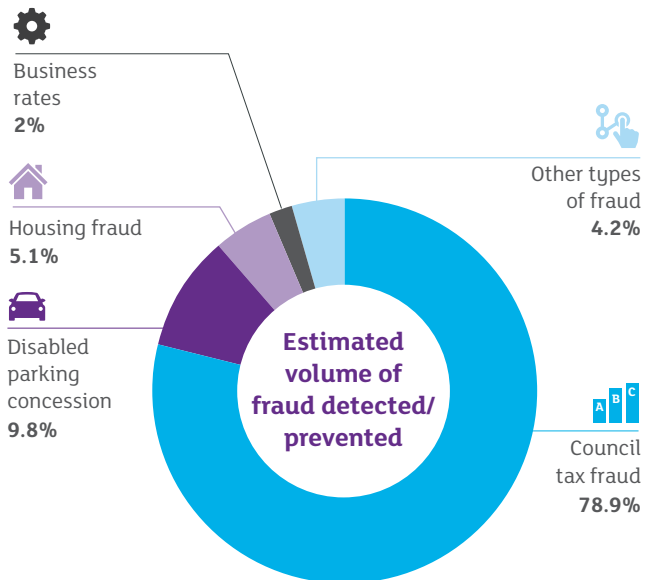
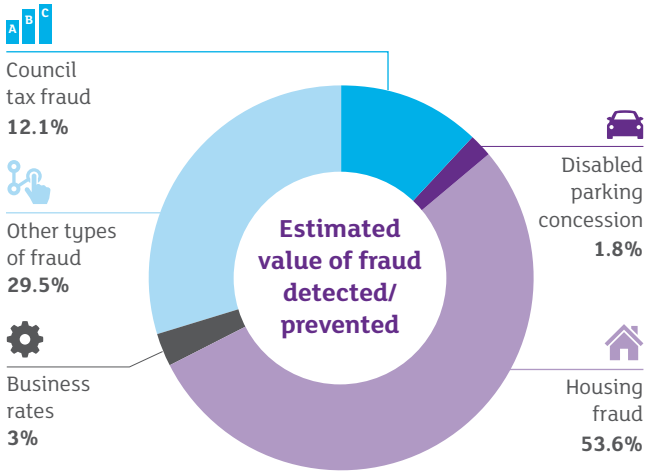
This report highlights the following:

- the types of fraud identified in the 2018/19 CFaCT survey
- the monetary cost of fraud in 2018/19
- the impact of counter fraud and prevention activities to improve the public sector budget
- the emerging risks and threats impacting the fraud and corruption landscape.



Executive summary

For local authorities in the UK, CIPFA has estimated that the total value of fraud detected or prevented in 2018/19 is approximately £253m, averaging roughly £3,600 per fraud case. In 2017/18 there was an estimated value of £302m with a similar average of £3,600 per case detected or prevented.



The decrease in the total value can be largely attributed to the successful work by public authorities in housing, which has seen a year-on-year reduction in the total number of unlawfully sublet properties and false right to buy applications.

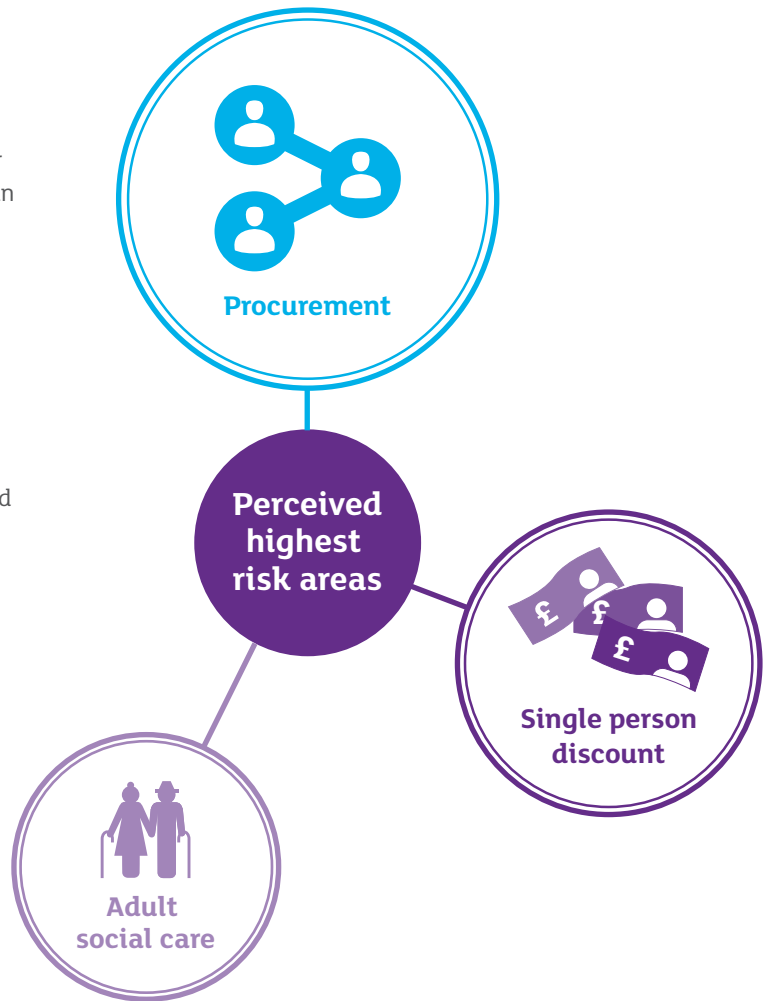
Improvements in the review of allocations and applications by many local authorities have limited the risk of new fraud cases and strengthened overall degrees of prevention. Together with low rates of tenancy turnover associated with the current social housing stock, this prevention strategy has been highly effective.

Councils reported that approximately 71,000 instances of fraud had been detected or prevented in 2018/19, which is lower than the approximate 80,000 reported by CIPFA in 2017/18. Council tax fraud represents 78% of these identified instances of fraud with an estimated value of £30.6m followed by disabled parking concession (Blue Badge scheme) and housing frauds representing 10% and 5% of the total cases of UK public sector fraud, respectively.

The area that has grown the most in the last year is council tax single person discount (SPD) with an estimated increase of £3.6m since 2017/18.

The three highest perceived fraud risk areas for 2018/19 remain unchanged from the previous iteration of this survey: procurement, council tax SPD and adult social care respectively.

Survey results show that nationally, the primary perceived issue that respondents think needs to be addressed to effectively tackle the risk of fraud and corruption is capacity – ie sufficient counter fraud resource. Better data sharing and effective fraud risk management follow as secondary and tertiary areas for improvement. Results from respondents have shown that they expect to increase the number of counter fraud specialist staff by 9% over the next year, a continuation of an upward trend for employing counter fraud specialists in councils.



In the last year, the value of fraud detected and prevented by local authorities in the UK was

£253m



Major fraud areas

For 2018/19, the CFaCT survey has shown that the four main areas of fraud (by volume) that local authorities are tackling are:

- council tax
- disabled parking (Blue Badge)
- housing
- business rates.

A B C Council tax

Council tax has continued to be the largest area of identified fraud over the last three years and is the top fraud risk for districts and unitaries, 43% and 26%, respectively. Although the volume is significantly higher when compared to other fraud risk areas, council tax does not represent the highest cumulative value amongst all surveyed types of fraud, estimated to total £30.6m. This high volume/low value continues to be a leading trend each year.

Table 1: Estimated council tax fraud

	2016/17		2017/18		2018/19	
	Volume	Value	Volume	Value	Volume	Value
SPD	50,136	£19.5m	46,278	£15.8m	44,051	£19.4m
CTR	6,326	£4.8m	8,759	£6.1m	8,973	£7.2m
Other	674	£1.1m	2,857	£4.5m	2,831	£4.0m
Total	57,136	£25.5m	57,894	£26.3m	55,855	£30.6m

The total number of detected and prevented fraud cases for council tax fell in 2018/19 after rising in previous years. However, the average values of frauds, especially for SPD, has risen resulting in an increase in the total value.

55,855

instances of council tax fraud amounted to



£30.6m

in the last year



Disabled parking (Blue Badge)

The survey has identified misuse of the Blue Badge scheme as one of the fraud risk areas that is increasing steadily. Although the number of cases has nearly halved since last year, the national estimated average value per case has increased from £499 to £657 in 2018/19. Although this value does not include cases with a normal cancellation upon death of the individual, the increase is likely to continue with new criteria in guidance released by the Department for Transport and Ministry of Housing, Communities & Local Government (MHCLG).

This guidance states that the Blue Badge scheme now extends to individuals with less ‘visible’ disabilities, such as dementia or anxiety disorder – one of the biggest changes to the scheme in nearly 50 years. These extended criteria came into effect in August 2019 and coincide with the launch of a new task force to aid local authorities in the prevention and detection of Blue Badge fraud.¹

This indicates that although procurement, council tax SPD and adult social care are identified nationally as the three main fraud risk areas,

Blue Badge fraud is an area of increasing risk and prominence.

Due to the varying nature of cases and local authorities’ individual calculation methods, at present there is no standard means of calculating the value of Blue Badge fraud. It is challenging to directly compare the value of fraud cases detected/prevented across all UK authorities.

For example, Greater London authorities place a higher value against the fraud loss in comparison to other local authorities, with an average value of £3,340 per case compared to counties who had an average of £260 per fraud case; this is partially due parking fees being much higher in Greater London.



Fraud from the misuse of the Blue Badge scheme is a fraud area that is steadily increasing.



The average case of Blue Badge fraud has increased from **£499** to **£657**



¹ www.gov.uk/government/news/review-of-blue-badge-fraud-as-scheme-is-extended-to-those-with-hidden-disabilities



Housing and tenancy fraud

In relation to housing fraud, councils record the income lost using different valuations that can range from a notional cost of replacing a property to the average cost for keeping a family in bed and breakfast accommodation for a year. These different approaches make it challenging to formulate clear comparisons. On a national scale, the value of fraud detected or prevented is considered in the two following ways:

- if the cases were pertaining to new-build accommodation
- if the cases were pertaining to temporary accommodation.

Table 2: Estimated housing fraud

Type of fraud	2016/17	2017/18	2018/19
	Volume	Volume	Volume
Right to buy	1,284	1,518	652
Illegal sublet	1,829	1,051	826
Other*	2,825	2,164	2,154
Total	5,938	4,733	3,632

*Other includes tenancy frauds that are neither right to buy nor illegal sublet, and may include succession and false applications.

3,632

instances of housing fraud occurred in the UK last year



In cases regarding new-build accommodations an average of £150k per fraud case is applied, compared to £18k for cases regarding temporary accommodations. This can be further explored by examining the comparison by tier (see Table 2).

There has been a steady downward trend in the number of housing and tenancy related frauds detected/prevented, decreasing by roughly 20% year-on-year. This trend likely indicates successful efforts by local authorities to tackle housing fraud and remove illegally sublet properties from the system.



Business rates

Business rate fraud represents 2% of the total estimated number of fraud cases detected or prevented in 2018/19. This represents a marginal increase from the previous year's figure of 1.7% and is reflected in the fact that councils reported it as the fifth highest fraud risk area on a national scale and third highest specific to districts.

Examples of business rates fraud include fraudulent applications for exemptions, tax

relief and the failure to list properties as being a business address. It often takes a visit from someone in the fraud team to discover the truth.

Even with the increased percentage overall, the estimated loss decreased to £8m from £10m the previous year.

Business rate fraud represents



2%

of all detected and prevented cases of fraud in the UK

Other types of fraud

This section of the report examines survey responses related to other notable types of fraud that did not emerge as major types of fraud within the national picture. This section includes the following fraud types, among others²:

- adult social care
- insurance
- procurement
- no recourse to public funds/welfare assistance
- economic and voluntary sector support and debt
- payroll, recruitment, expenses and pension
- mandate fraud and manipulation of data.



Adult social care

Table 3: Estimated adult social care fraud

Type of fraud	2016/17		2017/18		2018/19	
	Volume	Value	Volume	Value	Volume	Value
Personal budget	264	£2.7m	334	£3.2m	234	£9.6m*
Other	182	£2.8m	403	£3.5m	246	£4.1m
Total	446	£5.5m	737	£6.7m	480	£13.7m*
Average value per fraud		£12k		£9k		£29k*

*Please note that this figure is inflated by a small number of authorities and though it is not comparable, it shows the scope of fraud possible in this area.

In 2018/19, there was a reversal of the trend of a steady decline in the average value per fraud of adult social care. In 2018/19 the average value of personal budget fraud increased, primarily as a result of a small number of very high value frauds identified in two councils. Excluding these cases, the decline in the value and volume of personal budget frauds continued. Other fraud also showed a decline in numbers of cases identified but the average value increased.

² An explanation of each fraud can be found in the Glossary on page 23.



Insurance fraud

This year's survey reports an estimated number of 318 insurance fraud cases, valued cumulatively at £12.6m. In comparison to the previous year, both the estimated volume and value of insurance fraud cases in the UK more than doubled.

Respondents who identified insurance fraud also reported two confirmed insider fraud cases with a combined value of £43k.

Local authority insurance fraud cases included in this survey are a mixture of both one-off,

high-value employer liability claims (such as injury at work) and frequent, low-value public liability claims (such as 'slips and trips' or property damage).

