

Meeting	Audit & Governance Committee
Date	10 February 2016
Present	Councillors N Barnes (Chair), Dew (Vice-Chair), Fenton, Gunnell, Kramm, Lisle, Mendus, Bateman and Cuthbertson (Substitute) Mr Bateman and Mr Mendus
Apologies	Councillor Cullwick

---

#### **46. 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. None were declared.

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

Resolved: That the press and public be excluded from the meeting during consideration of Annex 1 to agenda item 10 on the grounds that it contains information relating to 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 Act 1972 (as revised by the Local Government (Access to Information (Variation) Order 2006).

#### **48. Minutes**

Resolved: That the minutes of the meeting of 9 December 2015 be approved and signed as a correct record subject to minute 36 para 4 being amended to include a sentence stating *“These items were later picked up by the committee during their discussions”*.

Referring to minute 42, Councillor Cuthbertson stated that he was a member of the North Yorkshire Pension Fund Board and

he would be willing to give feedback to the committee on issues considered by the Board if requested.

#### **49. Public Participation**

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

Ms Gwen Swinburn spoke on the following agenda items:

- Item 5 (Forward Plan) – Ms Swinburn requested that consideration be given to including an item on the Transparency Code 2015 on the agenda for the next meeting. She stated that the Council was not yet complying with the law in respect of the items that should be publically available on its website.
- Item 6 (Key Corporate Risk Monitor) – Ms Swinburn stated that strategic risks such as flooding, the Southern Gateway, York Central, the Local Plan and the economy of the city had not been specifically mentioned.
- Item 11 (Internal Audit Plan Consultation) – Ms Swinburn expressed concern that many of the priorities proposed were the same as previous years.

#### **50. Audit and Governance Committee's Forward Plan**

Members considered a paper which presented the future plan of reports expected to be presented to the committee during the forthcoming year to December 2016.

Members were invited to identify any further items they wished to see added to the Forward Plan.

The following items were put forward for inclusion on the Forward Plan:

- A report on the implementation of Council motions
- The role and terms of reference of Group Leaders' meeting
- Update on the implementation of the Transparency Code 2015
- Update on the work to review the Constitution

Members also requested that arrangements be made to enable them to meet in private with the internal and external auditors in advance of the regular committee meetings<sup>1</sup>.

It was agreed that a training and development plan should also be put in place for the committee. One of the items that the committee would wish to consider at these sessions would be the Annual Governance Statement to enable them to have input at an early stage.<sup>2</sup>

Members commented on the need to ensure that items did not continue to be included on the Forward Plan once the committee was satisfied that they had been addressed.

Resolved: That, subject to the additions detailed above, the committee's Forward Plan for the period to December 2016 be approved.<sup>3</sup>

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

Action Required

- |  |    |
|--|----|
| 1. In consultation with Chair and Members make necessary arrangements      | JC |
| 2. In consultation with Chair and Members, make the necessary arrangements | JC |
| 3. Update Committee's Forward Plan   | EA |

**51. Key Corporate Risk Monitor 4 2015/16**

Members considered a report which provided an update on the key corporate risks for City of York Council and the refreshed Key Corporate Risk Report 2015.

Members were asked to consider and comment on the refreshed key corporate risks, as detailed in Annex A of the report. Members' attention was also drawn to the information provided in respect of the controls applicable to KCR 06 workforce/capacity.

Members were informed that initial discussions had taken place with Zurich with regards to the development of a risk appetite

statement. It was intended that this would provide context around the risk scores.

Members commented on the following Key Corporate Risks (KCR):

- KCR 02 – Governance (with particular reference to health and safety). In response to questions from Members, officers detailed the staffing arrangements that were now in place.
- KCR 09 – Communities. Members queried why no specific actions or target dates had been included. Officers stated that controls were in place and that these would be monitored by the Director.
- KCR 04 – Changing demographics. Clarification was sought as to why the target date had been put back. Officers explained that this was because work was ongoing in respect of place planning.
- KCR 11 – Capital Programme. A concern was expressed that the community stadium project had not been identified as a separate risk but had been included within KCR 11. Officers confirmed that a number of capital programmes had been grouped under this strategic risk but stated that more information was available on specific projects if requested. Members sought assurances that the relevant technical expertise and personnel were in place to ensure that the major capital projects such as York Central could be delivered.<sup>1</sup>
- KCR 06 – Workforce/Capacity. Clarification was sought as to the effectiveness of the Whistleblowing Policy. Officers stated that the policy had been developed over time and explained that the reporting process was to Veritau.
- KCR 06 – Workforce/Capacity. Referring to the target date of 31 December 2015, officers were asked about progress on the new workforce strategy. Members were informed that a draft had been produced and was currently out for consultation. Details were given of the reporting arrangements that were in place, including quarterly reports presented to the Corporate and Scrutiny Management Policy and Scrutiny Committee.

