

## NORTH YORKSHIRE COUNTY COUNCIL

### AUDIT COMMITTEE

Minutes of the meeting held on 8 December 2011 at 2.00 pm at County Hall, Northallerton.

#### PRESENT:-

##### **County Councillor Members of the Committee:-**

County Councillor Patrick Mulligan (in the Chair); County Councillors Karl Arthur, Bill Chatt, Mike Jordan, Chris Pearson and Joe Plant.

##### **External Members of the Committee:-**

Mr James Daglish and Mr David Portlock.

#### IN ATTENDANCE:-

County Councillor Gareth Dadd (Executive Member for Highways and Planning Services).

Celia Craig and Alistair Lince (Deloitte LLP).

Veritau Ltd Officers: Roman Pronyszyn (Audit and Information Assurance Manager) and Max Thomas (Head of Internal Audit).

County Council Officers: David Bowe (Corporate Director - Business and Environmental Services), Ruth Gladstone (Principal Democratic Services Officer), Sian Hansom (Assistant Director - Resources, Performance and Improvement, Business and Environmental Services Directorate), Neil Irving (Assistant Director - Policy and Partnerships, Chief Executive's Group), John Moore (Corporate Director – Finance and Central Services), Geoff Wall (Assistant Director - Central Finance), Mark Wilkinson (Emergency Planning Manager, Chief Executive's Group) and Peter Yates (Assistant Director - Corporate Accountancy).

#### APOLOGIES FOR ABSENCE:-

Apologies for absence were received from County Councillors Margaret-Ann de Coursey-Bayley and Robert Heseltine, Mr Henry Cronin (External Member of the Committee) and from County Councillors Carl Les and Chris Metcalfe (Executive Members).

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### **COPIES OF ALL DOCUMENTS CONSIDERED ARE IN THE MINUTE BOOK**

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The Chairman, in opening the meeting, welcomed County Councillor Joe Plant to his first meeting of the Committee. The Chairman also announced that the order of business would be altered for the convenience of officers who would be present for only part of the meeting.

#### **172. MINUTES**

##### **RESOLVED –**

That the Minutes of the meeting held on 29 September 2011, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

**173. PUBLIC QUESTIONS OR STATEMENTS**

There were no questions or statements from members of the public.

**174. PROGRESS ON ISSUES RAISED BY THE COMMITTEE**

CONSIDERED -

The joint report of the Corporate Director – Finance and Central Services and the Assistant Chief Executive (Legal and Democratic Services) advising of progress on issues which the Committee had raised at previous meetings and providing updates concerning Treasury Management and the rationalization of systems and data.

The Principal Democratic Services Officer reported orally that the Standards Committee, on 28 November 2011, had considered the Audit Committee's request for the Standards Committee to report once per year to the Audit Committee concerning the action the Standards Committee took in reviewing Members' attendance records. The Standards Committee's decision was to defer consideration of the request pending the development of a new framework for the Standards Committee following the publication of the Localism Act.

During discussion concerning Treasury Management, Members questioned the Corporate Director - Finance and Central Services about the County Council's approach to borrowing and also to seek confirmation that the County Council had decreased its lending to Santander.

**RESOLVED –**

- (a) That the report be noted.
- (b) That the Audit Committee's request for the Standards Committee to report once per year to the Audit Committee concerning the action the Standards Committee takes in reviewing Members' attendance records be retained within the "Progress on Issues Raised by the Committee" reports submitted to future meetings of the Audit Committee until such time as the Standards Committee determines this request.

**175. ANNUAL AUDIT LETTER FROM DELOITTE LLP ON THE 2010/11 AUDIT OF NORTH YORKSHIRE COUNTY COUNCIL (INCORPORATING NORTH YORKSHIRE PENSION FUND)**

CONSIDERED -

The Annual Audit Letter from Deloitte LLP on the 2010/11 audit of North Yorkshire County Council, incorporating the North Yorkshire Pension Fund. The letter summarised the key matters arising from the work which Deloitte LLP had carried out in respect of the year ended 31 March 2011. It noted, in particular, that Deloitte LLP had issued an unqualified audit opinion on the Statement of Accounts and the value for money conclusion. Deloitte LLP had also issued an unqualified audit opinion on the North Yorkshire Pension Fund Annual Report on 29 September 2011. The letter also identified actions which needed to be taken by the County Council which were:- to maintain the ability to continue to meet the financial reporting timetable; and to implement the actions noted in the management response of each control observations raised in Deloitte LLP reports to those charged with governance.