Through pro-active risk management, many risks faced by councils are being effectively identified, treated and managed. In turn, these actions have led to more effective controls and better review and management of red flags against high risk claims, contributing to higher levels of fraud prevention or detection.



Procurement fraud

For the third year in a row, procurement fraud is seen as the highest fraud risk area. Services are constantly being procured by councils and fraud can take place at any point in the supply chain, making it difficult to both detect and measure especially once a contract has been awarded. Councils also undertake large value infrastructure and regeneration projects, usually subjected to outsourcing. As councils are responsible for the funding of these large projects, when procurement fraud does occur the sums can be significant.

This year, there was an estimated number of 125 prevented or detected procurement frauds with 12% of cases reported being insider fraud and 5% classified as serious and organised crime. This is a continued decline from 142 estimated fraudulent cases with a value of £5.2m in 2017/18 and 197 cases with a value of £6.2m in 2016/17.

Table 4: Estimated procurement fraud

2016/17		2017/18		2018/19	
Volume	Value	Volume	Value	Volume	Value
197	£6.2m	142	£5.2m	125	£20.3m*

*Please note this figure is attributable to mainly one organisation and though it is not comparable to other respondents, it shows the scope for fraud in this area.

This year, there was an estimated number of

125

prevented or detected procurement frauds.

Over the past 12 months MHCLG has been leading a review into the risks of fraud and corruption in local government procurement as committed to in the UK Government's Anti-Corruption Strategy 2017-2022.



Welfare assistance and no recourse to public funds

In 2018/19, the estimated number of fraud cases related to welfare assistance dropped significantly to 24. In 2017/18 and 2016/17 there were an estimated 109 and 74 cases, respectively. The scope for the volume of cases authorities can receive in this area was demonstrated last year where the average number of cases per authority was over three times the level identified in 2018/19.

2018/19 saw the number of no recourse to public funding cases fall to an estimated 148, down from an estimated 334 cases in the previous year. This decline can possibly be attributed to fewer respondents detecting/preventing fraudulent activity in this area.




Economic and voluntary sector (grant fraud) and debt

The number of grant fraud cases reported by local authorities responding to the survey has reduced to six cases with an average value per fraud loss of approximately £4,000. In the 2016/17 survey, there were 17 actual cases of grant fraud reported, which increased in 2017/18 to 24 cases with an average estimated loss of £14,000 per case.

The number of debt cases reported has increased to 53, and is valued at over £495,000 this year, compared to 38 reported cases in 2017/18 valued at over £150,000. This year, both the number and value of debt fraud cases increased, despite a decline in the survey's response rate. This might indicate that debt fraud likely has a higher scope for fraudulent activity than previously expected.



The number of grant fund fraud cases reported by local authorities has gone down to six. 



Payroll, expenses, recruitment and pension

The total value of the fraud loss for these four areas in 2018/19 was an estimated £9.42m. This figure was inflated by one incident of payroll fraud that was prevented by an authority and though it is not comparable on a national basis, it reflects the scope of fraud for this area.

Measuring the cost of these frauds can be quite difficult as they carry implications that include reputational damage, the costs of further recruitment and investigations into the motives behind the fraud. This could indicate that some organisations are less likely to investigate or report investigations in these areas.

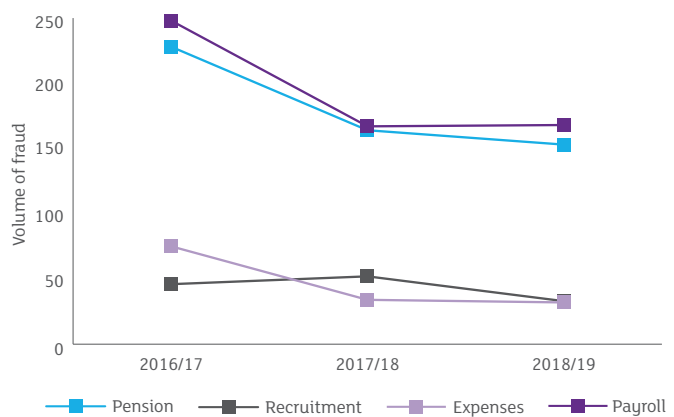
Payroll has had the highest volume and value of fraud out of these four areas (payroll, expenses, recruitment and pension) for every year since 2016/17. Recruitment fraud has the second highest with an estimated average per case of £11,381.

Table 5: Estimated payroll, expenses, recruitment and pension fraud

Type	2016/17		2017/18		2018/19	
	Volume	Value	Volume	Value	Volume	Value
Payroll	248	£1.0m	167	£1.01m	168	£8.77m*
Expenses	75	£0.1m	34	£0.03m	32	£0.04m
Recruitment	46	£0.2m	52	£0.49m	33	£0.38m
Pension	228	£0.8m	164	£0.57m	153	£0.23m
Total	597	£2.1m	417	£2.1m	386	£9.42m*

*Please note this figure is attributable to mainly one organisation and though it is not comparable to other respondents, it shows the scope for fraud in this area.

Changes in fraud volume



Manipulation of data (financial or non-financial) and mandate fraud

CIPFA estimates that across the UK in 2018/19 there were 34 cases of manipulation of data fraud, which is an increase from the estimated cases in 2017/18 following a dip compared to the year before that.

There were 322 estimated cases of mandate fraud in 2018/19 compared to 257 estimated cases detected or prevented in 2017/18.

Serious and organised crime

Organised crime often involves complicated and large-scale fraudulent activities which cross more than one boundary, such as payroll, mandate fraud, insurance claims, business rates and procurement. These activities demand considerable resources to investigate and require organisations to co-operate in order to successfully bring criminals to justice.

The 2018/19 survey identified 24 cases of serious and organised crime, a decrease from the 56 in 2017/18 which had doubled from the year before that. All of this year's cases come from metropolitan, districts, London boroughs and counties. This may indicate that larger and more complex authorities bear a greater risk of being targeted by serious and organised crime. The responses show that councils share a significant amount of data both internally and externally,

with 72% sharing data with the Cabinet Office/ National Fraud Initiative, 52% sharing data with the police and 49% sharing data with their peers (other councils).

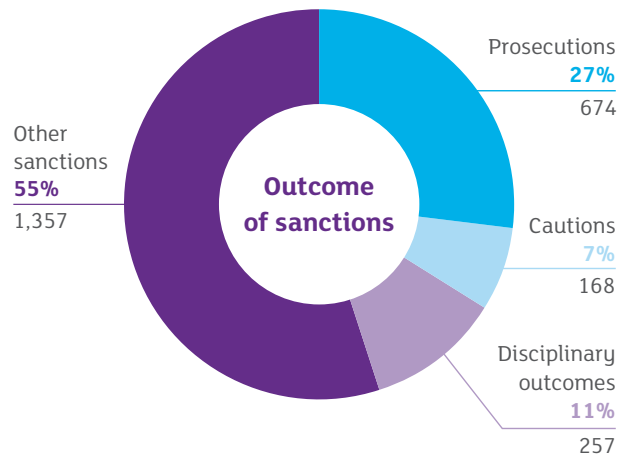
Of the organisations that responded, 35% identified serious and organised crime within their organisation's risk register.



Sanctions

The following shows some of the key findings from sanctions that are being used in CFaCT 2018/19:

- 674 prosecutions were completed in 2018/19. Of these 17 involved insider fraud and 14 of those insider fraud cases were found guilty.
- The number of cautions increased from 9% in 2016/17 to 13% in 2017/18 but reduced to 7% in 2018/19.
- The percentage of other sanctions dropped from 53% in 2016/17 to 46% in 2017/18 but increased to 55% in 2018/19.



Cyber fraud

Results from the CFaCT survey show that 74% of respondents last underwent a cyber/e-fraud risk assessment during or after 2018/19 and 78% state that the IT team/senior information risk owner is responsible for the management of cyber risk in their organisation.

Twenty seven percent of respondents stated that their organisation had been a victim of hacking/distributed denial of service attacks in the last month.

In response to the threat of cybercrime against local government, the LGA has set up a Cyber Security Programme and a stakeholder group, working to address the issues.

The LGA's Cyber Security Programme received three years of funding from the National Cyber Security Programme (NCSP) in 2018 to help councils remain safe from cyber attacks and put appropriate arrangements in place to deal effectively with a cyber incident should it occur, ie both prevention and response.

Whistleblowing

This year, 67% of respondents said they annually reviewed their whistleblowing arrangements in line with BS PAS 1998:2008 Whistleblowing Arrangements Code of Practice. Councils also named other codes of practices with which they are aligning.

Of those questioned, 86% confirmed that staff and the public had access to a helpdesk and 70% said that the helpline conformed to the BS PAS1998:2008.

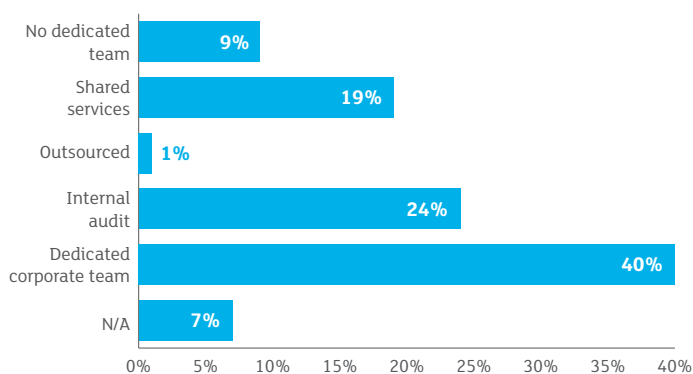
Respondents reported a total of 755 whistleblowing cases logged, made in line with

BS PAS 1998:2008, representing disclosures in all areas – not just with regard to suspected fraudulent behaviour. This is an average of six cases logged per authority, double last year's average of three per authority. Responses showed that the majority of cases were logged by London councils and metropolitan districts.

Counter fraud structure

Fraud teams across local government continue to detect and prevent a significant amount of fraud, although counter fraud resource is the main perceived issue that need to be addressed to tackle fraud. Councils are responding to this perceived need and expect the number of counter fraud specialist staff to grow by around 9% in the next year, followed by a small increase in 2021.

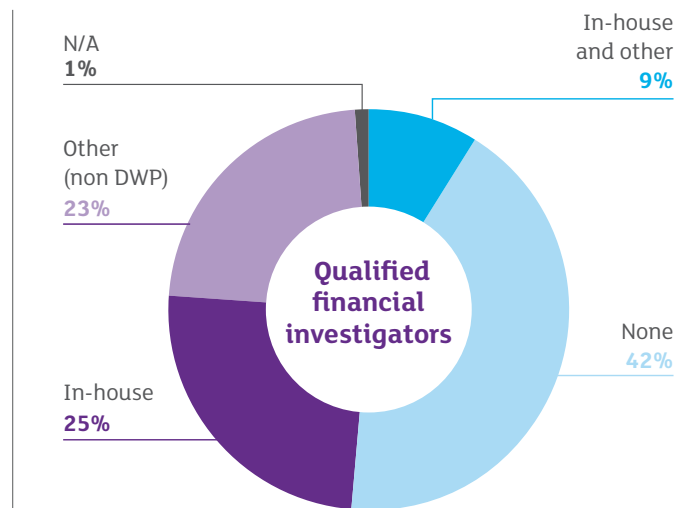
Counter fraud structure breakdown



Adopting a shared services structure is increasingly popular and this year it was reported that 19% of respondents have such a structure compared to 14% last year. Some smaller authorities have likely adopted this approach for its associated resiliency and cost efficiency.

There has been a decrease in authorities that have a dedicated counter fraud team – from 51% in 2017/18 to 40% in 2018/19. However, it is worth noting there may be a potential bias in this figure as those who have a dedicated counter fraud team are more likely and able to return data for the CFaCT survey.

The number of available in-house qualified financial investigators has increased from 31% in 2017/18 to 44% in 2018/19. In addition, the percentage of authorities that have a non-Department of Work and Pensions (DWP) qualified financial investigator increased from 23% in 2017/18 to 25% in 2018/19. However, the number of authorities that don't have a qualified financial investigator available to their organisation has increased from 41% last year to 43%.



Joint working/data sharing

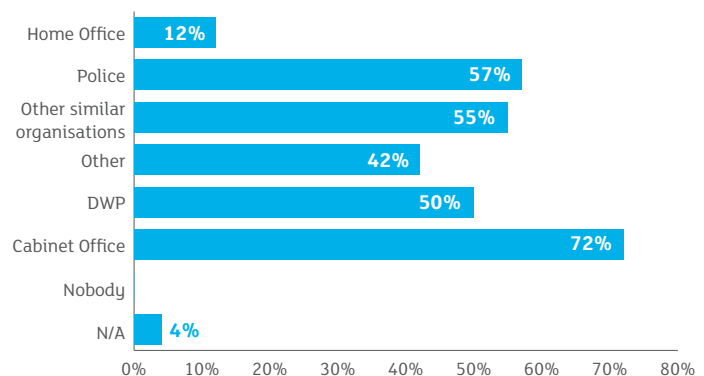
Eighty-nine percent of survey respondents have stated that they share data internally, mainly with housing, council tax and revenue/benefits departments.

