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| Meeting       | Audit & Governance Committee  |
| Date          | 8 February 2017   |
| Present       | Councillors N Barnes (Chair), Dew (Vice-Chair), Cuthbertson, Fenton, Flinders, Kramm and Lisle and Mr Bateman |
| In attendance | Councillor Doughty  |
| Apologies     | Mr Mendus   |

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## **50. Declarations of Interest**

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda. Councillor Kramm declared a personal interest in agenda item 6 (Procurement Report) as a trustee of St Nicks, which was involved in the tender for waste services.

## **51. Exclusion of Press and Public**

Resolved: That the press and public be excluded from the meeting during consideration of Annex 3 to agenda item 8 (Counter Fraud Policy, Strategy and Risk Assessment) on the grounds that it contains information relating to the prevention, prosecution or investigation of crime. This information is classed as exempt under paragraph 7 of Schedule 12A to Section 100A of the Local Government 1972 (as revised by the Local Government (Access to Information (Variation) Order 2006).

## **52. Minutes**

Resolved: That the minutes of the meeting held on 20 December 2016 be approved and then signed by the Chair as a correct record.

### **53. Public Participation**

It was reported that there had been one registration to speak at the meeting under the Council's Public Participation Scheme. Ms Gwen Swinburn stated that she was very concerned that £24m of council expenditure was not able to be audited. She referred to the budget proposals, which included provision for the appointment of an additional member of staff to the procurement team, and stated that she did not believe this to be sufficient. Ms Swinburn also raised concerns regarding the budget consultation and stated that citizens had not been given sufficient time to respond to the questionnaire that had been circulated

### **54. Mazars Audit Progress Report**

Members considered a report from Mazars which reported on progress in delivering their responsibilities as external auditors. Gareth Davies, Partner at Mazars, went through the report.

Members were notified of an additional change within the audit team - Jon Leece would take over from Gavin Barker as Mazars Senior Manager in respect of work for City of York Council.

Councillor Dew informed Members that he had found the North Yorkshire Governance Forum, which had been arranged by Mazars, to be very useful.

Members questioned the representative from Mazars on the implications of the proposed change in respect of accounting for highways infrastructure on a depreciated replacement cost basis. They were informed that it was unclear when the required changes would now take effect but that the additional information required would be an extra burden for the Council. The Engineering Department were, however, preparing for the change to ensure that the core data was completed.

Resolved: That the report be noted.

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

## 55. Procurement Report

Members considered a report which provided an overview of the procurement function. The report had been requested by the Committee at its meeting on 20 December 2016.

The Corporate Finance and Commercial Procurement Manager went through the key information in the report. Members' attention was drawn to paragraph 13 of the report, which outlined the steps that should be taken for various levels of expenditure. The officer stated that whilst there was always room for improvement, particularly in respect of document retention, significant progress had been made by the procurement team and she believed that robust arrangements were in place.

Members questioned the officer about the current staffing arrangements that were in place within the procurement team and the responsibilities of the proposed additional member of staff. In response to questions from Members, the officer also confirmed that, once the new appointment had been made, she was reasonably confident that there sufficient staff within the team. Members were informed that the responsibilities in respect of procurement rested with managers although the procurement team supported them in this process.

Members asked about the staff training that was available. They were informed that sessions were held on a monthly basis. The staff bulletin and the intranet were also used to raise awareness of procurement issues, and an iComply exercise was due to take place. Consideration was also being given to the development of e-learning on this issue.

Members asked about the ways in which non-compliance was identified and the action that was taken. They were informed that breaches were usually identified by the procurement team or by the internal auditors. The reasons for non-compliance were generally because the officer concerned had not been aware of the procedures. The procurement team offered support and guidance but if non-compliance was persistent this would be dealt with as a disciplinary issue. Members were informed that work was ongoing to improve the way in which the procurement team was able to identify cumulative spend more effectively.

The officer was asked about the issue that had been raised regarding procurement documentation not being available. She stated that there had been a significant progress in addressing this issue and that this improvement was continuing.

Members asked if consideration had been given to developing computerised systems to address some of the issues that had been raised. The officer confirmed that consideration had been given to different contract systems but these were quite expensive to purchase and maintain and hence would require a significant investment.

Members requested that they receive the following additional information<sup>1</sup>:

- A more detailed breakdown of the identified breaches, as outlined in paragraph 15 of the report.
- Clarification as to whether waivers were identified on the Council's Contract Register.
- Details of the membership and terms of reference of the Internal Governance, Risk and Assurance Group.

It was agreed that it would be useful for a training session on procurement to be arranged for Members of the committee<sup>2</sup>.

Resolved: That the report be noted.

Reason: To update the committee on procurement issues.

Action Required

1. Provide requested information
2. Arrange training session for Members

DM  
DM, JC

**56. Treasury Management Strategy Statement and Prudential Indicators for 2017/18 to 2021/22**

Members considered the Treasury Management Strategy Statement and Prudential Indicators 2017/18 to 2021/22. The information included 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

Members noted a proposed policy change in minimum revenue provisions (MRP) policy, as set out in paragraphs 19 to 29 of annex 1 of the report. Members asked why the change was being proposed at this time. The Corporate Finance and Commercial Procurement Manager stated that the proposed change was considered to be more prudent than the previous policy and was based on advice from the Council's treasury management advisers. The current economic situation and the Council's particular circumstances made it an opportune time to make the change.

