

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 26 June 2014 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillors Margaret Atkinson, Andrew Backhouse, Eric Broadbent, David Chance, Jim Clark, Helen Grant (as Substitute for Stuart Parsons), Bill Hoult and Mike Jordan.

External Members of the Committee:-

Mr James Daghish and Mr David Portlock.

In Attendance:-

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

Deloitte LLP Officer: Celia Craig.

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

Audit North Officers: Angela Mulroy and Stuart Fallowfield.

County Council Officers: Pete Dwyer (Corporate Director – Children and Young People’s Services), Gary Fielding (Corporate Director – Strategic Resources), Ruth Gladstone (Principal Democratic Services Officer), Anton Hodge (Assistant Director - Strategic Resources, Children and Young People’s Services Directorate), Barry Khan (Monitoring Officer and Assistant Chief Executive (Legal and Democratic Services)), Tom Knox (Emergency Planning Manager), Tom Morrison (Principal Accountant) and Fiona Sowerby (Corporate Risk and Insurance Manager).

Copies of all documents considered are in the Minute Book

58. Election of Chairman

Resolved –

That County Councillor Andrew Backhouse be elected Chairman, to serve until the first meeting of the Committee following the Annual Meeting of the County Council in 2015.

County Councillor Andrew Backhouse in the Chair

County Councillor Andrew Backhouse, in taking the chair, thanked Members for re-electing him and announced the following:-

- Roman Pronyszyn was leaving Veritau. The Chairman wished him well for the future and thanked him for all the work he had undertaken for the Committee.
- James Daghish's term of appointment was scheduled to conclude on 27 June 2014. The Chairman, on behalf of the County Council, thanked and paid tribute to James Daghish, referring to the thoroughness of his work, his great knowledge, and the high respect in which Members regarded him.
- David Portlock's current term of appointment was also scheduled to conclude on 27 June 2014. The Chairman advised that the recruitment of External Members to the Committee was continuing and would be finalised shortly. The Chairman invited David Portlock, as the Committee's guest, to attend all Audit Committee meetings in the meantime. David Portlock advised that he was pleased to accept that invitation.
- Barry Khan had recently taken up appointment as the County Council's Monitoring Officer and Assistant Chief Executive (Legal and Democratic Services). The Chairman welcomed Barry Khan to the meeting.

59. Minutes

Resolved –

That the Minutes of the meeting held on 6 March 2014, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

60. Election of Vice-Chairman

Resolved –

That County Councillor Margaret Atkinson be elected Vice-Chairman, to serve until the first meeting of the Committee following the Annual Meeting of the County Council in 2015.

61. Public Questions or Statements

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

62. Progress on Issues Raised by the Committee

Considered –

The joint report of the Corporate Director – Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services) advising of progress on issues which the Committee had raised at previous meetings, together with an update concerning Treasury Management.

During debate:-

- The Corporate Director – Strategic Resources advised that he felt unable to make further progress with the Society of County Treasurers regarding the response to CLG’s consultation of late 2013 regarding a proposal to condense the timescale within which external auditors completed year-end financial accounts. He recommended that the Committee’s Minute 38 be regarded as implemented. Members expressed support for that recommendation.
- The Corporate Risk Management Group would be considering, at its next meeting, the presentation of Directorates’ Risk Registers. The Group had not met on 20 June 2014, as stated in the report.
- With regard to the appointment of External Members of the Committee, the Corporate Director – Strategic Resources advised that the County Council and the City of York Council had agreed a job description and person specification and were now deciding how to publicise the vacancies. This work had been delayed due to preparations for the Tour de France 2014.
- With regard to the Payroll audit, the Corporate Director – Strategic Resources circulated copies of the findings to Members and advised that Veritau would be undertaking a follow up review during July and August 2014, the results of which would be reported to the Committee in accordance with usual procedure.
- With regard to the Highways Maintenance Contract, the Corporate Director – Strategic Resources clarified that the suggestion which a Member had made at the Committee’s last meeting had been superseded by other actions, including discussions at full County Council and by the Executive.
- Members thanked Peter Yates (Assistant Director - Corporate Accountancy) for responding quickly to the questions they had raised outside this meeting concerning Treasury Management.
- Members queried whether it was appropriate for current reports to the Executive concerning Treasury Management to refer to the “Police Authority”. The Corporate Director – Strategic Resources undertook to arrange for future reports to the Executive to clarify the liabilities of the former Police Authority.