Ninety-six percent of local authorities share data externally which is an increase of 2% from 2017/18. This data is mainly shared with Cabinet Office/National Fraud Initiative (72%), police (57%), other authorities/similar organisations (55%) and the DWP (50%).

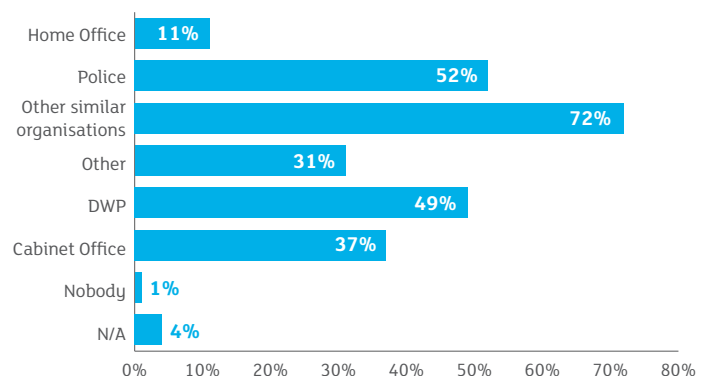
The sort of data that is shared relates to persons of interest, areas of interest and emerging frauds. Some authorities also highlighted that the kind of data they share is for data-matching purposes.

Of the CFaCT respondents, 72% say they work jointly with other similar organisations/peers, 52% work with the police and 49% with the DWP. Further breakdown is shown in the following chart.

Share/exchange data with:

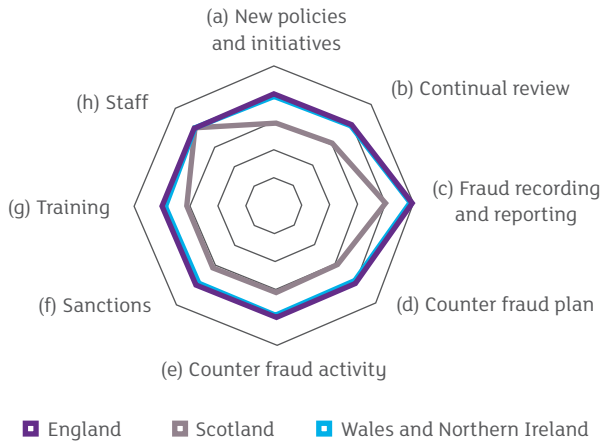


Work jointly with:



Fighting Fraud and Corruption Locally

The Fighting Fraud and Corruption Locally (FFCL) Strategy 2016-2019 was developed by local authorities and counter fraud experts and is currently being reviewed. It is the definitive guide for local authority leaders, chief executives, finance directors and all those with governance responsibilities.



This strategy is available for councils to use freely, so that everyone can benefit from shared good practice, and is aimed at local authority leaders. It provides advice on how to lead and communicate counter fraud and corruption activity for the greatest impact, as well as covering resource management and investment in counter fraud operations.

To measure the effectiveness of its 2016-2019 strategy, the FFCL board includes questions in the CFaCT survey. The questions ask respondents whether they agree or disagree that their organisation is carrying out certain actions, based on FFCL recommendations. The diagram to the left illustrates the results; lines closest to the outside edge indicate strong agreement while those towards the centre indicate disagreement.



The FFCL strategy is the definitive guide for local authority leaders. Everyone can benefit from good practice.



Recommendations

CIPFA recommends

- **The cumulative value of fraud prevented/ detected by local authorities has declined year-on-year.** Public sector organisations must remain vigilant and determined in identifying and preventing fraud throughout their procurement processes.
- **This year's findings show that shared services counter fraud structures are becoming more popular amongst authorities.** Effective practices for detecting and preventing fraud should be shared and adopted across the sector. Fraud prevention should be embedded in 'business as usual' across an entire organisation to improve the effectiveness of preventative measures.
- **Although the number of qualified investigators has increased over the past year, the survey shows a decline in the number of authorities with a dedicated counter fraud team.** All staff, across all public sector work functions, should receive fraud awareness training in order to better identify fraud risks, fraud attempts and implement effective controls.
- **According to respondents, a lack of adequate counter fraud resources is the main perceived issue that needs to be addressed to effectively tackle fraud.** All organisations should ensure that they have strong counter fraud leadership at the heart of senior decision-making teams. Fraud teams and practitioners should be supported in presenting business cases to resource their work effectively.
- **The survey shows that the overwhelming majority of authorities share data externally, however vast discrepancies exist among the organisations that receive that shared data.** Public sector organisations should continue to maximise opportunities to share data and to explore innovative use of data, including sharing with law enforcement bodies and third party experts.
- **In the past year, 89% of local authorities shared fraud-related data internally.** Where counter fraud functions are decentralised within an authority, counter fraud leads should ensure effective inter-departmental collaboration (ie between housing, IT (cyber security), revenues, etc). For some authorities, necessary collaboration could be achieved through the formation of a counter-fraud working group.
- **In-line with the FFCL Strategy 2016-2019,** the importance of the fraud team's work should be built into both internal and external communication plans. Publicly highlighting a zero tolerance approach can work to improve the reputation and budget position of authorities.



The importance of the fraud team's work should be built into both internal and external communications plans. ”

Appendix 1: Fraud types and estimated value/volume

The table below shows the types of frauds reported in the survey and the estimated volume and value during 2018/19.

Types of fraud	Fraud cases	% of the total	Value	% of the total value	Average
Council tax	55,855	78.9%	£30.6m	12.1%	£548
Disabled parking concession	6,951	9.8%	£4.6m	1.1%	£657
Housing	3,632	5.1%	£135.6m	53.6%	£37,332
Business rates	1,404	2.0%	£7.7m	3.0%	£5,455
Other fraud	616	0.9%	£6.0m	2.4%	£9,779
Adult social care	480	0.7%	£13.7m*	5.4%*	£28,534*
Schools frauds (excl. transport)	391	0.6%	£0.7m	0.3%	£1,893
Mandate fraud	322	0.5%	£4.7m	1.8%	£14,506
Insurance claims	318	0.5%	£12.6m	5.0%	£39,636
Payroll	168	0.2%	£8.8m*	3.5%*	£52,270*
Pensions	153	0.2%	£0.2m	0.1%	£1,498
No recourse to public funds	148	0.2%	£1.4m	0.6%	£9,483
Procurement	125	0.2%	£20.3m*	8.0%*	£161,565*
Debt	77	0.1%	£0.6m	0.2%	£7,278
Manipulation of data	34	0.1%	na	na	na
Recruitment	33	0.1%	£0.4m	0.2%	£11,381
Expenses	32	0.1%	£0.0m	0.0%	£1,124
School transport	31	0.0%	£4.8m	1.9%	£154,601
Welfare Assistance	24	0.0%	£0.0m	0.0%	£1,824
Children social care	19	0.0%	£0.4m	0.2%	£22,076
Economic and voluntary sector support	14	0.0%	£0.1m	0.0%	£4,005
Investments	2	0.0%	na*	na*	na*

*The figures for investments are not available as only one response was received and thus the amount is not representative of the national average. The other figures in this table are affected by a small number of councils that had high value frauds not indicative of the national average.

Appendix 2: Methodology

This year's results are based on responses from 142 local authorities. An estimated total volume and value of fraud has been calculated for all local authorities in England, Wales, Scotland and Northern Ireland. Missing values are calculated according to the size of the authority and for each type of fraud an appropriate universal measure of size has been selected, such as local authority housing stock for housing frauds.

From the responses, the number of cases per each unit of measurement is calculated and used to estimate the missing values. Then, for each missing authority, the estimated number of cases is multiplied by the average value per case provided by respondents to give an estimated total value. As an illustration, if the number of housing

frauds per house is 0.01 and a missing authority has 1,000 houses in its housing stock, we estimate the number of frauds as 10. If the average value per case is £100,000 then the total estimated value of fraud for that authority is £1m.

Appendix 3: Glossary

Definitions below are taken from CIPFA's CFaCT survey, the Annual Fraud Indicator and other government sources.

Adult social care fraud:

Adult social care fraud can happen in a number of ways but the increase in personal budgets gives a greater opportunity for misuse.

Investigations cover cases where:

- direct payments were not being used to pay for the care of the vulnerable adult
- care workers were claiming money for time they had not worked or were spending the allocated budget inappropriately.

Blue Badge:

The Blue Badge is a Europe-wide scheme allowing holders of the permit to parking concessions which are locally administered and are issued to

those with disabilities so they can park nearer to their destination.

At present, a badge issued to a deceased person is classified as fraudulent, even if it is not being used for fraudulent purposes.

Business rates fraud:

Business rates fraud is not a transparent landscape for the fraud investigator, with legislation making it difficult to separate evasion and avoidance. Business rate fraud may include the fraudulent applications for exemptions and reliefs and unlisted properties, and fraud staff may be used to visit properties in question.

Cautions:

Cautions relate to a verbal warning given in circumstances where there is enough evidence to prosecute, but it is felt that it is not in the public interest to do so in that instance.

Council tax fraud:

Council tax is the tax levied on domestic properties and collected by district and unitary authorities in England and Wales and levying authorities in Scotland.

Council tax fraud is split into three sections:

- Council tax single person discount – where the council tax payer claims for occupiers who don't exist they are the only occupant eligible to pay.
- Council tax reduction support – where the council tax payer fails to declare their income correctly.
- Other types of council tax fraud – eg claims for exemptions or discounts to which the council tax payer has no entitlement.

Debt fraud:

Debt fraud includes fraudulently avoiding a payment of debt to an organisation, excluding council tax discount.

Disciplinary outcomes:

Disciplinary outcomes relate to the number of instances where as a result of an investigation by a fraud team, disciplinary action is undertaken, or where a subject resigns during the disciplinary process.

Economic and voluntary sector (grant fraud):

This type of fraud relates to the false application or payment of grants or financial support to any person and any type of agency or organisation.

Housing fraud:

Fraud within housing takes a number of forms, including sub-letting for profit, providing false information to gain a tenancy, wrongful tenancy assignment and succession, failing to use the property as the principle home abandonment, and right to buy.

Insurance fraud:

Insurance fraud includes any insurance claim that is proved to be false, made against the organisation or the organisation's insurers.

Mandate fraud:

Action Fraud defines mandate fraud as "when someone gets you to change a direct debit, standing order or bank transfer mandate, by purporting to be an organisation you make regular payments to, for example a subscription or membership organisation or your business supplier".

Manipulation of data fraud:

The majority of manipulation of data frauds relate to employees changing data in order to indicate better performance than actually occurred and staff removing data from the organisation. It also includes individuals using their position to change and manipulate data fraudulently or in assisting or providing access to a family member or friend.

No recourse to public funds:

No recourse to public funds prevents any person with that restriction from accessing certain public funds. A person who claims public funds despite such a condition is committing a criminal offence.

Organised crime:

The widely used definition of organised crime is one planned, co-ordinated and conducted by people working together on a continuing basis. Their motivation is often, but not always, financial gain.

Payroll fraud:

Payroll fraud covers a wide range of areas such as ghost employees on the payroll, diversion of payments into fraudulent accounts, employees set up to receive higher salaries than they are entitled to by either grade or hours worked and false overtime claims.

Procurement fraud:

The procurement of goods and services often accounts for a significant proportion of an organisation's expenditure and is open to a wide range of potential fraud risks. This is because there are usually multiple individuals involved in a process who often do not work closely together: ie the person who wants something purchased does not always work directly with the people who initiate orders and with those responsible for paying.

This includes any fraud associated with the false procurement of goods and services for an organisation by an internal or external person(s) or organisations in the 'purchase to pay' or post contract procedure, including contract monitoring.

Recruitment fraud:

Recruitment fraud includes applicants providing false CVs, job histories, qualifications, references, immigration status (ie the right to work in the UK) or the use of a false identity to hide criminal convictions or immigration status.

Right to buy:

Right to buy is the scheme that allows tenants that have lived in their properties for a qualifying period the right to purchase the property at a discount. Fraud is committed when an applicant has made false representations regarding the qualifying criteria, such as being resident in the property they are purchasing for a 12 month continuous period prior to application.

Welfare assistance:

Organisations have a limited amount of money available for welfare assistance claims so the criteria for applications are becoming increasingly stringent. Awards are discretionary and may come as either a crisis payment or some form of support payment.

Whistleblowing:

Effective whistleblowing allows staff or the public to raise concerns about a crime, criminal offence, miscarriage of justice or dangers to health and safety in a structured and defined way. It can enable teams to uncover significant frauds that may otherwise have gone undiscovered. Organisations should therefore ensure that whistleblowing processes are reviewed regularly.