Clarification was sought regarding the point at which a complete review of the risks was carried out to identify whether the nature of the risks may have changed. Officers stated that a

fundamental review of risks was carried out approximately every three years and that this process was due to be implemented.

Members stated that it would be useful for reports to include brief reference to those risks which had been removed from the register because appropriate controls had been put in place.

A request was made for information on the arrangements that were in place to mitigate against any financial penalties the government may impose on councils who breach air pollution regulations.<sup>1</sup>

- Resolved:
- (i) That the report be noted.
  - (ii) That Members' comments on the refreshed key corporate risks, as detailed above, be noted.
  - (iii) That the additional information requested by Members be provided.<sup>1</sup>

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

Action Required

1. Provide additional information requested by Committee

LN

## **52. Audit Progress Report**

Members considered a report from Mazars which provided an update on their progress in delivering its responsibilities as the Council's external auditors. The report also highlighted key emerging national issues and developments which may be of interest to the committee.

Members were informed that the report on the governance around remuneration paid by City of York Trading Ltd to two of the company's executive directors was nearing completion. The auditor explained that there had been no obstruction in carrying out their work but that a second round of consultation had taken place and hence the report had taken longer to complete than had been anticipated. The status of the report would only be determined when the report was complete.

Members' attention was drawn to the updated Value for Money (VfM) guidance that had been issued by the National Audit Office. The auditors confirmed that their judgements would be mapped against the new criteria.

The auditor was asked how the Council's Annual Governance Statement compared with those of other local authorities. He stated that it was not significantly different and that the auditors had been satisfied that its contents also reflected the judgements of the internal and external auditors. It was important that the committee had an input in its contents.

Resolved: That the report be noted.

Reason: To ensure that the committee is kept updated on progress made by the external auditors.

### **53. Update on the Older Persons' Accommodation Programme**

Members considered a report which presented an update on the Older Persons' Accommodation Programme. Members were asked to review and comment on progress in delivering the programme.

Officers were asked about the key risks in ensuring that the programme was delivered. Members were informed that the link between health and older persons' accommodation could not be underestimated. Members also emphasised the need to ensure that robust procurement processes were in place.

Members commented on the good progress that had been made in delivering the programme. They stated that the improved project management, including the gateway arrangements that were in place and the use of Verto, had had a significant impact.

Members were asked if they would wish to continue to receive six monthly update reports on the programme or if they would wish to receive this information as part of the regular project management reports that were presented to the committee. Members stated that, in view of the importance of the project and the issues that had been previously identified, it would be appropriate for a further report to be presented to the committee in six months time.

- Resolved: (i) That the report be noted.
- (ii) That a further update report be presented in six months time.<sup>1</sup>

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

Action Required

Include item on Committee's Forward Plan

EA

#### **54. Fraud Risk Assessment**

Members considered a report which outlined potential fraud risks that the Council was exposed to, and proposed counter fraud activity to address those risks.

Members were invited to comment on the fraud risk assessment and proposed priorities for counter fraud work, as detailed in table 1 of the report and at Annex 1.

At the request of Members, officers gave further details of the nature of the risks detailed in Annex A of the report.

Resolved: That the proposed priorities for counter fraud work be supported.

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

#### **55. Internal Audit Plan Consultation**

Members considered a report which sought their views on the priorities for internal audit for 2016/17, to inform the preparation of the annual audit plan. Officers stated that a number of the risks remained unchanged from the previous year; this reflected the fact that they remained key risks for the Council.

Members were invited to comment on the proposed approach and to identify any specific areas which should be considered a priority for audit.

In response to questions from Members regarding an audit of Section 106 funding, officers stated that an audit had recently been concluded on this issue and the draft report had been issued to managers. Members requested that the report be presented at the next meeting.<sup>1</sup>

Members suggested that, in recognition of the changes in the membership of the committee, it would be helpful for future reports to make reference to historic as well as planned audits.

Members put forward the following suggestions for future audits:

- School place planning – processes to ensure the timely planning and adequacy of places
- Traveller site management
- Business continuity both internal and citywide
- Issues surrounding the devolving of funds to ward committees to ensure that the risks of decentralising have been mitigated and that value for money is being achieved

Reason: That, subject to consideration being given to the inclusion of the audits suggested above, the proposed approach to internal audit planning for 2016/17 be approved.<sup>2</sup>

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

Action Required

- |   |    |
|---|----|
| 1. Include on Committee's Forward Plan                              | EA |
| 2. Consideration of suggested items for inclusion in the Audit Plan | MT |

## **PART B - MATTERS REFERRED TO EXECUTIVE**

### **56. Treasury Management Strategy Statement and Prudential Indicators**

Members considered a report which set out the Treasury Management Strategy for 2016/17 to 2020/21. In response to Members' requests at the previous meeting, the report also contained information on the Ethical Investment Policy.

