

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 18 July 2013 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillor Andrew Backhouse (in the Chair); County Councillors Margaret Atkinson, John Blackie (as Substitute for Stuart Parsons), Eric Broadbent, David Chance, Jim Clark, Bill Hoult (as Substitute for Lindsay Burr) and Patrick Mulligan.

External Members of the Committee:-

Mr James Daglish and Mr David Portlock.

In Attendance:-

County Councillor Carl Les (Executive Member for Central and Financial Services including assets, IT and procurement).

Deloitte LLP Officers: Chris Powell and Celia Craig.

Veritau Ltd Officer: Roman Pronyszyn (Audit and Information Assurance Manager).

County Council Officers: Gary Fielding (Corporate Director – Strategic Resources), Ruth Gladstone (Principal Democratic Services Officer), Debbie Hogg (Assistant Director – Resources), Cathryn Moore (Senior Solicitor - Commercial Contracts and Procurement) and Peter Yates (Assistant Director - Corporate Accountancy Service Unit).

Copies of all documents considered are in the Minute Book

13. Minutes

Resolved –

That the Minutes of the meeting held on 27 June 2013, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

14. Public Questions or Statements

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

15. External Auditor – Audit Planning Reports

Considered -

The following documents from Deloitte LLP:-

- (a) North Yorkshire County Council - Planning Report for 2012/13 Audit.
- (b) Briefing on Audit Matters - County Council.
- (c) North Yorkshire Pension Fund - Planning Report for the 2012/13 Audit.
- (d) Briefing on Audit Matters - Pension Fund.

The various documents were introduced by Chris Powell of Deloitte LLP. Chris Powell also highlighted that he was very satisfied with the current situation regarding the 2012/13 audit and that he was expecting a repeat of the good process which had been enjoyed in previous years.

During debate:-

- The officers confirmed that a solution would be sought, before the Committee's next meeting, to avoid any qualification to the External Auditor's 2012/13 audit report on the County Council's Whole of Government Accounts (WGA) return arising from the extent to which Schools' Salaries Budgets were analysed and reconciled. It was confirmed that a full reconciliation of Schools' Salaries Budgets had not been achieved for 2011/12 due to time restraints and a lack of suitable information from schools given that all schools used their own financial systems and not that used by the County Council.
- The officers confirmed that the need to make material adjustments to last year's draft Financial Statements in relation to the valuation of schools undertaken by the Council's Valuer, Bruton Knowles, was unlikely to reoccur because the Valuer had now accepted the revised valuation methodology highlighted by the External Auditor.
- The Corporate Director - Strategic Resources advised that arrangements had been made to provide the External Auditor, in September 2013, with the latest possible update concerning the Council's Waste PFI scheme in order that such information could be considered by the External Auditor as part of the Value for Money work.
- The officers confirmed that they would be re-visiting the issue of the estimated amount due, as at 31 March 2012, to the Yorkshire Purchasing Organisation. This arose because full information was not readily available from schools, all of whom used their own financial systems.
- The representatives from Deloitte LLP confirmed that the heading "Valuation of Pension Scheme Liabilities" within the second box on page 19 of the document "North Yorkshire County Council – Planning Report for 2012/13 Audit" did not relate to the other text within that box.
- The representatives of Deloitte LLP confirmed that the Council's restructuring, and reduced capacity across the organisation including key functions such as Internal Audit, required the External Auditor to maintain a watching brief but that Deloitte's did not currently identify such issues as significant Value for Money risks.
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- The representatives of Deloitte LLP confirmed that they would undertake full and proper work on the County Council's accounts irrespective of the significant decrease in the amount of the External Audit fee. They clarified that, whilst the amount of the External Audit fee paid by the County Council had reduced, the amount Deloitte received from the Audit Commission had not decreased to the same extent.
- The representatives of Deloitte LLP confirmed that previously there had been no problems in relation to the accuracy of the figures relating to the North Yorkshire Pension Fund. They also highlighted that the External Auditor had previously concluded that the controls operating in respect of North Yorkshire Pension Fund were strong.

Resolved -

That the documents be noted.