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Annex 2: Counter Fraud and Corruption Strategy Action Plan

Ongoing Activity:

Ref	Action Required	Responsibility	Update	Status
1	Prepare a counter fraud strategy which acknowledges fraud risks facing the council and sets overall counter fraud aims. The strategy should highlight links to existing counter fraud related policies and set out actions required for developing counter fraud arrangements.	Chief Finance Officer / Veritau	A new counter fraud strategy was introduced in 2017 and has been subject to annual review since then. The strategy is expected to be updated in 2020 when the Fighting Fraud Locally board issues a revised counter fraud strategy for local government.	Annual Review
2	Prepare an updated counter fraud policy to take account of the latest national guidance, and reflecting changes to the councils counter fraud arrangements.	Chief Finance Officer / Veritau	An updated counter fraud policy was approved in February 2017. Annual reviews have been undertaken each January since 2018.	Annual Review
3	Review and update counter fraud risk assessment.	Veritau	A risk assessment is presented annually to the Audit and Governance Committee (see annex 3 for the 2020 update).	Annual Review
4	Develop regional / local data matching and counter fraud exercises.	Veritau	Data matching is an important area within local authority counter fraud work. It facilitates the detection of frauds that would not normally be	Ongoing

Ref	Action Required	Responsibility	Update	Status
			<p>detected by members of staff or the public. Data matches can be undertaken internally, with regional partners, and nationally through exercises like the National Fraud Initiative. The counter fraud team is currently moving forward with new datamatching projects designed to detect fraud within Adult Social Care, Housing, Parking and Council Tax. These are highlighted in the one-off development section of this plan (see ref 5).</p>	
5	<p>Undertake specific fraud awareness training for priority service areas.</p>	Veritau	<p>Training is delivered on a rolling basis depending on priorities and emerging fraud risks. Area specific training has been delivered to the social care, council tax and business rates teams in 2019/20.</p> <p>In addition specific risks and examples of frauds occurring nationally have been flagged to staff through regular email alerts.</p>	Ongoing
6	<p>Review the extent to which counter fraud risks are identified through service risk management arrangements. Assess whether arrangements can be strengthened with additional specialist counter</p>	Veritau / Service managers	<p>Service managers are responsible for maintaining service level risk registers. Fraud risk is considered in some areas but not universally. The counter fraud team is working with council managers to ensure that fraud risks are included within relevant risk registers.</p>	Ongoing

Ref	Action Required	Responsibility	Update	Status
	fraud input (eg through risk workshops).			
7	Raise awareness of cyber security issues and promote good practice.	Veritau / ICT department	<p>Veritau monitors national guidance to help raise awareness of cybercrime issues within the council. Veritau will work with the ICT team to coordinate projects to deliver key messages to staff.</p> <p>In September 2019 the counter fraud team held a cybercrime awareness week to raise awareness with members of staff and the public.</p>	Ongoing
8	<p>Review wider governance and other policies (eg employee related policies, gifts, interests, financial regulations) to ensure they:</p> <ul style="list-style-type: none"> cover all required areas are consistent with the counter fraud strategy and policy. 	Veritau / relevant policy owners	<p>Council policies are regularly reviewed in the course of Internal Audit work. Any inconsistencies or weaknesses in terms of fraud detection and prevention are flagged to the counter fraud team.</p>	Ongoing

One Off and Developmental Activity:

Ref	Action Required	Target Date	Responsibility	Notes
1	Increase ability to detect procurement fraud.	September 2020	Veritau	<p>The counter fraud team is exploring the use of the Competition and Markets Authority's cartel screening tool to detect fraud within council procurement exercises.</p> <p>There have been technical issues but the product is now believed to be stable and working. Discussions are to be held with the procurement team to test the software.</p>
2	Revise Regulation of Investigatory Powers Act (RIPA) policy to reflect new powers under the Investigatory Powers Act (IPA) and provide a framework for the council to undertake employee monitoring outside of RIPA. ¹	August 2020	Veritau / Legal Department / Trading Standards	Changes to the council's RIPA policy are required to reflect the new powers under the IPA as well as reflecting the council's ability to undertake employee monitoring in certain situations.
3	Promote updated whistleblowing policy within the council.	September 2020	Veritau / HR	Awareness of the updated whistleblowing policy will be provided to all staff but especially to managers who have new guidelines and responsibilities around the reporting and investigation of concerns.

¹ This action has been revised to include IPA powers. The target date has been extended from August 2019 to take into account the additional work.

Ref	Action Required	Target Date	Responsibility	Notes
4	Explore formation of a regional group with the aim of preventing and detecting adult social care fraud.	December 2020	Veritau	A new regional group dedicated to adult social care fraud could be of benefit to the council and other local authorities in the region.
5	Undertake datamatching exercises in relation to adult social care, right to buy, and council tax fraud.	July 2020	Veritau	New datamatching exercises will be undertaken to produce matches of possible fraud in these three areas.

Completed Activities:

Ref	Action Required	Responsibility	Update
1	Identify tools available for estimating potential fraud exposure / losses. Assess their effectiveness and appropriateness for use as part of counter fraud risk assessment.	Veritau	Discussions have been held with colleagues from other councils and a review conducted to identify potential tools available on the market to estimate local fraud levels. No solutions have been found but we will continue to monitor this area.
2	Consider whether specific targets can be set under each of the Fighting Fraud Locally themes.	Veritau	<p>Fighting Fraud Locally 2016 recommended six themes to measure performance on. Actions already undertaken (and planned) cover all of the themes, although specific targets have not been set. The themes, and examples of activity, are listed below.</p> <p>Culture - The council has appropriate policies and strategy in place. Veritau promotes a counter fraud culture through newsletters and alerts as well as targeted fraud awareness.</p> <p>Capability / Competence – All of Veritau Investigation Officers are Accredited Counter Fraud Specialists.</p> <p>Capacity – The council has access to dedicated counter fraud resources (through Veritau).</p> <p>Communication – Fraud issues are routinely communicated to members, managers and staff at the council. The Counter Fraud Team works with service departments in preventing and investigating fraud.</p>

Ref	Action Required	Responsibility	Update
			Collaboration – The council works collaboratively with a number of other local authorities, and other partners including the police and DWP.
3	Launch and promote regional fraud hotline.	Veritau	A new 0800 regional fraud hotline number was introduced in 2017.
4	Liaise with HR officers to incorporate general counter fraud awareness training into induction training for all new employees.	Veritau	Veritau working with the Council's Workplace Development Unit put in place a counter fraud e-learning package in 2018 which is now available to new and existing employees.
5	Review and update whistleblowing policy and procedures.	Veritau / HR / Monitoring Officer	An updated whistleblowing policy was approved in January 2020.
6	Improve prevention and detection strategies for Right to Buy fraud	Veritau / Service departments	New joint working processes between the counter fraud team and the Right To Buy team were agreed and started in 2019.
7	Participate in a regional bid to pilot business rates data matching with the National Fraud Initiative (NFI)	Veritau	The Council successfully bid and participated in an NFI business rates pilot alongside regional partners. The project achieved good results and raised awareness of the issues associated with fraud in this area.

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Fraud Risk Assessment February 2020

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
Creditor Payments	High	<p>The council spent £122m on supplies and services in 2018/19. All payments above £500 are published in line with UK legislation. This information can be used by criminals to target the council directly or through its suppliers.</p> <p>A range of frauds can be committed against the council through use of this data. The most common is mandate fraud where fraudsters impersonate legitimate suppliers and attempt to divert payments by requesting changes in banking details. Strong controls have been put in place to combat this type of fraud - although regular fraud awareness training will help to ensure that issues are prevented from occurring due to human error.</p> <p>Councils in our area have been affected by mandate fraud in the last year. Criminals are often found to be operating from overseas. Other types of fraud in this area include whaling, where senior members of the council are targeted and impersonated in order to obtain fraudulent payments.</p>	<p>The counter fraud team (CFT) will continue to raise awareness of these types of frauds. The more staff are aware of these frauds the greater the chances are of stopping them.</p> <p>All instances of whaling fraud will be reported to the police's Action Fraud Unit, National Cyber Security Centre, and directly to the host that the false emails originated from.</p> <p>This remains an inherently high risk area so the internal audit team (IA) reviews creditor payments annually and</p>

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
		This area was last reviewed by Internal Audit (IA) in 2018/19 and received a Substantial Assurance opinion.	undertakes quarterly checks on duplicated invoices.
Cybercrime	High	<p>Cybercrime is a constantly evolving area where criminals are continually refining their techniques in order to overcome controls put in place to protect organisations.</p> <p>The council has a highly skilled ICT department which helps mitigate the threat of cybercrime. However, the area is a high risk as councils are attractive targets for criminals due to the amount of data they hold on residents and the value of transactions the council administers.</p> <p>Types of cybercrime experienced by local authorities in recent years include ransomware, phishing, whaling, hacking, and denial of service attacks.</p> <p>The last audit in this area was finalised in 2019, which reviewed ICT Governance and Cybersecurity, and substantial assurance was given.</p>	A cybercrime awareness week was held in September 2019 to raise awareness of this issue amongst council staff. Further awareness raising will be considered in 2020.
Social Care Payments	High	Fraud within the adult social care system is an area of concern for the council in terms of loss to authority and	The CFT is undertaking datamatching in this area.

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
<ul style="list-style-type: none"> - misuse of direct payments - avoidance of charges - false residential & nursing home payments 		<p>the impact on individuals affected. The CFT regularly detect large amounts of loss to the council due to adult social care fraud. Over £327k of loss has been detected since April 2018.</p> <p>One area where loss can occur is through deprivation or non declaration of capital which can involve the transfer or disguise of property in order to avoid paying for residential or domestic care provision. The CFT is currently developing data matching projects which involve the use of council tax data to try to identify this type of fraud.</p> <p>The CFT continues to work to increase visibility with officers involved in safeguarding and financial assessments. Fraud awareness training has been delivered to a number of teams in this area. The council successfully prosecuted its first adult social care fraud case this year.</p>	<p>in 2020 and will continue to raise awareness amongst staff.</p> <p>An audit is currently underway looking at the financial assessment system.</p>
Procurement	High	Procurement fraud is a high area risk throughout the public sector. It has been perceived as a high risk by local authorities in the Cipfa Tracker for a number of years.	The CFT will trial a CMT tool designed to detect cartels in the bid process.

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
		<p>Procurement fraud, by nature, is difficult to detect but can result in large scale loss of public funds over long periods of time. The Competition and Markets Authority (CMA) estimates that having a cartel within a supply chain can raise prices by 30% or more.</p> <p>Cipfa reported losses of £20.3 million in 2018/19. It found that 12% of fraud detected in this area involved 'insider fraud' and 5% involved organised crime.</p> <p>It is important that the council is aware of the risks and signs of procurement fraud. Procurement controls will continue to be reviewed on an ongoing basis by internal audit.</p>	<p>An audit on procurement will form part of work this financial year and next. It is currently in the planning stage.</p>
<p>Housing Related Fraud</p> <ul style="list-style-type: none"> - fraudulent applications for social housing - unlawful sub-letting - property 	<p>High</p>	<p>Maintaining a strong gateway when people first access housing services is the best way to protect council housing assets.</p> <p>In York most subletting is to friends and family which makes proving the crime more difficult than if it was purely a commercial arrangement with an unknowing participant. This crime removes a property from a person or family in true need of a council property and can cost the council financially if people are in</p>	<p>CFT is conducting data matching exercises in 2020/21 to detect potential housing fraud.</p>

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
abandonment - right to buy		<p>temporary accommodation and are waiting for a suitable property to become available.</p> <p>After 5 years a tenant is eligible to purchase a property at a discount which rises every subsequent year the tenant lives in it. Right to buy (RTB) fraud deprives the council of an asset, rental income and makes it more difficult and expensive for the council to house homeless people and families. Cipfa reported an estimated 3,360 cases of fraud or attempted fraud detected in 2018/19.</p> <p>There is a risk that criminal or terrorist funds are laundered through council RTBs. Under money laundering regulations the council is encouraged to report suspicions of money laundering to the National Crime Agency. RTB applications are the most likely area of council contact with money laundering.</p> <p>An audit into housing fraud was completed last year and an opinion reasonable assurance was given.</p>	
Council Tax and Business Rate exemptions and	High	Council Tax fraud can be a common occurrence. Cipfa report that 81% of all local government related fraud recorded as part of their annual survey involved Council Tax or Business Rates payments. Single	CFT investigate and raise awareness of fraud in these areas. There is currently an

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
discounts		<p>Person Discount (SPD) fraud accounted for £19.4m of loss due to fraud in 2018/19 according to the survey.</p> <p>The Council is due to move to a continuous monitoring system for SPD fraud in the near future. This should help prevent and detect more fraud in this area with the most serious cases being referred to the CFT for action.</p> <p>A fraud involving the payment of business rate bills with stolen credit cards followed by a request for reimbursement to a different account occurred at a number of local authorities in North Yorkshire and nationally in 2019/20. The council's NNDR team was made aware of this as soon as the frauds occurred but no activity was detected at the council.</p>	ongoing audit looking at council tax and NNDR issues.
Council Tax Support (CTS) and York Financial Assistance Scheme (YFAS)	High	<p>Council Tax Support is a council funded benefit introduced in 2013 to replace Council Tax Benefit. Unlike its predecessor Council Tax Support is resourced entirely through council funds.</p> <p>The CFT receives a high level of referrals in this area. Average overpayments are relatively modest but are increasing year on year. Cipfa's fraud tracker showed</p>	<p>CFT investigate and raise awareness of fraud in these areas.</p> <p>IA are currently undertaking an audit in this area.</p>