During discussion, Alistair Lince (Deloitte LLP) confirmed that a local resident had asked a question in respect of the County Council's new Waste PFI arrangements and that Deloitte LLP had concluded that the procurement process was undertaken lawfully and in accordance with the County Council's Constitution and procurement rules. Deloitte LLP had also concluded that the decision to pursue an energy from waste facility as a long-term waste solution was a matter of policy and was therefore outside the scope of the responsibilities of Deloitte LLP as external auditor.

**RESOLVED -**

That the Annual Audit Letter be noted.

**176. PROPOSED EXPANSION OF VERITAU LIMITED**

**Note: during consideration of this item of business, John Moore declared an interest as Chairman of Veritau Limited's Board. Max Thomas declared an interest as a Director of Veritau Limited.**

**CONSIDERED -**

The report of the Corporate Director – Finance and Central Services seeking the Committee's views on a proposed expansion of Veritau Limited to enable the company to provide internal audit services to a number of North Yorkshire District Councils from 1 April 2012.

During discussion, Members questioned John Moore and Max Thomas to seek confirmation of the following:-

- ◆ That neither the County Council nor the City of York Council would be expected to pay the set-up costs as a result of the creation of Veritau - North Yorkshire Limited (VNY) and the transfer of services from North Yorkshire Audit Partnership.
- ◆ That County Councillor John Watson OBE (Executive Member) was a Director of Veritau Limited; that the Chairman of the County Council's Audit Committee attended Veritau Board meetings as an ex officio member; but that the Districts (to be part of VNY) were not represented on the Veritau Board.
- ◆ That a Dispute Resolution Procedure was in place in the unlikely event of a dispute between the shareholders of the two companies.
- ◆ That VNY staff had the necessary skills and experience to undertake its work without detriment to the work undertaken for the County Council and the City of York Council.
- ◆ That salary scales of certain key posts within Veritau were being adjusted to reflect the proposed expansion.
- ◆ That the County Council was looking to reduce its number of audit days, this being the only way to achieve savings in this area of financial governance.

John Moore and Max Thomas advised that the report to be submitted to the County Council's Executive on 20 December 2011 would include additional information in response to questions which had been raised at recent meetings with both the County Council and the City of York Council.

**RESOLVED –**

That the County Council's Executive be advised that this Committee has raised no issues in respect of Veritau's ongoing ability to provide an effective internal audit service to the County Council as a result of the proposal.

**177. GOVERNANCE OF PARTNERSHIPS**

**CONSIDERED -**

The report of the Corporate Director – Finance and Central Services which provided an annual report on the governance of partnerships involving the County Council, together with a brief summary of key issues which had arisen during the previous year. A CIPFA update published in October 2011 entitled "Partnerships from the Audit Committee Perspective" was set out at Appendix B to the report.

During debate, Members:-

- highlighted that a considerable number of partnerships had ceased to exist during the previous 12 months whilst a significant number continued and that the Executive had asked individual Executive Members, in conjunction with representatives of the relevant Directorate, to give further detailed consideration to the partnership governance or monitoring arrangements of organisations relating to that Directorate;
- questioned the Assistant Director – Central Finance and the Assistant Director - Policy and Partnerships about:- the purpose of particular partnerships; how a partnership's success was measured; how it was decided whether the County Council's representative on a partnership should be an elected Member; the cost to the County Council arising from its involvement in a partnership; and to clarify that all partnerships which spent money were identified in the report; and
- highlighted that page 5 of the CIPFA update "Partnerships from the Audit Committee Perspective" set out a useful list of questions to review an audit committee's effectiveness in getting assurance on partnerships and what a committee itself contributed to good governance in partnerships. It was suggested that these questions might be considered by officers in undertaking the 2012 annual review of the governance of partnerships involving the County Council.