Resolved –

- (a) That the report be noted.
- (b) That Minute 38, concerning the Society of County Treasurers’ response to a CLG’s consultation regarding a proposal to condense the timescale within which external auditors complete year-end financial accounts, be regarded as implemented.
- (c) That the Corporate Director – Strategic Resources arrange for future Treasury Management reports to the Executive to clarify the liabilities of the former Police Authority.

The meeting adjourned for 5 minutes for a comfort break.

63. Internal Audit Work/Internal Control Matters for the Children and Young People's Services Directorate

Note: During discussion, Mr David Portlock requested that the Minute record that he was currently Chair of Governors at two primary schools.

Considered -

- (a) The report of the Head of Internal Audit advising of the internal audit work performed during the period 1 March 2013 to 31 May 2014 for the Children and Young People's Services Directorate. It was reported that the Head of Internal Audit was satisfied with the progress that had been made by management to implement previously agreed actions necessary to address identified control weaknesses and that, in the opinion of the Head of Internal Audit, the framework of governance, risk management and control operating in the Children and Young People's Services Directorate provided "Substantial Assurance".
- (b) The report of the Corporate Director - Children and Young People's Services providing an update of progress against the areas of improvement identified in the Children and Young People's Directorate's Statement of Assurance and details of the latest Risk Register for that Directorate.

During debate:-

- It was clarified that the information now presented relating to the Children and Young People's Services Directorate's Risk Register dated back to January 2014. It was reported that the Register was scheduled to undergo a full review in July/August 2014. The officers clarified that the Risk Register was not the Directorate's only planning tool and, as such, the suggestion that risks were being left unattended for six months was incorrect. The Corporate Director – Strategic Resources suggested that improvements were needed in the alignment of the Audit Committee meetings to which the various Directorates reported.
- Members commented that there appeared to be no Fallback Plan for some risks within the Risk Register. The officers advised that Fallback Plans were identified in other documents and acknowledged that, where Fallback Plans existed, they should be referenced in the Risk Register. Members also commented that, if Risk Reduction Actions were more specific (eg incorporating numbers), it would be easier to identify whether the actions had been successful. The officers responded that other documents, such as the Children and Young People's Plan, included specific milestones which were very visible. Members suggested that, if papers gave an incorrect impression, perhaps those papers should not be submitted to the Audit Committee. *(A discussion, about whether the Risk Register was the correct document to inform the Committee, took place during a later stage during the meeting and is recorded at Minute 71.)*
- County Councillor Eric Broadbent asked whether there was any action which the County Council could take in relation of accidents at schools because there had been a number of recent accidents in Scarborough schools. Anton

Hodge (Assistant Director - Strategic Resources, Children and Young People's Services Directorate) offered to look into the circumstances relating to the accidents if County Councillor Eric Broadbent wished to contact him, outside this meeting, to supply information about each case.

Resolved -

- (a) That it be noted that this Committee, having considered the report of the Head of Internal Audit, is satisfied that the internal control environment operating in the Children and Young People's Services Directorate is both adequate and effective.
- (b) That the position on the Children and Young People's Services Directorate's Statement of Assurance be noted.
- (c) That the updated Risk Register for the Children and Young People's Services Directorate, for the period to January 2014, be noted.
- (d) That the Corporate Director – Strategic Resources alter the alignment of Audit Committee meetings to which the various Directorates report in order that Directorate Risk Registers submitted to those meetings are as up-to-date as possible.

64. Annual Report of the Head of Internal Audit

Considered -

The annual report of the Head of Internal Audit which advised of:-

- internal audit work performed during the year ended 31 March 2014 and that, in the opinion of the Head of Internal Audit, the framework of governance, risk management and control operating within the County Council provided "Substantial Assurance";
- breaches of Finance, Contract and Property Procedure Rules identified during 2013/14 audit work;
- internal audit performance outturn for 2013/14 and Veritau's 2014/15 performance targets; and
- the conclusions arising from the Quality Assurance and Improvement Programme, the outcome of which demonstrated that the service provided by Veritau conformed to International Standards for the Professional Practice of Internal Auditing.