16. Statement of Final Accounts 2012/13 – North Yorkshire Pension Fund

Considered –

The report of the Corporate Director – Strategic Resources inviting the Committee to consider the draft Statement of Final Accounts of the North Yorkshire Pension Fund for the financial year 2012/13.

The Corporate Director - Strategic Resources, in introducing the report, highlighted that the Committee needed to be well placed to sign off the accounts on 26 September 2013. As such, he encouraged Members to ask questions before 26 September.

Resolved –

That the draft Statement of Final Accounts of the North Yorkshire Pension Fund for 2012/13 be noted.

17. Statement of Final Accounts 2012/13 – North Yorkshire County Council

Considered –

The report of the Corporate Director – Strategic Resources inviting the Committee to consider a draft Statement of Final Accounts for 2012/13 for the County Council in advance of the accounts being audited by Deloitte LLP during July and August 2013 and being re-submitted to this Committee for formal approval on 26 September 2013 following completion of the external audit.

During debate:-

- The officers confirmed that the County Council's budget reflected the full repayment of a loan to Yorwaste, based on the plan provided by Yorwaste and this was currently scheduled for 2016.
- The officers confirmed that the net savings of £22.7m which were being carried forward from 2012/13 to 2013/14 and subsequent years related to savings already actually achieved.
- The officers confirmed that the bottom line saving of £43.3m in 2012/13 included an amount of £22.7m which represented savings on budgets not

spent during 2012/13 but related to projects and initiatives which were continuing and those amounts would be spent for those purposes in future years.

- The officers confirmed that it was prudent to include a Material Contingent Liability Disclosure in the draft Statement of Accounts in relation to Ordinary Residence applications from other local authorities because they suspected that there were approximately 150 people living in the county who had been placed there by other authorities and that the County Council's full potential liability would not be known until those other authorities submitted applications to the County Council. In the circumstances it was very difficult reliably to measure the County Council's potential total liability. The officers clarified that it was not in the County Council's interests actively to seek out such applications from other authorities.
- Officers undertook to review the use of the name "North Yorkshire Police Authority" within the draft Statement of Accounts.
- A Member enquired whether Deloitte LLP had checked the Statement of Accounting Policies which commenced on page 15 of the draft Statement of Accounts. Representatives of Deloitte LLP advised that they had not audited the draft accounts at present although had been talking to management throughout the year and that they were not aware of any changes although they were unable to give a definitive response at this stage. In response to further questions, representatives of Deloitte LLP confirmed that they would be looking through the Statement of Accounting Policies.
- The Corporate Director - Strategic Resources, in response to questions regarding exit packages/termination benefits, confirmed that the County Council's policy was to pay the statutory minimum but that it did, in relevant circumstances, enter into compromise agreements. He offered to provide further information to Members outside the meeting.

The Corporate Director - Strategic Resources circulated a revised version of the draft Annual Governance Statement 2012/13 which reflected the comments and issues which Members had raised at and subsequent to the Committee's meeting held on 27 June 2013. The Members who had raised those comments and issues indicated, at today's meeting, that they were satisfied with the amendments which had been made to the revised version of the draft Annual Governance Statement.

Resolved –

That the draft Statement of Final Accounts for 2012/13 be noted in advance of the accounts being audited and resubmitted to the Audit Committee on 26 September 2013 for formal approval.

18. Annual Review of Contract Procedure Rules

Considered –

The report of the Corporate Director – Strategic Resources inviting the Committee to consider, for recommendation to the Executive, various proposed changes to the Contract Procedure Rules. The Contract Procedure Rules formed part of the County Council's Constitution.

The Assistant Director – Strategic Resources, in introducing the report, highlighted that the proposed changes were:- to restructure the Rules to make them clearer and

simpler to understand; to increase the financial limit at which quotations and tenders must be invited; to remove the requirement to obtain approval from the Corporate Director - Strategic Resources to proceed to award where fewer than three quotations had been received; and to remove the requirement to undertake a risk assessment because this was now covered by the County Council's Gateway Process in respect of procurement processes.