**RESOLVED –**

- (a) That the annual report on partnership governance, together with the contents of the schedule of partnership monitoring arrangements, be noted.
- (b) That the CIPFA publication 'Partnerships from the Audit Committee perspective' be noted and that the questions on page 5 of that document be considered by officers in undertaking the 2012 annual review of the governance of partnerships involving the County Council.

**178. INTERNAL AUDIT WORK AND RELATED INTERNAL CONTROL MATTERS FOR THE BUSINESS AND ENVIRONMENTAL SERVICES DIRECTORATE**

CONSIDERED -

The joint report of the Head of Internal Audit and the Corporate Director – Business and Environmental Services advising of the internal audit work performed during the year ended 30 November 2011 for the Business and Environmental Services Directorate and giving an opinion on the systems of internal control in respect of that area. The report also invited the Committee to consider the Statement of Assurance for 2010/11 signed by the Corporate Director – Business and Environmental Services and the latest Risk Register for that Directorate.

The Head of Internal Audit, in introducing the report, highlighted that his overall opinion on the controls operated in the Business and Environmental Services Directorate was that they provided Substantial Assurance.

The Head of Internal Audit, the Corporate Director – Business and Environmental Services, and the Assistant Director - Resources, Performance and Improvement, Business and Environmental Services Directorate, accompanied by County Councillor Gareth Dadd (Executive Member), responded to Members' questions. The questions related to the following issues:- the action which could be taken to ensure that those affected by the withdrawal of bus services could access community transport; to seek confirmation that the actions arising from the final audit report on Waste Management, to which page 77 of the papers for the meeting referred, had been implemented by the scheduled completion date of 30 June 2011; to explain why management had been unable to confirm whether amounts calculated to be paid to Ringway Limited for Central Harrogate Highway Maintenance were based upon agreed contract rates; and Members' concerns that temporary cessations in funding for Highways Maintenance might create infrastructure problems for the future and the difficulties involved in forward planning during periods of financial austerity.

**RESOLVED –**

That it be noted that the Committee is satisfied that the internal control environment operating in the Business and Environmental Services Directorate is both adequate and effective.

**179. ACCOUNTING POLICIES**

CONSIDERED -

The report of the Corporate Director – Finance and Central Services seeking approval, in principle, to changes to the County Council's Accounting Policies for the financial year 2011/12 and identifying potential changes in the pipeline that were likely to impact on future years' Accounting Policies and the Statement of Final Accounts.

During discussion, Members questioned the Corporate Director – Finance and Central Services and Assistant Director - Corporate Accountancy, Finance and Central Services Directorate concerning the definition of "heritage assets" for the purpose of the Accounting Policies and about the degree of complexity of the new requirements, in particular those relating to infrastructure assets.

**RESOLVED –**

- (a) That the changes in accounting policy for 2011/12 relating to heritage assets and the carbon reduction commitment scheme, as set out at Appendix A to the report, be approved in principle.
- (b) That the potential changes to the County Council's SOFA and accounting policies which are in the pipeline for future years and which relate to the following issues and are set out at Appendix B to the report, be noted:-
  - Explanatory Foreword and Management Commentary
  - CIPFA Code of Practice on Infrastructure Assets

**180. SERVICE CONTINUITY PLANNING**

CONSIDERED -

The report of the Corporate Director – Finance and Central Services providing an update on recent developments regarding Service Continuity Planning within the County Council and the Major Incident Plan. The developments included:- a full review of the Service Continuity Management System and subsequent approval by Management Board of a revised strategy which put customer needs first; and the enhancement of a Major Incident Plan for the County Council to provide procedures for the coordination of the response to a major incident. Detail concerning the current position and next steps were set out at sections 3 and 4 of the report.

During discussion, Members questioned the Corporate Director – Finance and Central Services and the Emergency Planning Manager about the definition of a major incident and the recent live exercise to test the Silver response of the County Council under the Major Incident Plan.