During debate:-

- Members commented that, overall, the 2013/14 breaches of Finance, Contract and Property Procedure Rules were minor in both number and nature.
- Members asked whether there were any underlying weakness behind the cases identified of inadequate contract monitoring. The Chairman asked the Head of Internal Audit to research this and inform Members of the outcome.

- The Corporate Director – Strategic Resources advised that contract management was an increasing risk and might be worthy of coverage at a future Audit Committee Members’ Seminar. Members expressed support for that suggestion.

Resolved -

- (a) That the overall “Substantial Assurance” opinion of the Head of Internal Audit regarding the control environment within the County Council be noted.
- (b) That the outcome of the quality assurance and improvement programme and the confirmation that the internal audit service conforms with the Public Sector Internal Audit Standards be noted.
- (c) That the breaches to Contract, Finance and Property Procedure Rules and the actions taken to address these matters be noted.
- (e) That Veritau’s performance outturn for 2013/14 and the performance targets for 2014/15 be noted.
- (f) That the Head of Internal Audit research whether there are any underlying weaknesses behind the cases identified of inadequate contract monitoring and inform Members of the outcome.
- (g) That contract management be the subject of a future Audit Committee Members’ Seminar.

65. Corporate Governance

Considered -

The report of the Corporate Director - Strategic Resources inviting the Committee to review the Annual Governance Statement for 2013/14 in advance of approving a later version at the meeting on 25 September 2014 and to recommend to the Executive that the updated Local Code of Governance be approved by the County Council.

It was noted that a version of the Local Code of Corporate Governance, which incorporated tracked changes to show amendments, had been circulated to Members by email on 24 June 2014.

The Corporate Director – Strategic Resources suggested that the Members’ Group giving detailed consideration to the Annual Governance Statement should be called a Working Group rather than a sub-group. Nominations were sought from Members interested in serving on that Working Group.

In response to Members’ questions, the officers:-

- reported that the Independent Panel on Members’ Remuneration reported to meetings of the full County Council, the Panel could decide the methodology for its work, and it was open and transparent about that methodology;
- undertook to consider whether all references to Members had been included within the draft Annual Governance Statement 2013/14;

- provide, to County Councillor Mike Jordan, a copy of the presentation about Procurement which had been provided to Audit Committee Members before County Councillor Mike Jordan was re-appointed to the Committee;
- share, with the Members' Working Group, the Corporate Governance Self-Assessment Checklist;
- include, in the record of recent work undertaken as part of the Corporate Governance agenda, the Ethical Framework training provided to Members;
- replace "2012/13" with "2013/14" alongside the space for the Audit Committee Chairman's signature on page 30 of the draft Annual Government Statement 2013/14;
- to consider a Member's suggestion to examine the costs of residential and nursing homes which were functioning well and to encourage this as part of benchmarking;
- arrange for the Business and Environmental Services Directorate to provide County Councillor Bill Hoult with a response to his question about the legacy of the Tour de France 2014;
- confirmed that the County Council's long term waste services contract was a major piece of contract management and the County Council needed to ensure the governance was correct; and
- confirmed that the governance arrangements relating to the Better Care Fund had been identified by Management Board and would be addressed during the forthcoming year.

Resolved -

- (a) That the updated Local Code of Corporate Governance, as set out at Appendix A to the report, be recommended to the Executive for approval by the County Council.
- (b) That, in respect of the draft Annual Governance Statement 2013/14, Members' comments, as recorded in the preamble to this Minute, be taken on board and that an updated version of the Statement be submitted to the Committee's meeting on 25 September 2014 for approval.
- (c) That the Committee's Chairman and Vice-Chairman, Mr David Portlock and County Councillor David Chance be appointed to the Members' Working Group to give detailed consideration to the Annual Governance Statement and report feedback to the full Committee on 25 September 2014.
- (d) That the Statements of Assurance, as set out at Appendix C to the report, be noted.

66. Governance Arrangements of the North Yorkshire Pension Fund

Considered -

The report of the Corporate Director - Strategic Resources providing details of the governance arrangements of the North Yorkshire Pension Fund.