At the request of Members, the Corporate Finance and Commercial Procurement Manager clarified aspects of the borrowing strategy, as outlined in paragraphs 56 to 61 of the report. The officer was asked if the report took into account the international situation. Members were informed that the report had been written in December but that the Council's treasury management advisers kept the Council informed of international issues which could impact on borrowing and investments.

Resolved: That the treasury management strategy statement and prudential indicators for 2017/18 to 2021/22, as detailed in annex 1 of the report, be noted.

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.

## **57. Counter Fraud Policy, Strategy and Risk Assessment**

Members considered a report which gave details of potential fraud risks that the council is exposed to, and proposed activity to address those risks. The report also detailed a proposed new counter fraud and corruption policy, and a strategy, for the committee's comments.

Members were asked to comment on the counter fraud policy and corruption policy and associated prosecution policy at annex 1 of the report and on the proposed strategy at annex 2 of the report. They were also invited to comment on the fraud

risk assessment and proposed priorities for counter fraud work as set out in annex 3.

The Head of Internal Audit was asked if there were sufficient resources in place to implement the policies. He stated that he believed that the Council was doing everything possible and that the policies were based on best practice, including the Chartered Institute of Public Finance (CIPFA) guidance. He was satisfied that all reasonable steps were being taken to protect against fraud and that there was an appropriate level of resources. If additional resources were to be made available it would, however, enable more proactive work to be carried out, including data matching. The Head of Internal Audit stated that benchmarking was carried out with other local authorities and he was satisfied that the current allocation of time for fraud work was reasonable. The benchmarking data indicated that York was performing well in respect of fraud reduction when compared with other local authorities.

Members sought assurances that effective mechanisms were in place to enable incidents of fraud to be reported. They were informed that fraud reporting arrangements were publicised and campaigns held. Members were informed that incidents of fraud were reported in several ways, including referrals from managers, staff and the public.

Referring to the Fraud and Corruption Prosecution Policy (Annex A of the report), Members sought clarification as to the circumstances in which a prosecution would not be sought when incidents of fraud were identified. Members were informed that the Council had a zero tolerance approach to fraud although there may be some circumstances when it would not be appropriate to prosecute. The Internal Audit Team carried out the fraud investigations and made recommendations as to whether or not a prosecution should be sought. The Director of Customer and Corporate Services made the final decision regarding prosecutions. In response to questions from Members, the Director of Customer and Corporate Services stated that, in all cases to date, he had accepted the recommendation of the Internal Audit Team in respect of prosecutions.

*[The press and public were excluded from the meeting whilst Members sought clarification from the Internal Audit Manager regarding several fraud areas detailed in Annex 3 of the report].*

- Resolved: (i) That the proposed new counter fraud and corruption policy and associated prosecution policy, at annex 1 and annex 2, be noted.
- (ii) That the fraud risk assessment and proposed priorities for counter fraud work, as set out in annex 3 of the report, be noted.
- Reasons: (i) In accordance with the committee's responsibility for assessing the effectiveness of the Council's counter fraud arrangements.
- (ii) To ensure that scarce audit and counter fraud resources are used effectively.

## **58. Internal Audit Plan Consultation**

Members considered a report that sought their views on the priorities for internal audit for 2017/18, to inform the preparation of the annual audit plan.

Members requested that consideration be given to including the following issues within the annual audit plan:

- Procurement breaches
- The effectiveness of the co-operative standing agreements (financial aspects) in the Health and Wellbeing Board
- Issues in respect of Ward Budget spending (it was noted that the Internal Audit Report on this issue was due to be presented to the committee)
- Safety protocols for public spaces and events
- Including in the proposed scope of the business continuity and emergency planning work, the implementation of recommendations arising from the Flood Inquiry

Members requested that, when the final Internal Audit Plan was presented to the committee, the covering report commented on the consideration that had been given to the suggestions put forward by Members and the reasons why they had or had not been included in the plan<sup>1</sup>.

Resolved: That the proposed approach to internal audit planning for 2017/18, as set out in the report, be endorsed.

Reason: To ensure that scarce audit resources are used effectively.

Action Required

1. Include in report

MT

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

Members considered a report which presented the future plan of reports expected to be presented to the committee during the forthcoming year to December 2017.

Members' attention was drawn the additional committee meeting that had been scheduled for 22 February 2017.

Resolved: That the committee's Forward Plan for the period up to December 2017 be approved.

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

**Chair's Comments**

Councillor Lisle informed the committee that this would be his last meeting as a member of the Audit and Governance Committee, as he would be taking up the position as Executive Member for Housing and Safer Neighbourhoods the following day. The Chair thanked Councillor Lisle for his work as a member of the committee and the contribution that he had made.

Councillor N Barnes, Chair

[The meeting started at 5.30 pm and finished at 7.45 pm].