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
		<p>an 18% increase in the value of fraud in this area found in 2018/19.</p> <p>Last year IA completed an audit into CTS arrangements and gave it high assurance.</p> <p>The York Financial Assistance Scheme provides financial aid to people in the greatest need however the system can be abused. Offences predominantly involve applications for goods that are unwanted or not needed, which will subsequently be sold. The council has prosecuted serious cases of fraud in this area.</p>	
Theft of Assets	High	<p>Theft of assets within organisations can affect them financially, reputationally, and negatively impact on employee morale. The council owns large numbers of physical items, such as equipment and tools.</p> <p>It is important that controls are in place to prevent theft but members of staff should also be vigilant and report all possible thefts promptly to the Police and CFT.</p>	<p>CFT to ensure that policies relating to covert surveillance are up to date.</p> <p>IA conduct unannounced visits to council offices during the course of each year to detect issues surrounding office and data security.</p>
Money Laundering	Medium	Money laundering is the process of transferring the profits of crime and corruption into legitimate assets.	CFT to support the council where money

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
		The council can be exposed to money laundering through areas such as property sales (e.g. right to buy) and business rates. Failure to report suspected money laundering to the National Crime Agency can result in the council being liable for money laundering or terrorist financing offences. It is important that all members of staff who deal with cash or large amounts of money are aware of the council's responsibility to report any suspected money laundering.	laundering is suspected.
Waste	Medium	While there has been little indication of fraud in this area in the last few years, the Home Office has recently singled out this area as being susceptible to organised crime.	IA are currently conducting an audit in this area.
Cash Collection	Medium	While cash handling is inherently risky, amounts of cash transactions at York are relatively low.	IA are currently looking at cash collection in Economy and Place directorate.
Corruption	Medium	Corruption is a significant risk to all public sector organisations however only low levels have ever been detected. CFT investigate any suspicions of corruption while IA ensure that appropriate checks and balances are in place to help prevent it, for example registers of gifts and hospitality and interests.	N/A
Employee	Medium	There are a range of potential risks including falsifying	N/A

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
Frauds		timesheets and expense claims, abusing flexitime, or annual leave systems, working while sick, or working for a third party on council time. These types of fraud are generally common within large public bodies. While the values involved in individual cases may not be high, it is essential that issues are tackled as they can cause reputational damage and affect staff morale and performance. CFT work with the Human Resources team to investigate all suspicions of employee fraud.	
Housing Benefit	Medium	<p>The DWP are responsible for the investigation of Housing Benefit (HB) fraud. The CFT monitors their performance and facilitates transfer of information to support their investigations.</p> <p>The ability to jointly work between the councils and DWP began in May 2019, however there have only been small numbers of cases jointly worked on to date.</p> <p>An audit was conducted in this area in 2018/19 and was given a high assurance rating.</p>	There is an audit in this area currently ongoing.
Inappropriate Use of Council Equipment And	Medium	Veritau investigate any allegations of inappropriate private work and misuse of council equipment and materials by members of staff.	N/A

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
Vehicles And Materials			
Misuse of Internet / E-Mail	Medium	With nearly all employees having access to computer systems at work, training on acceptable use of council internet and email is crucial. Failure to do so could result in loss of working hours to personal endeavours and even reputational damage if inappropriate materials are accessed.	N/A
Free Early Education Funding	Medium	Historically this has been an area of high risk with children being booked into multiple nurseries to gain credits in excess of allowed hours and providers overstating claims. An audit was conducted in 2018/19 and reasonable assurance was given.	IA review this funding regularly.
Other Establishments (Eg Social Services)	Medium	Services tend to operate within the wider CYC framework e.g. they use central financial systems such as ordering procedures. Cash holdings such as petty cash, meals income, customer contributions for activities etc are generally low. However, there are reputational risks as theft can involve customer monies, and controls tend to be not as strong due to their remoteness. The CFT investigate any reported instances of fraud in this area.	N/A

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
Payroll Related Fraud (Eg "Ghost" Employees)	Medium	<p>Regular audits of the payroll system help to ensure that robust controls are in place. There have been no recent reported issues in the last year.</p> <p>An audit was completed last year which gave a substantial assurance rating.</p>	IA are currently conducting an audit into this area.
Provision of Grants to Individuals and Organisations	Medium	<p>Fraud risks depend on various factors such as the grant recipient, its purpose, the type of scheme and the value of the grant. Risks include fraudulent applications, and inappropriate use of funding.</p> <p>Controls to prevent fraud include checks on applicants, robust decision making processes, clear/well drafted funding agreements, and monitoring. Grant funding systems are reviewed periodically by internal audit and investigations are undertaken by Veritau where fraud is suspected.</p>	N/A
Recruitment	Medium	Recruitment fraud can affect all organisations, for example where false information is provided in order to gain employment such as lying about employment history and qualifications or providing false identification documents to demonstrate the right to work in the UK.	N/A
Blue Badge &	Low	Blue Badge fraud carries low financial risk to the	N/A

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
Parking Permit Misuse		<p>authority but can affect the quality of life for disabled residents and visitors to the city. There is a risk of reputational damage to the council if abuse of this scheme is not addressed.</p> <p>CFT and Parking Enforcement work closely together to identify and deter parking fraud. Days of action are held regularly in the city centre where all badges are checked for misuse.</p>	
Cheque Fraud	Low	Risks include interception of cheques by third parties and diversion of payments from the intended recipient. There have been no recent reports of thefts of this type. The risk is decreasing as the use of cheques declines.	N/A
Car Parks Cash	Low	Collection of cash from council car parks was outsourced in April 2013.	N/A
Debtor Systems (e.g. parking penalty charges, sundry debtors, housing rents)	Low	The main risk is the inappropriate cancellation of debts which may be used to disguise theft. Controls, such as separation of duties, remain in place and are audited regularly. There are a number of smaller income systems across the council and while it is more difficult to maintain the same level of control as for the mains systems the risks tend to be smaller. There have been	IA is currently undertaking an audit in this area.

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
		<p>no recent reports of fraud relating to credit income systems.</p> <p>In 2018/19 IA conducted an audit in this area and provided an opinion of substantial assurance.</p>	
Fraudulent Insurance Claims	Low	While insurance fraud is common, the burden of risk is currently shouldered by the council's insurers who have established fraud investigation systems.	An audit in this area is currently being planned.
Schools	Low	<p>The council has a high level of financial delegation to schools with all schools operating their own bank accounts. However, there are good support arrangements in place and individual schools are aware of the procedures and controls that should be in place.</p> <p>While relatively minor incidents are reported fairly frequently (eg theft, breaches of financial regulations) there have been no major issues resulting in a significant loss. Such events have, however, occurred at schools in other areas and when these matters have been investigated, the losses have tended to be substantial (and attracted adverse publicity for both the school and the authority concerned).</p>	IA is currently undertaking work on procurements cards at a number of local schools.

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
		An audit into budget management was completed in 2018/19 and was given substantial assurance.	
Treasury Management	Low	The impact of losses in this area could be significant. However, systems are well controlled and subject to regular internal audit review.	N/A



Audit and Governance Committee

5 February 2020

Report of the Corporate Finance & Commercial Procurement Manager
(Interim S151 officer)

Mazars Audit Update Report**Summary**

1. The paper attached at Annex A from Mazars, the Council's external auditors, reports on progress in delivering their responsibilities as auditors.

Background

2. The report covers:
 - a) A summary of audit progress
 - b) Grants 2018/19
 - c) National Publications

Consultation

3. The Plan has been consulted on with the relevant responsible officers within the Customer & Corporate Services Directorate prior to it being reported to those members charged with governance at the council.

Options

4. Not relevant for the purpose of the report.

Analysis

5. Not relevant for the purpose of the report.

Council Plan

6. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

Implications

7. There are no implications to this report.

Risk Management

8. Not relevant for the purpose of the report

Recommendations

9. Members are asked to:

- a) note the matters set out in the Progress report presented by Mazars;

Reason

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

Contact Details

Author:

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Corporate Finance

Chief Officer Responsible for the report:

Debbie Mitchell
Corporate Finance & Commercial
Procurement Manager (Interim S151 officer)

**Report
Approved**



Date

Specialist Implications Officers

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

None

Annexes

Mazars CYC Audit Update Report February 2020

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Audit progress report

City of York Council

February 2020





CONTENTS

1. **Audit progress**
2. **Grants 2018/19**
3. **National publications**

This document is to be regarded as confidential to City of York Council. It has been prepared for the sole use of the Audit Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditor.

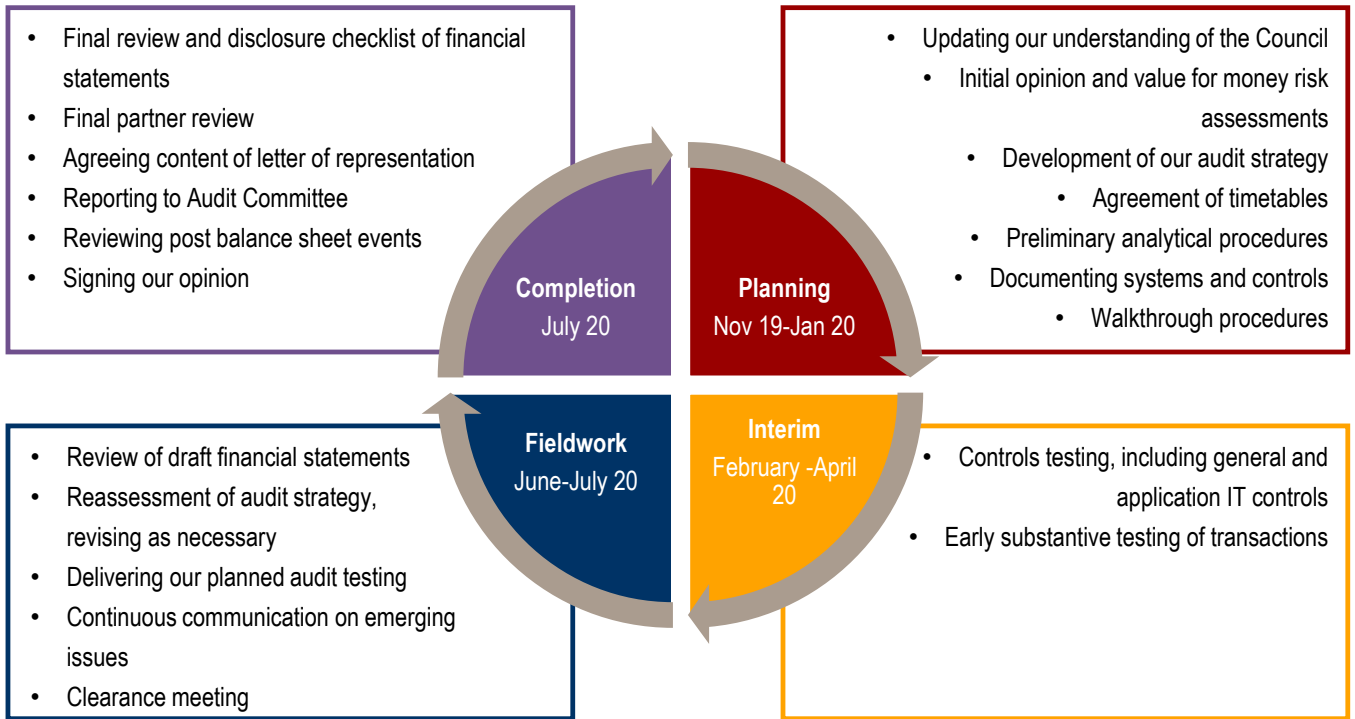
Audit progress

Our key audit stages are summarised in the diagram shown below.

At the time of presenting this report we have completed our audit planning and will present our Audit Strategy Memorandum (ASM) to this Committee. Our ASM will summarise our approach to completing this year’s audit, highlighting the significant risks and other areas of focus we will consider.

We are currently on site completing our interim audit in advance of our year-end fieldwork, which we plan to start in June. This work will reduce the amount of testing to be completed as part of the year-end visit and will focus on transaction testing for income, expenditure, payroll and journals. We also plan to complete some work on property valuations in preparation for the year-end.

There are no significant matters arising from our audit work that we are required to report to you at this stage.



2. GRANTS 2018/19

2018/19 Teachers' Pension assurance

The Council engaged Mazars as Reporting Accountant to complete an agreed upon procedures engagement. The fee for this work is £5,000 (plus VAT). The requirements of this work are set out in the TP05 Reporting Accountant Guidance (dated 12 June 2019) published by Teachers' Pensions. We have completed the required procedures and provided our agreed upon procedures report to Teachers' Pensions, meeting the 29 November 2019 deadline. We reported four minor errors and exceptions in our report to the Teachers' Pensions.

2018/19 Housing Benefits subsidy assurance

This an 'agreed upon procedures' assurance engagement in respect of the Council's annual subsidy claim to the Department of Work and Pensions (DWP) for housing benefits. The requirements of this work are specified in guidance issued by the DWP "Housing Benefits Assurance Process" (HBAP). The Council engaged Mazars as Reporting Accountant for the 2018/19 return. The proposed fee for this work is £11,500 (plus VAT).

The purpose of the engagement is to perform the specific test requirements determined by the DWP on the defined sample basis. The relevant requirements are set out in the Modules of the HBAP reporting framework and we report the results of those procedures to the Council and the DWP. The guidance is made available on the government's website:

<https://www.gov.uk/government/publications/housing-benefit-assurance-process-hbap>

The value of the subsidy claimed in 2018/19 is £31,284,849. This is split between different benefit types:

- Rent rebates - £13,456,398; and
- Rent Allowance - £17,412,792.