**RESOLVED –**

- (a) That the progress made to date in reviewing the arrangements for Service Continuity Planning in the County Council be noted.
- (b) That a further report be submitted to the Committee once Management Board has considered the feedback from the pilot process.

**181. REVIEW OF THE FINANCIAL, CONTRACT AND PROPERTY PROCEDURE RULES**

CONSIDERED -

The joint report of the Corporate Director – Finance and Central Services and the Assistant Chief Executive (Legal and Democratic Services) inviting the Committee to consider, for recommendation to the Executive, various proposed changes to the Financial, Contract and Property Procedure Rules. The changes proposed to:-

- Financial Procedure Rules related to new clauses to deal with the disposal of assets where grant funding was involved (and a linked equivalent proposal, in respect of property, within the Property Procedure Rules).

- Contract Procedure Rules related to additional requirements to record the reasons for waivers being granted to Contract Procedure Rules and to the maintenance of a formal register of such waivers and the re-wording of the section relating to the notification of certain procurements to the Section 151 Officer and the Monitoring Officer in respect of the permissions required to proceed with those procurements.
- Property Procedure Rules related to the clarification of the arrangements for staff authorised by the Assistant Chief Executive (Legal and Democratic Services) to sign documents on her behalf and a new clause to deal with the disposal of assets where grant funding was involved (and linked equivalent proposals for such disposals in the Financial Procedure Rules).

In response to Members' questions, the Corporate Director – Finance and Central Services advised that the proposals would enhance current checks and balances within control procedures.

#### **RESOLVED –**

**THAT IT BE A RECOMMENDATION TO THE EXECUTIVE** - That the following changes be made to the Constitution:-

- (a) the changes to the Financial Procedure Rules as detailed in Appendix 1 to the report;
- (b) the changes to the Contract Procedure Rules as detailed in Appendix 2 to the report; and
- (c) the changes to the Property Procedure Rules as detailed in Appendix 3 to the report.

#### **182. PROGRESS ON 2011/12 INTERNAL AUDIT PLAN**

##### **CONSIDERED -**

The report of the Head of Internal Audit advising of the progress made to date in delivering the 2011/12 Internal Audit Plan and developments likely to impact on the Plan throughout the remainder of the financial year. One variation had been made to the Plan to allocate additional time for the audit of the Harrogate library refurbishment contract due to the complexity of the scheme and the need to ensure compliance with the funding conditions set by the Lottery Fund. Small reductions had been made to a number of other completed and planned audits in the Business and Environmental Services Directorate with the consequence that there was a nil net change in the number of audit days. Appendix 3 to the report set out the Audit Commission annual fraud report 'Protecting the Public Purse 2011' which highlighted a number of new and emerging issues.

In response to Members' questions, the Head of Internal Audit advised that he was confident that the 2011/12 Performance Targets would be achieved. The Corporate Director – Finance and Central Services confirmed that the number of requests submitted under the Freedom of Information Act appeared to be levelling out, although there might come a point when Veritau Ltd had to be given extra resources for handling such work. He also advised that the number of cases of suspected malpractice or misappropriation referred to Veritau since 1 April 2011 was no more significant than in previous years and that Personalised Budgets within Health and Adult Services was the issue of greatest concern.

**RESOLVED –**

- (a) That the progress made by Veritau Ltd in delivering the 2011/12 Internal Audit Plan be noted.
- (b) That the Head of Internal Audit complete the checklist within the Audit Commission annual fraud report 'Protecting the Public Purse 2011' in preparation for discussion at the Member training session on 8 March 2012.

**183. CORPORATE GOVERNANCE - PROGRESS REPORT**

**Note: During consideration of this item of business, County Councillor Mike Jordan declared a personal interest because a family member provided Safeguarding Services around the country.**

**CONSIDERED -**

The report of the Corporate Director – Finance and Central Services providing an update on Corporate Governance matters including the updated Corporate Risk Register and advising on progress made in addressing the issues raised in the Annual Governance Statement 2010/11. The action notes for the three most recent meetings of the Corporate Governance Officer Group were set out at Appendices A, B and C to the report. Appendix D showed the latest position in actioning issues, identified in the Annual Governance Statement 2010/11, as requiring improvement. Appendix E set out a report submitted to the Corporate and Partnership Overview and Scrutiny Committee on 14 November 2011 concerning Management Board's recent review of the Corporate Risk Register.

