

<b>Report To:</b>	<b>AUDIT COMMITTEE</b>	<b>Date:</b>	<b>28 NOVEMBER 2016</b>
<b>Heading:</b>	<b>NON-COMPLIANCE WITH FINANCIAL REGULATIONS</b>		
<b>Portfolio Holder:</b>	N/A		
<b>Ward/s:</b>	N/A		
<b>Key Decision:</b>	NO		
<b>Subject To Call-In:</b>	NO		

### **Purpose Of Report**

To update Members on progress made since the issue of non-compliance with Financial Regulations was reported to Audit Committee in December 2015.

### **Recommendation(s)**

**2.1 The report be noted; and**

**2.2 Members determine whether any further assurance is required.**

### **Reasons For Recommendation(s)**

The Audit Committee has a duty to consider the Authority's compliance with its own published standards and controls as part of the maintenance of an effective control and governance framework. It is also responsible for overseeing the Council's anti-fraud strategy.

### **Alternative Options Considered (With Reasons Why Not Adopted)**

The report has no alternative options to consider.

### **Detailed Information**

Financial Regulations form part of the Council's Governance Framework, and contribute to mitigating the Authority's fraud risks by identifying and codifying financial processes and procedures which reduce opportunities to commit fraud as well as the likelihood of error.

In 2015, an audit of the Council's general arrangements to deal with fraud identified a significant number of cases of non-compliance with Financial Regulations relating to the ordering of goods and services. The use of formal orders is acknowledged as reducing the scope for the submission of fraudulent invoices, it helps to enhance the quality of the

Authority's budgetary control arrangements, facilitates a smoother closedown process at year end, and assists in achieving the increasingly challenging deadline for the production of Final Accounts. Additionally, invoices resulting from properly raised purchase orders can be processed quicker, helping to reduce potential penalties to which the Council may be subject to under the EU late Payment Directive.

In Autumn 2015, to address the issue of non-compliant purchasing, a number of training sessions were held where the importance of using purchase orders and the possible consequences of non-compliance with Financial Regulations was restated.

In February 2015, a review of ordering arrangements concluded that for 55% of invoices processed, either no official order was raised, or the date of the order was the same as the date of the invoice, indicating that an order had been raised after the invoice was received to simplify processing. This level of non-compliance represents the benchmark against which improvements can be measured. The calculation takes into account certain categories of goods and services which the Deputy Chief Executive has approved as exceptions, which do not require a purchase order. This includes utility services, periodic payments, such as rent and rates, work which is part of a formal contract, credit card purchases and petty cash.

In the period 1<sup>st</sup> July to 30<sup>th</sup> September 2015, 40% of invoices were recorded as non-compliant. Within these figures, however, there was evidence of an improving trend. Of the invoices processed in July, 50% were non-compliant, compared to 30% in September.

The position has continued to improve, and in the two months June and July 2016, 25% of invoices were found to be non-compliant. Appendix A shows the data for June and July 2016, compared to the information previously reported to Audit Committee in December 2015.

Regular reports are taken to Corporate Leadership Team to inform them of the progress being made. With the Council's Housing function being brought back 'in house', the Creditors Team have delivered a number of Purchasing training sessions, which were well received by the staff concerned. The Housing staff have been encouraged to seek help, and it is pleasing to note that they have embraced the system.

## **Implications**

### **Corporate Plan:**

The Council's Budget underpins all aspects of the Corporate Plan and is particularly relevant to "Organisational Improvement.

### **Legal:**

There are no direct legal issues identified in the report.

### **Finance:**

Non-compliance of Financial Regulations relating to purchase ordering increases the risk of financial loss due to fraud or error.

**Human Resources / Equality and Diversity:**

There are no HR issues.

**Other Implications:**

N/A

**Reason(s) for Urgency (if applicable):**

N/A

**Background Papers**

N/A

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