During debate:-

- Members highlighted the big leap from the previous £50k threshold to £500k for Services within the former Chief Executive's Group. The Assistant Director – Strategic Resources explained that the new Central Services included Services from both the former Chief Executive's Group and the former Finance Directorate and that the latter had more contracts of a higher value. It was also felt that it would be beneficial to have consistency in the requirements across all Services. Members emphasised that the proposed increase for some Services was ten times the current amount and questioned whether any increase should apply across the piece or, for example, be a percentage limit of the budget. The Corporate Director - Strategic Resources advised that, in his view, it was reasonable to have one threshold which applied across all Services. Members asked the representatives of Deloitte LLP whether they agreed with the advice now being presented by the County Council officers. Chris Powell (Deloitte LLP) responded that his issue was whether the threshold had been pitched at the correct level.
- Members expressed support for the checks and balances being undertaken as part of the Gateway Process rather than when applying the County Council's seal to the contract document because the sealing took place at the end of the process.
- Officers confirmed that there were safeguards in place to prevent Directorates from trying to avoid controls by raising, for example, five contracts each for £20k rather than one contract of £100k. In addition, the procurement function would have detailed spend analysis (Prospend) which would assist in contract management, preventing rogue spending and support category management of spend within the Council.
- In response to a Member's questions, the officers advised that the Finance Manual, to which paragraph 2.5.1 referred, was a User Guide and that it needed to be improved. However, it was not part of the County Council's Constitution.
- A Member sought clarification about the stage at which the Executive was involved in approving contracts. The officers responded that the controls were at the beginning of the procurement process. For contracts involving a significant sum, there would be an entry in the Forward Plan and subsequently a Key Decision would be made by the Executive at the beginning of the process.
- In response to a Member's questions, the officers advised that the Purchasing Cards, to which section 14 referred, were similar to credit cards and were required because some suppliers would not deal with the County Council in other ways. The scrutiny of use of Purchasing Cards was undertaken by Finance Officers within each Directorate. Officers added that, ideally, the County Council would not have a need to use Purchasing Cards.
- A Member sought an example of the circumstances in which a waiver, as mentioned in paragraph 16.3, would be used. The officers responded that a recent example was when the County Council had taken over Public Health responsibilities and a huge number of contracts had been transferred to the

County Council, some of which could not be extended. A further example of the use of waivers was when a company, with which the County Council was contracting, went into administration.

- In response to a Member's questions concerning the possibility of "management override", the officers clarified that, prior to beginning the procurement process, the evaluation criteria was logged with Veritau to ensure these could not be amended at a later stage during the procurement process. The Corporate Director – Strategic Resources advised that he and the Head of Legal and Democratic Services did not like to authorise waivers and, on occasions, they refused such requests. However, with companies going into administration, the County Council had to be pragmatic.
- In response to a Member's questions, the officers responded that the risk assessment of a potential Contractor's financial stability, to which paragraph 8.11 referred, would be the second check on that Contractor's financial stability under the amended Contract Procedure Rules.
- In response to a Member's questions, the officers clarified that a decision on the weighting between price and quality would usually be made by a group of officers and was a value judgement based on the type of procurement.
- A Member referred to delays in a recent procurement for a box gritter to spread salt on the highway. The officers confirmed that the amended Contract Procedure Rules would improve procurements although officers had to use the Rules correctly.
- In response to a Member's questions, the officers clarified that, when a Member/Responsible Officer/other Officer gave notice of an interest in a Contract, as required at paragraph 21.1, the Monitoring Officer would make a decision on whether that Member/Responsible Officer/other Officer would withdraw. The officers confirmed that Members were aware of conflicts of interest because they had received training in such matters. It was confirmed that officers were also aware of the actions which they had to take on becoming aware that they had a conflict of interest.
- A Member suggested that the operation of the Contract Procedure Rules might be a topic for a future Seminar for Audit Committee Members. The Chairman advised that that suggestion would be discussed.

Resolved –

That it be a recommendation to the Executive – That the changes to the Contract Procedure Rules, as set out in Appendix A to the report, be approved.

The meeting concluded at 3.35 pm.

RAG/ALJ/JR