The subsidy claimed also includes £416,507 of administration subsidy less £848 of prior year uncashed payments.

The work is split into:

- agreement of the subsidy claim to supporting working papers;
- initial testing (specified sample sizes);
- extended testing (described as "40+" or 'CAKE – Cumulative Knowledge and Experience' testing where there are errors arising or anticipated based on the prior year); and
- reporting of results, including extrapolated errors, to DWP who then assess whether there will be any loss of subsidy.

Matters reported

Initial testing

Non HRA rent rebates: Our initial testing identified six cases where the split between cells 014 (expenditure up to the lower of 90% of the LHA rate) and 015 (expenditure above the lower of 90% of the LHA rate) was incorrect resulting in too much expenditure being included in cell 015. The Benefits system provider, Northgate, confirmed that this is a system error and that a patch will be issued to correct such cases. As this patch will correct these cases and be reflected in the 2019-20 subsidy return, the 2018/19 claim has not been amended.

Our initial testing also identified two cases where an amount was included in cell 038 (backdated expenditure) in error due to a 'first week indicator' not being ticked on the local authorities benefit system which would have correctly classified this as normal entitlement for that period. Cell 038 is an "information only" cell and does not impact on subsidy. 100% testing of cases in cell 038 has been undertaken by the Local Authority and the claim amended accordingly. A similar error was identified in 2017/18.

No other claims in our initial testing of cell 011 (total expenditure) were found to be in error.

HRA rent rebates: No claims were found to be in error.

2. GRANTS 2018/19

Initial testing (continued)

Rent Allowances: Our initial testing identified one claim where a current year overpayment occurred due to the authority not applying all of the new rent values received directly from a housing association at the start of the subsidy year. This meant that the overpayment was misclassified as eligible (cell 114 – eligible overpayments) when it should have been recorded as local authority error (cell 113 – LA error). Additional testing (40+) was undertaken. This was not an issue reported in our prior year qualification letter.

No other claims in our initial testing of cell 094 (total expenditure) were found to be in error.

Completion other modules

Test 9 of Module 1 requires that where the local authority operates a discretionary local scheme to disregard some or all of any war pension over and above the statutory disregards, testing of prime documentation should be undertaken to provide evidence that this expenditure is properly identified in cells 214 (expenditure due to voluntary disregard of war pension) and 225 (total paid on increase in benefit arising from local schemes) of the MPF720A (subsidy return) and has been excluded from other cells on the form.

We initially tested 7 claims in these cells and for one identified that war disablement pension had been incorrectly recorded resulting in the amount included in cell 214 being overstated with a corresponding understatement in cells 055 (total expenditure rent rebates) and 061 (HRA rent rebate attracting full subsidy). As this error could occur on any cases in cells 214 and 225, the Local Authority has tested the remaining 26 cases in these cells.

Our testing of claims under test 9 of module 1 also identified one rent allowance case where some of the calculations supporting the expenditure in cells 214 and 225 of MPF720A could not be accessed within the Council's Northgate software. We were therefore unable to test whether part of the expenditure had been correctly allocated to cells 214 and 225. The remaining 14 rent allowance cases within cells 214 and 225 were therefore tested to determine if they could be agreed to the system calculations and one further error was identified. This same case was also an error in 2017/18..

Apart from the issues noted above in relation to Test 9, there were no other findings to report from our completion of the other tests in Module 1.

Summary of testing arising from Cumulative Assurance Knowledge and Experience (CAKE)

In line with the requirements of HBAP Modules we have undertaken CAKE testing based upon the preceding Qualification Letter (2017/18). Where appropriate the Authority completed testing of the sub populations for:

Modified schemes HRA rent rebates: Last year we identified one case where some of the calculations supporting the local scheme expenditure within cell 225 could not be accessed in the Northgate system. As noted above (section "completion of other tests in Module 1), testing of the remaining rent allowance cases within cells 214 and 225 has again been undertaken this year and in all but one of the cases it was possible to access the calculations supporting the local scheme expenditure in cell 225.

We also completed CAKE testing on two other errors reported in 2017/18, however this work did not return any errors.

40 plus testing result

Rent Allowances (cell 114 – eligible overpayment): Seven further cases where the eligible overpayment was caused by a change in rent but should be classified as an LA error and administrative delay overpayment (total error value £230). We also found one case where part of the overpayment (value £51) related to the prior year and was included in cell 121 (eligible overpayment) , but should be in cell 120 (LA error overpayment).

Cells 214 and 225 (voluntary disregarding of War Disablement Pensions or War Widows Pension): All 26 cases included in the cell were tested and no further errors were found.

This concludes what we reported to the DWP.

3. NATIONAL PUBLICATIONS

	Publication/update	Key points
1.	Fracking for shale gas in England, National Audit Office	Key facts set out on government's support of shale gas development to date.
2.	Local Government Financial Resilience index, CIPFA	Online data tool which measures local authorities against a range of indicators to assess their level of resilience.
3.	Financial Management Code, CIPFA	Guidance for good and sustainable financial management in local authorities.
4.	Prudential Property Investment, CIPFA	Guidance on prudent investments in commercial properties.
5.	Case study: succeeding in viability negotiations - Harborough District Council, Local Government Association	Including summary of learning for local authorities – affordable housing development.

1. Fracking for shale gas in England, National Audit Office, October 2019

Hydraulic fracturing (fracking) is a technique used to recover gas from shale rock. In England, this rock lies deep underground primarily in Yorkshire, the East Midlands and the North West.

Fracking for shale gas is the subject of media, public and Parliamentary interest. This report sets out the facts about the government's plans to support shale gas development in England to help Parliament consider whether taxpayers' interests are being protected effectively. It covers:

- an overview of fracking, and what activity has taken place to date;
- government's objectives;
- managing the risks from fracking; and
- the costs to taxpayers.

The summary report highlights that:

- the Department believes shale gas can support economic benefits, but it has not analysed the benefits or costs of shale gas development;
- progress to establish the commercial viability of extracting shale gas has been slower than government expected; and
- the Department considers it can meet its climate change objectives while developing shale gas, but it has not yet developed the necessary technology.

<https://www.nao.org.uk/report/shale-gas-fracking-hydraulic-fracturing/>

3. NATIONAL PUBLICATIONS

2. Local Government Financial Resilience index, CIPFA, December 2019

The resilience index is an online data tool which measures local authorities against a range of indicators to assess their level of resilience against financial shocks and to support financial decision making. Upper tier authorities are judged against nine indicators including social care. The social care measure is excluded for those authorities without social care responsibilities.

The indicators measured include:

- levels of reserves;
- change in reserves;
- reserves sustainability;
- interest payable/net revenue expenditure;
- gross external debt;
- fees and charges to service expenditure ratio;
- council tax requirement/net expenditure ratio; and
- growth above baseline.

The tool allows for year on year comparisons of each authority's performance, as well as comparisons with similar and neighbouring authorities. Trend analysis is also available for some of the indicators outlined above.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-launches-local-government-financial-resilience-index>

3. Financial Management Code, CIPFA, October 2019

Strong financial management is an essential part of ensuring public sector finances are sustainable. The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and aims to provide assurance that they are managing resources effectively.

It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code with help strengthen the framework that surrounds financial decision making.

The FM Code built on elements of other CIPFA codes during its development and its structure and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.

The Code applies to all local authorities, including police, fire and other authorities.

By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements in their jurisdictions.

The first full year of compliance will be 2021/22. This reflects the recognition that organisations will need time to reflect on the contents of the Code and can use 2020/21 to demonstrate how they are working towards compliance.

<https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code>

3. NATIONAL PUBLICATIONS

4. Prudential Property Investment, CIPFA, November 2019

Increasingly there has been a move towards investments in commercial properties, funded by borrowing, with the key driver of this activity appearing to be the generation of revenue. This publication provides guidance on making the assessments needed to ensure that such acquisitions are prudent and on the risks local authorities must manage when acquiring property.

Statutory investment guidance from the Ministry of Housing, Communities and Local Government (MHCLG) last year set out clearly that local authorities need to consider the long-term sustainability risk implicit in becoming too dependent on commercial income, or in taking out too much debt relative to net service expenditure.

The increased scale of investment in property was recognised by revisions to CIPFA's Prudential Code for Capital Finance and the Treasury Management Code in 2017, but the growing amounts being borrowed for such a purpose are putting a strain on the credibility of the Prudential Framework and reinforce the need to ensure that such acquisitions are affordable, prudent and sustainable.

In addition to the core issue of borrowing in advance of need, which the Prudential Code has very clear provisions on, this publication provides guidance on the risk perspective to the practical assessment of prudence and affordability. Those risks could be very difficult to manage. Even when these issues are managed and there is reliance on investment income, a potential failure or a downturn of the property market may have a direct impact upon local services.

This publication considers such issues and the actions local authorities would need to take to mitigate against such risks.

<https://www.cipfa.org/policy-and-guidance/publications/p/prudential-property-investment>

5. Case study: succeeding in viability negotiations - Harborough District Council, Local Government Association, December 2019

Harborough is a rural district often ranked as one of the best places to live in England. It is noted as a great place to live and work with most people enjoying a high quality of life. House and land prices are, however, the highest in Leicestershire and many residents struggle to get on the housing ladder or even access a suitable and affordable rented property.

Between 2011 and 2018 the District Council identified a policy need for 30-40 per cent of all new housing to be affordable. Between 2011 and 2018 consents have been given for almost 6,000 dwellings but due to viability issues permission has only been secured for 1,000 affordable units of which 500 have been built. This equates to just 16 per cent against a target of 30-40 per cent.

The District Council participated in the Housing Advisors Programme to support the way it approached viability negotiations – exploring the potential to bring this in-house as part of a new commercial assets team and also building on changes to the National Planning Policy Framework around 'viability'. The aim was to build the capacity in-house to undertake appraisal work on developer submissions of viability to appraise them and provide recommendations to allow for planning determinations.

Learning for local authorities

The challenges for local authorities in delivering affordable housing require an understanding of development viability to ensure that local housing strategies are successfully implemented. Developers continue to test adopted policy requirements through the planning process and local authorities require the skills and knowledge to support their position. The lessons from this project are that staff need to be equipped with the necessary skills to procure expert viability support and most importantly to actively manage the resultant contracts.

<https://www.local.gov.uk/topics/housing-and-planning/lga-housing-advisers-programme/housing-advisers-programme-case-15>

CONTACT

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Audit and Governance Committee

5 February 2020

Report of the Corporate Finance & Commercial Procurement Manager
(Interim S151 officer)

Mazars Audit Strategy Memorandum Report**Summary**

1. The paper attached at Annex A from Mazars, the Council's external auditors, summarises their audit approach, highlights significant areas of key judgements and provides details of the audit team.

Background

2. The report covers:
 - a) Engagement and responsibilities summary
 - b) Audit engagement team
 - c) Audit scope, approach and timeline
 - d) Significant risks and key judgement areas
 - e) Value for money work
 - f) Fees for audit and other services
 - g) Our commitment to independence
 - h) Materiality and misstatements

Consultation

3. The Plan has been consulted on with the relevant responsible officers within the Customer & Corporate Services Directorate prior to it being reported to those members charged with governance at the council.

Options

4. Not relevant for the purpose of the report.

Analysis

5. Not relevant for the purpose of the report.

Council Plan

6. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

Implications

7. There are no implications to this report.

Risk Management

8. Not relevant for the purpose of the report

Recommendations

9. Members are asked to:

- a) note the matters set out in the Audit Strategy Memorandum report presented by Mazars;

Reason

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

Contact Details

Author:

Chief Officer Responsible for the report:

Emma Audrain
Technical Accountant
Corporate Finance

Debbie Mitchell
Corporate Finance & Commercial
Procurement Manager (Interim S151
officer)

**Report
Approved**



Date

Specialist Implications Officers

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

None

Annexes

Mazars Audit Strategy memorandum YE 31 March 2020

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Audit Strategy Memorandum

City of York Council
Year ending 31 March 2020





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Value for money conclusion
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

This document is to be regarded as confidential to the City of York Council. It has been prepared for the sole use of the Audit and Governance Committee as the appropriate sub-committee charged with governance . No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit and Governance Committee

City of York Council

West Offices

Station Rise

York

YO1 6GA

January 2019

Dear Audit and Governance Committee Members

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum the City of York Council for the year ending 31 March 2020

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the City of York Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0113 387 8850.

Yours faithfully



Mark Kirkham

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of the City of York Council (the Council) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:



We are responsible for forming and expressing an opinion on the financial statements.

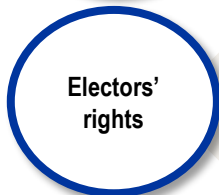
Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.



We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach in section 5 of this report.



We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.



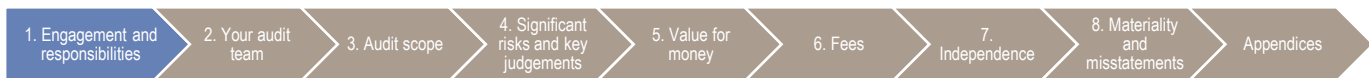
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Our audit, however, should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Audit and Governance Committee as those charged with governance.