The Chairman advised that it had been queried whether Members who served on both the Audit Committee and the Pension Fund Committee had a conflict of interest. It had now been clarified that, as the Audit Committee was receiving reports rather than amending them, there was no conflict of interest.

During discussion, the Corporate Director – Finance and Central Services confirmed that the Shadow Health and Wellbeing Board for North Yorkshire met the requirements of the County Council's Constitution

Members commented that all Directorates appeared to be on schedule in actioning issues identified as requiring improvement within the Annual Governance Statement 2010/11, with the exception of the Health and Adult Services Directorate. The Corporate Director – Finance and Central Services confirmed that this situation might be expected due to the nature of Service delivery and the continuous changes affecting services provided by that Directorate.

**RESOLVED –**

That the report be noted.

**184. INFORMATION GOVERNANCE**

**CONSIDERED -**

The report of the Corporate Director – Finance and Central Services providing an update on the progress made to date in respect of improving the effectiveness of the Information Governance arrangements in the County Council. The report described



work undertaken relating to the Information Governance Framework, information security, compliance, information quality, and records management. The report also listed the priority tasks for the subsequent 6 months, these being to:-

- refine and implement the revised training package for staff;
- develop and introduce a new electronic system for monitoring and recording data security breach investigations;
- ensure information asset registers had been completed for all Directorates;
- identify and implement actions necessary to comply with the Code of Recommended Practice for Local Authorities on Data Transparency.

The Corporate Director – Finance and Central Services, in introducing the report, highlighted the significant amount of work which was being undertaken.

Members commented that they were encouraged by the progress being made, as described in the report. However, they were surprised to note that, according to a Freedom of Information (FOI) request made by Big Brother Watch to 434 local authorities, the County Council was amongst the top ten worst offending authorities with regard to the loss of sensitive information. The Corporate Director – Finance and Central Services responded that, whilst apparently showing the County Council in a poor light, it was perhaps surprising that, of the 91% of authorities who replied to the FOI request, 263 reported no breaches or data losses. Given that county councils and unitary authorities were amongst these 263, this was “impressive” (if however statistically unlikely). The County Council’s approach on these matters was robust and it could be argued that breaches were being identified and the issues involved systematically addressed. Given the number and range of data items collected, handled and transferred within a county council every working day, it was inevitable, based on probability alone, that breaches would happen. The challenge was to minimise these (eg using IT controls, such as encryption) and then, if and when they did occur, act decisively.

In response to Members’ questions, the Corporate Director – Finance and Central Services outlined the actions taken when employees were identified as carrying out excessive internet browsing or when an incident was identified of external cyber bullying/internet harassment of employees.

#### **RESOLVED –**

That the progress made on Information Governance issues to date be noted.

#### **185. PROGRAMME OF WORK**

##### **CONSIDERED -**

The report of the Corporate Director – Finance and Central Services inviting the Committee to review its Programme of Work for 2011/12.

The Chairman reported that Members had had a private meeting immediately prior to the Committee’s meeting and various suggestions had been made with a view to improving the way the Committee operated. He advised that he would meet with the Officers outside the Committee’s meeting to discuss issues which had been raised. However, one suggestion raised was to change the time of all future meetings of the Committee to commence at 1.30 pm, with training being held from 1.00 pm.

**RESOLVED –**

- (a) That Programme of Work for the remainder of 2011/12, as set out at Appendix A to the report, be noted.
- (b) That the Chairman discuss, with Officers outside this meeting, issues which Members have raised with a view to improving the way the Committee operates.
- (c) That the time at which all future meetings of the Committee commence be changed to 1.30 pm, with training being held from 1.00 pm.

The meeting concluded at 4.40 pm.

RAG/ALJ