Members were asked to note the issues outlined on ethical investments and consider any recommendations they wished to make to the Executive.

Officers were thanked for their work in preparing the report.

The following issues were raised:

- Members were pleased to note that the Council did not have any direct investment with fossil fuel companies.
- Members noted that, as the Council only invested in money market funds or directly with banks and building societies, it had very little information as to where these counterparties placed their funds.
- Some Members supported the inclusion of an ethical investment statement within the Treasury Management Strategy. Examples were cited of those used by other Authorities.
- Some Members stated that, in order to make an informed recommendation to Executive, they would require further information on the practical difficulties in implementing such a policy.
- Some concerns were raised regarding the additional demands on officer time that would arise in obtaining further information or in implementing such a scheme.
- Whilst there was general support that the Council should aspire to make ethical investments, some Members stated that the priority should be the security of the investments and achieving value for money.
- Members noted the practicalities that may arise in setting criteria for ethical investments and the subjective judgements that may arise regarding different investments.
- A suggestion was put forward that, at an appropriate time, the Council should seek to influence the policy of the North Yorkshire Pension Fund regarding ethical investments.
- Members noted that there was the option to submit a scrutiny topic on this issue to the Corporate and Scrutiny Management Policy and Scrutiny Committee should they wish this issue to be given greater consideration.

Councillor Lisle proposed and Councillor Dew seconded the following recommendation

“That, in response to the resolution of Full Council, it be noted that the committee had considered the Treasury Management Strategy and the contents of the report, including the information on ethical investments”

On being put to the vote the recommendation was declared lost.

Councillor Kramm proposed and Councillor Gunnell seconded the following recommendations to the Executive

“As part of recommendation (a) to the Audit and Governance Committee, the committee recommends to the Executive:

1. That the Executive adopt an ethical statement within the Council’s Treasury Management Strategy, in particular the following wording or similar:

“The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council’s mission and values. This would include, inter alia, avoiding direct investment in institutions with material links to:

- a. Human rights abuse (eg child labour, political oppression)
- b. Environmentally harmful activities (eg pollutions, destruction of habitat, fossil fuels)
- c. Socially harmful activities (eg tobacco, gambling)”

2. That the Executive include in the reporting requirements an update on available information on the ethical standards of our direct and indirect investment and on the legal boundaries of the influence of Council on its investment choices,

3. That the Executive asks officers of the Treasury to request further information from fund managers of money market funds or banks and building societies about their ethical standards in their Fund Management Strategies and report back for consideration by the end of this year, with consultation through the Audit & Governance Committee

4. That the Executive carries out work to liaise with the Pension Fund Committee of the North Yorkshire Pension Fund in order to discuss the fund's investment policy and strategy as soon as the new pooled structures for Local Government Pension Scheme Fund assets (in line with the guidance of the government) have been clarified and implemented”.

On being put to the vote the recommendations were declared lost.

Councillor Kramm proposed and Councillor Gunnell seconded the following recommendation to the Executive

“That it be recommended that an ethical investment statement be included within the Treasury Management Strategy”

On being put to the vote the recommendation was declared carried.

Councillor Lisle proposed and Councillor Cuthbertson seconded the following additional recommendation to the Executive

“That Executive be recommended to consider what further work was necessary to progress this issue”.

On being put to the vote the recommendation was declared carried.

Officers were asked if consideration had been given to the risks that may arise if the United Kingdom were to leave the European Union. Officers stated that Capita, who were the Council’s Treasury Management advisers, would monitor the situation and advise the Council accordingly. It was, however, difficult at this stage to ascertain the impact of such a move.

- Resolved:
- (i) That the issues outlined in the report on ethical investments be noted.
  - (ii) That the Treasury Management Strategy Statement and Prudential Indicators for 2016/17 to 2020/21 be noted.
  - (iii) That it be recommended to Executive that that an ethical investment statement be included within the Treasury Management Strategy
  - (iv) That it be recommended to Executive that they determine what further work was necessary to progress the issue of ethical investment.

- Reasons:
- (i) and (ii) So that those responsible for scrutiny and governance arrangements are properly updated and able to fulfil their responsibilities in scrutinising the strategy and policy

(iii) and (iv) To action the Council motion of 8  
October 2015.

Councillor N Barnes, Chair  
[The meeting started at 5.30 pm and finished at 8.45 pm].