2. YOUR AUDIT ENGAGEMENT TEAM



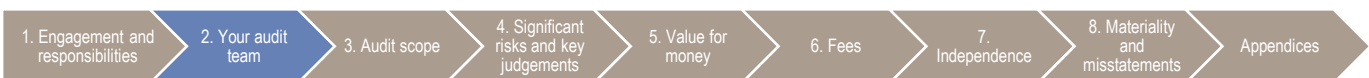
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- Mark Outterside, Senior Manager
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- Rebecca Williams, Assistant Manager
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- 07469 916 689



3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

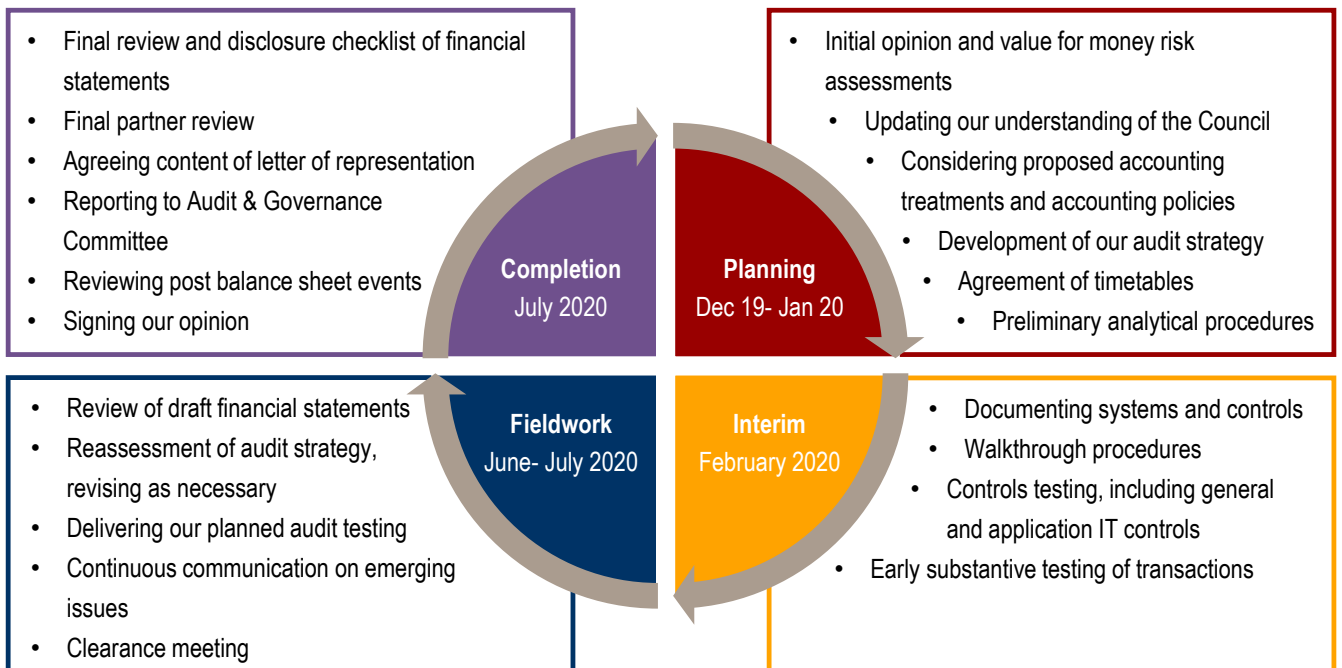
Audit approach

Our audit approach is risk-based and primarily driven by the matters that we consider lead to a higher risk of material misstatement of the accounts. When we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	AON Hewitt Actuaries	PwC, consulting actuary, on behalf of National Audit Office
Property, plant and equipment valuation	Internal valuer	We will take into account relevant information which is available from third parties.
Financial instrument disclosures	Link Asset Services	NAO.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

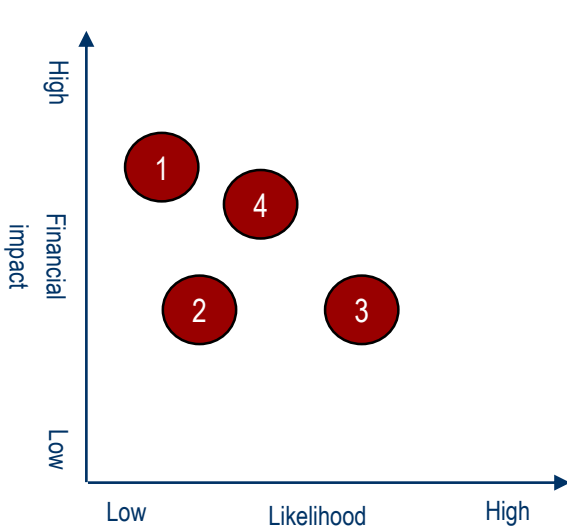
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

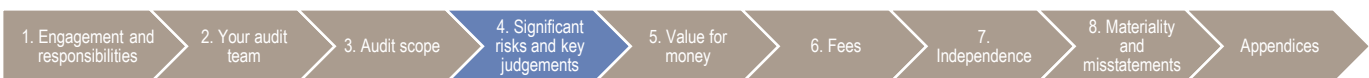
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



	Significant Risk
1	Management override of controls
2	Revenue recognition
3	Property, plant and equipment valuation
4	Defined benefit liability valuation



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Audit and Governance Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement on all audits.</p> <p>Our audit methodology incorporates this risk as a standard significant risk at all audits. Based on our cumulative knowledge and 2019/20 planning discussions, we do not consider this risk at the Council to be unusually high or require enhanced audit procedures.</p>	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>
2	<p>Revenue recognition</p> <p>In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal for all income streams in 2019/20. We have identified income from 'customer and client receipts' and 'other operating income' as the key areas for audit testing.</p> <p>This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>We plan to address this risk through a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing revenue items recorded around year end to ensure they have been recognised in the appropriate year; • reviewing and testing revenue recognition policies, relating to 'customer and client receipts' and 'other operating income'; • testing year end receivables; and • obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Audit and Governance Committee.

Significant risks

	Description of risk	Planned response
3	<p>Property, plant and equipment valuation</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model for all land and buildings over a five year cycle.</p> <p>Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the valuation of PPE because of the significant judgements and number of variables involved in providing valuations.</p> <p>In addition, as a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.</p>	<p>We will consider the Council's arrangements for ensuring that PPE values are reasonable and will assess the reasonableness of the valuations provided by the Council's in-house valuer. We will also assess the competence, skills and experience of the valuer.</p> <p>For assets revalued during 2019/20, we will review the methodology used, including testing the underlying data and assumptions. We will compare the valuation output with market intelligence provided by Gerald Eve, consulting valuers engaged by the National Audit Office, to obtain assurance that results are in line with market expectations.</p> <p>We will review the approach that the Council has adopted to address the risk that assets not subject to valuation in 2019/20 are materially misstated and consider the robustness of that approach in light of the valuation information reported by the Council's in-house valuers.</p> <p>In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.</p>
4	<p>Defined benefit liability valuation</p> <p>The net pension liability represents a material element of the Council's balance sheet. The valuation of the fund relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.</p> <p>There are financial and demographic assumptions used in estimating the valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should reflect the employee profile and be based on appropriate data.</p> <p>There is a risk that the assumptions and methodology used are not reasonable or appropriate for the Council's circumstances. This could have a material impact on the net pension liability in 2019/20</p>	<p>As part of our work we will review the controls that the Council has in place over the information sent to the Scheme Actuary, including the Council's process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of the scheme Actuary, AON Hewitt.</p> <p>We will review the appropriateness of the methodology applied, and the key assumptions included within the valuation, compare them to expected ranges, utilising the information provided by PwC, consulting actuary engaged by the National Audit Office. We will review the methodology applied in the valuation of the liability by AON Hewitt.</p>

5. VALUE FOR MONEY CONCLUSION

Our approach

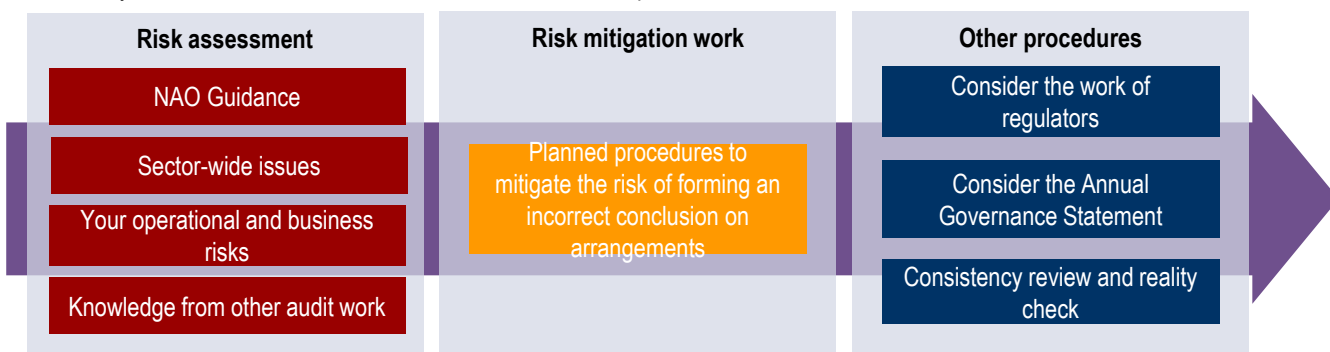
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant audit risks

The NAO’s guidance requires us to carry out work at the planning stage to identify whether or not a value for money (VFM) conclusion risk exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In reaching our judgement we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, we have identified the following significant audit risk:

Description of significant audit risk	Planned response
<p>Financial sustainability</p> <p>The Council’s medium term financial plan (MTFP) sets out the financial challenges the Council faces in the medium term. The mid-year financial position for 2019/20 indicates that the Council is forecasting delivery of a balanced budget for the year. There are, however, financial pressures within Adult Social Care and Children’s services such that delivering a balanced budget is likely to require the use of contingencies and non-recurrent income. Whilst this is consistent with the MTFP, this use of one-off resources to support service delivery is indicative of the financial pressures faced by the Council.</p> <p>The continuing challenges the Council faces are not new and are not unique to the City of York Council. The challenges do, however, present a significant audit risk for our consideration of the arrangements in place to manage demand in your key service areas and deliver financial sustainability over the medium term.</p>	<p>Building on our work in previous years, we will review the arrangements the Council has in place for ensuring financial resilience. Specifically that the medium term financial plan has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. We will also review the arrangements in place to monitor progress in delivering the budget and related savings plans.</p>



6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we expect to need to reflect the scale fee set by PSAA as communicated in our fee letter of 17 April 2019 and other matters listed below.

Service	2018/19 fee	2019/20 fee
Code audit work	£78,237	£78,237
Additional work in response to questions from electors.	£1,946	To be agreed.
Additional work in response to regulatory recommendations to increase level of audit work on defined benefit liability schemes.	-	To be agreed
Additional work in response to regulatory recommendations to increase level of audit work on the valuation of property plant and equipment.	-	To be agreed
Total	£80,183	To be agreed

In common with all local government external auditors we are required to carry out additional procedures which were not expected when fees were set.

Regulatory recommendations

We continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular we are planning increases in the level of work we do on:

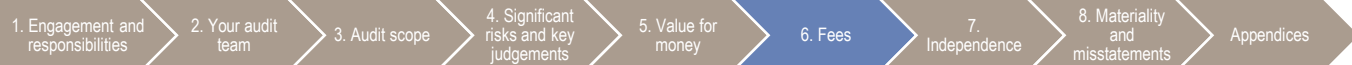
- defined benefit pension schemes; and
- valuation of property, plant and equipment

We will discuss the driving factors with Council officers and the audit fee for 2019/20 will be revisited to reflect the increased level of work that was not considered when the scale fee was set. Any agreed additional fee is also subject to detailed scrutiny by the PSAA as part of the fee determination process.

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Service	2018/19 fee	2019/20 fee
Housing benefit subsidy certification	£11,500	£12,000
Teachers' Pension return	£5,000	TBC



7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

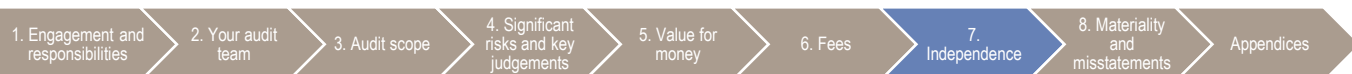
We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Kirkham in the first instance.

Prior to the provision of any non-audit services Mark Kirkham will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

Principal threats to our independence and identified associated safeguards are set out below.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

Issue	
Housing benefit subsidy certification and Teachers' Pension return	<p>We have considered threats and safeguards as follows:</p> <ul style="list-style-type: none"> • Self Review: The work does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars; • Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis; • Management: The work does not involve Mazars making any decisions on behalf of management; • Advocacy: The work does not involve Mazars advocating the Council to third parties; • Familiarity: Work is not deemed to give rise to a familiarity threat given this piece of assurance work used to fall under the Audit Commission / PSAA certification regimes and was the responsibility of the Council's appointed auditor; and • Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.



8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s)
Overall materiality	£8,125
Performance materiality	£6,094
Trivial threshold for errors to be reported to the Audit & Governance Committee	£244

For some sensitive items of account and related disclosures we will apply a specific lower materiality. This includes Senior Officer Remuneration (including Exit Packages), Members Allowances and Related Party Transactions.

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality when planning and performing our audit using quantitative and qualitative factors.

At the planning stage we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of Gross Revenue Expenditure at Surplus/deficit on Provision of Services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee.

We consider that Gross Revenue Expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of Gross Revenue Expenditure.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the audited 18/19 financial statements, we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £8.125m (£8m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

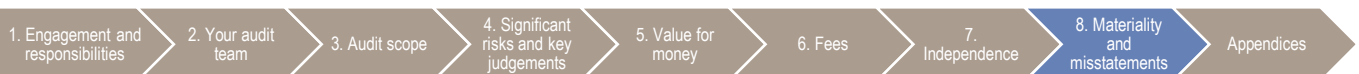
Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £244k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Kirkham.

Reporting to the Audit and Governance Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit and Governance Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	<p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet.</p> <p>In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.</p>

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**Audit and Governance Committee**

5 February 2020

Report of the Head of Internal Audit

Internal Audit Plan Consultation

Summary

- 1 The purpose of the report is to seek members' views on the priorities for internal audit for 2020/21, to inform the preparation of the annual audit plan.

Background

- 2 Internal audit standards and the council's audit charter require internal audit to draw up an indicative audit plan at the start of each financial year. The plan must be based on an assessment of risk. In coming to a view on the risks facing the council, the opinions of the Audit and Governance Committee and senior council officers are taken into account. The plan is also informed by the council's risk registers, information shared through local government audit networks and the results of recent audit work. The council's external auditors are also consulted to avoid possible duplication of work programmes and to maximise the overall benefit of audit activity.

2020/21 Audit Plan

- 3 The council continues to face significant budgetary pressures, increasing demand for services and a number of other challenges. To reflect this, the 2020/21 planning process continues the approach adopted over the last few years, by targeting higher risk systems in areas including those:
 - where the volume and value of transactions processed are significant, or the impact if risks materialise is very high, making the continued operation of regular controls essential
 - areas of known concern, where a review of risks and controls will add value to operations

- areas of significant change. This may include providing direct support / challenge to projects, reviewing project management arrangements, or consideration of the impact of those changes on the control environment for example where the reduction in resources may result in fewer controls.
- 4 Internal Audit resources are limited and the audit plan is intended to ensure the available resources are prioritised towards those systems which are considered to be the most risky and/or which contribute the most to the achievement of the council's priorities and objectives.
 - 5 Figure 1 includes some initial thoughts on risk areas for consideration for audit in 2020/21. These suggestions are included to prompt discussion and are not intended to be a definitive or complete list of areas that could be reviewed. The list is based on initial horizon scanning and analysis, for example, of areas known to be an issue across the local government sector. Work is currently ongoing to understand current priorities for audit at City of York Council. This includes consultation with senior officers across the organisation. The detailed planning work to be undertaken between now and March will be used to develop the draft internal audit plan to be brought to this committee in April.
 - 6 Members views are sought about areas they consider a priority for audit in 2020/21. This may include particular areas listed in figure 1 that they think should be a high priority (or that may be less important). Or any other areas which should be considered for audit.

Figure 1 – Risk areas to consider for Audit in 2020/21

Area	Possible Work
Corporate & cross-cutting	<ul style="list-style-type: none"> • Medium term financial planning and budgeting, budget management, savings plans, commercialisation and investments • Areas of the council's corporate governance framework (e.g. schemes of delegation, registers of interest, complaints process) • Performance management and data quality (in relation to performance indicators) • Partnership working • Risk management, disaster recovery plans and insurance arrangements • Procurement and contract management (including, data sharing, compliance with regulations, third party risk)

	<ul style="list-style-type: none"> • Workforce planning, recruitment, apprenticeships, overtime, training and development. • Environment and waste – air pollution, carbon footprint, energy reduction, recycling • Health and safety • Internet and social media monitoring
Information Governance	<ul style="list-style-type: none"> • Information security checks • Information asset registers • Data sharing agreements • Data breach management • Data quality / integrity of information assets
Main Financial systems	<ul style="list-style-type: none"> • Main accounting system (general ledger), debtors (including debt recovery and enforcement practice), ordering and creditors • Council tax / NNDR • Council tax support and housing benefits • Payroll • Treasury management
Project Management	<ul style="list-style-type: none"> • Overall corporate arrangements and project risk management • Support and review of specific key projects
Health, Housing and Adult Social Care	<ul style="list-style-type: none"> • Budget management (including: commissioning, high cost placements, market management, internal provision) • Referrals and assessments, quality assurance, delayed transfers of care • Liberty protection safeguards • Direct Payments • Public health • Building services / Housing repairs
Children, Education and Communities	<ul style="list-style-type: none"> • Children's social care budget management (including, commissioning, placements, internal provision) • Special Educational Needs and Disability (SEND), Education, Health & Care (EHC) plans/processes • Partnership working • Contract management / client arrangements (e.g. Explore, YMT, MIY, leisure facilities) • Schools themed audits • Free early education funding
Economy and Place	<ul style="list-style-type: none"> • York Central • Environmental health • Contract management • Carbon / energy reduction, air pollution, recycling • Penalty charge notices administration

ICT	<ul style="list-style-type: none"> • Cyber security (e.g. policies and procedures, networks, physical and logical access, electronic communications security, firewalls and anti-malware) • Change management • ICT procurement / contract management • Digitalisation / automation
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Consultation

- 7 This report is part of the ongoing consultation with stakeholders on priorities for internal audit work.

Options

- 8 Not relevant for the purpose of the report.

Analysis

- 9 Not relevant for the purpose of the report.

Council Plan

- 10 The work of internal audit supports overall aims and priorities by promoting probity, integrity and honesty and by helping to make the council a more effective organisation.

Implications

- 11 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 12 The council will fail to comply with proper practice if appropriate officers and members are not consulted on the content of audit plans.

Recommendations

- 13 Members are asked to;
 - Comment on the priorities for internal audit work for 2020/21.

Reason

To ensure that scarce audit resources are used effectively.

Contact Details

Author:

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Veritau Limited
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552940

Chief Officer Responsible for the report:

Ian Floyd
Director of Customer & Corporate
Services
Telephone: 01904 551100

**Report
Approved**



Date

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

None

Annexes

None

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Audit and Governance Committee

5 February 2020

Report of the Corporate Finance and Commercial Procurement Manager
(Interim S151 officer)

Audit & Governance Committee Forward Plan to December 2020**Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to December 2020.

Background

2. There are to be six fixed meetings of the Committee in a municipal year. To assist members in their work, attached as an annex is the indicative rolling forward plan for meetings up to December 2020. This may be subject to change depending on key internal control and governance developments at the time. A rolling forward plan of the Committee will be reported at every meeting reflecting any known changes.
3. No amendments have been made to the forward plan since the last version was presented to the Committee in December..

Consultation

4. The forward plan is subject to discussion by members at each meeting, has been discussed with the Chair of the Committee and key corporate officers.

Options

5. Not relevant for the purpose of the report.

Analysis

6. Not relevant for the purpose of the report.

Council Plan

7. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

Implications

8.
 - (a) **Financial** - There are no implications
 - (b) **Human Resources (HR)** - There are no implications
 - (c) **Equalities** - There are no implications
 - (d) **Legal** - There are no implications
 - (e) **Crime and Disorder** - There are no implications
 - (f) **Information Technology (IT)** - There are no implications
 - (g) **Property** - There are no implications

Risk Management

9. By not complying with the requirements of this report, the council will fail to have in place adequate scrutiny of its internal control environment and governance arrangements, and it will also fail to properly comply with legislative and best practice requirements.

Recommendations

10.
 - (a) The Committee's forward plan for the period up to December 2020 be noted.

Reason

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

(b) Members identify any further items they wish to add to the Forward Plan.

Reason

To ensure the Committee can seek assurances on any aspect of the council's internal control environment in accordance with its roles and responsibilities.

Contact Details

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Debbie Mitchell
Corporate Finance & Commercial
Procurement Manager
(Interim S151 officer)
Telephone: 01904 551100

**Report
Approved**



Date

Specialist Implications Officers

None

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

None

Annex

Audit & Governance Committee Forward Plan to December 2020

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Audit & Governance Committee Draft Forward Plan to December 2020

Training/briefing events will be held at appropriate points in the year to support members in their role on the Committee.

Item	Lead officers	Other contributing Organisations	Scope
Additional Meeting – 11th March 2020			
Review of the Constitution	<u>CYC</u> Suzanne Harrington		Additional meeting held to facilitate the review of the Constitution
Committee 8th April 2020			
Key Corporate Risks Monitor 4	<u>CYC</u> Sarah Kirby		Update on Key Corporate Risks (KCRs) including: KCR 9 - Communities
Mazars Audit Progress Report	<u>Mazars</u> – Mark Kirkham, Mark Dalton		To present a report summarising the outcome of the 2018/19 audit and work on the value for money conclusion.
Internal Audit Follow up of Audit Recommendations Report	<u>Veritau</u> – <u>Max Thomas/</u> <u>Richard Smith</u>		This is the regular six monthly report to the committee setting out progress made by council departments in implementing actions agreed as part of internal audit work
Internal Audit & Fraud Plan Progress Report	<u>Veritau</u> – <u>Max Thomas/</u> <u>Richard Smith</u>		An update on progress made in delivering the internal audit work plan for 2019/20 and on current counter fraud activity
Approval of Internal Audit	<u>Veritau</u> –		

Plan	<u>Max Thomas/</u> <u>Richard Smith</u>		
Information Governance & Complaints	<u>CYC</u> Lorraine Lunt		To provide Members with an update on current information governance issues.
Committee June 2020			
Draft Statement of Accounts incl. Annual Governance Statement	<u>CYC</u> Emma Audrain/ Debbie Mitchell		To present the draft Statement of Accounts to the Committee prior to the 2018/19 Audit including the Annual Governance Statement
Annual Report of the Audit & Governance Committee	<u>CYC</u> Emma Audrain/ Debbie Mitchell		To seek Members' views on the draft annual report of the Audit and Governance Committee for the year ended March 2020, prior to its submission to Full Council.
Treasury Management Outturn Report	<u>CYC</u> Emma Audrain/ Debbie Mitchell		To provide Members with an update on the Treasury Management Outturn position for 2019/20.
Key Corporate Risks Monitor 1	<u>CYC</u> Sarah Kirby		Update on Key Corporate Risks (KCRs) including: KCR 10 – Workforce/ Capacity
Mazars Audit Progress Report	<u>Mazars – Mark Kirkham, Mark Dalton</u>		Update report from external auditors detailing progress in delivering their responsibilities as the Council's external auditors
Annual Report of the Head of Internal Audit	<u>Veritau –</u> <u>Max Thomas/</u> <u>Richard Smith</u>		This report will summarise the outcome of audit and counter fraud work undertaken in 2018/19 and provide an opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and internal control
Committee July 2020			
Mazars Audit Completion Report	<u>Mazars – Mark Kirkham</u>		Report from the Councils external auditors setting out the findings of the 2019/20 Audit.
Final Statement of	<u>CYC</u>		To present the final audited Statement of Accounts

Accounts	Emma Audrain/ Debbie Mitchell		following the 2019/20 Audit.
Information Governance & Complaints	<u>CYC</u> Lorraine Lunt		To provide Members with an update on current information governance issues.
Committee Sept 2020			
Mazars Annual Audit Letter	<u>Mazars</u> – Mark Kirkham		Report from the Councils external auditors setting out the findings of the 2019/20 Audit.
Key Corporate Risks monitor 2	<u>CYC</u> Sarah Kirby		Update on Key Corporate Risks (KCRs) including: KCR 11 - External Market Conditions
Internal Audit Follow up of Audit Recommendations Report	<u>Veritau</u> – <u>Max Thomas/</u> <u>Richard Smith</u>		This is the regular six monthly report to the committee setting out progress made by council departments in implementing actions agreed as part of internal audit work
Internal Audit & Fraud Plan & Progress report	<u>Veritau</u> – <u>Max Thomas/</u> <u>Richard Smith</u>		An update on progress made in delivering the internal audit work plan for 2019/20 and on current counter fraud activity
Information Governance & Complaints	<u>CYC</u> Lorraine Lunt		To provide Members with an update on current information governance issues.
Committee Dec 2020			
Key Corporate Risks monitor 3	<u>CYC</u> Sarah Kirby		Update on Key Corporate Risks (KCRs) including: KCR 12 – Major Incidents
Mazars Audit Progress	<u>Mazars</u> – Mark Kirkham		Update report from external auditors detailing progress in delivering their responsibilities as the Council's external auditors
Treasury Management Mid year review 20/21 and review of prudential indicators	<u>CYC</u> Debbie Mitchell		To provide an update on treasury management activity for the first six months of 2020/21
Internal Audit & Fraud	<u>Veritau</u> –		An update on progress made in delivering the internal

progress report	<u>Max Thomas/ Richard Smith</u>		audit work plan for 2020/21 and on current counter fraud activity
Information Governance & Complaints	<u>CYC</u> Lorraine Lunt		To provide Members with an update on current information governance issues.
Other Items to be brought to the Committee - date			