During debate:-

- It was noted that very few amendments had been required to update the documents adopted in the previous year.
- A Member queried whether the references to expected returns, as mentioned on the following pages, were consistent statements:- “2.4%” on page 137; “1.5% pa” on page 171; and “3.0%” and “2.6%” on page 176. Tom Morrison (Principal Accountant) undertook to check and report back to Members.
- It was noted that significant changes to Pensions were being considered nationally and officers would keep Members informed of developments.

Resolved -

That the governance arrangements for the North Yorkshire Pension Fund be noted.

67. External Audit 2014/15 Fee Letters

Considered –

- (a) The letter from Deloitte LLP dated 23 April 2014 which advised of the external audit work they proposed to undertake for the 2014/15 financial year at North Yorkshire County Council, that new external auditors for the County Council would be appointed by the end of 2014 for the 2015/16 audits onwards, and that the planned fee for the 2014/15 audit, excluding the audit of the pension scheme and the certification of claims and returns, was £125,987 excluding VAT.
- (b) The letter from Deloitte LLP dated 23 April 2014 which advised of the external audit work they proposed to undertake for the 2014/15 financial year at North Yorkshire Pension Fund, that new external auditors for the Pension Fund would be appointed by the end of 2014 for the 2015/16 audits onwards, and that the planned fee for the 2014/15 audit was £24,943 excluding VAT.

During debate:-

- Celia Craig (Audit Director, Deloitte) highlighted that Deloitte had requested and received permission from the Audit Commission for a one year extension, for 2014/15, as the External Auditor to the County Council and North Yorkshire Pension Fund. Deloitte were happy with such an arrangement on the basis that the post holders in the relevant senior posts within the County Council had all changed in recent years.

- The Corporate Director – Strategic Resources advised that he had been asked, by the Audit Commission, if he was aware of any reason it would be inappropriate for KPMG to be the County Council's External Auditor for 2015/16 onwards. He added that, at this stage, he was unaware of any reason why that appointment would not be appropriate.
- Mr David Portlock advised that he had been a Partner at KPMG until 2003/04.
- Members expressed the hope that the handover between Deloitte and the new External Auditor would be smooth.

Resolved -

That the Audit Fee Letters 2014/15 be noted.

68. Progress on 2014/15 Internal Audit Plan

Considered –

The report of the Head of Internal Audit advising of the progress made to date in delivering the 2014/15 Internal Audit Plan and developments likely to impact on the Plan throughout the remainder of the financial year. Veritau's Client Relationship Manager highlighted that Veritau's audit work had been focussed on concluding all outstanding reviews from 2013/14. Most of those audits had now been completed and the relevant reports issued in final form. Only one audit from the 2014/15 audit plan had so far been completed and the final report issued. Six cases of suspected fraud or malpractice have been referred to Veritau for investigation since 1 April 2014. 233 requests under the Freedom of Information Act had been received between 1 April and 31 May 2014, representing a 24% increase on the corresponding period in 2013.

Resolved –

That the report be noted.

69. Review of Assurance over Value for Money

The Chairman expressed the view that insufficient time was available during the remainder of this meeting for the Committee properly to consider this item of business. Other Members supported that view.

Resolved -

That consideration of this item of business be deferred to the Committee's meeting on 17 July 2014.

70. Business Continuity - Update

Considered -

The report of the Corporate Director - Strategic Resources:- providing an overview of the current Business Continuity situation for North Yorkshire County Council with particular reference to Business Continuity arrangements for the Tour de France; and

responding to the Veritau internal audit of October 2013 to provide continued assurance for the management of risk within North Yorkshire County Council Directorates and Service Areas.

During debate, Tom Knox (Emergency Planning Manager) confirmed that consistency of understanding was improving amongst staff within Directorates in relation to Business Continuity Plans, that Plans were tested, and that he would like more engagement and to build trust between Emergency Planning staff and Directorates' staff.

Resolved -

That the progress made on the implementation of the updated strategy and revised structure for Business Continuity within North Yorkshire County Council be noted.

71. Risk Management - Progress

Considered -

The report of the Corporate Director - Strategic Resources setting out details of the updated Corporate Risk Register and highlighting the links between the Corporate Risk Register and the Directorate Risk Registers.

During debate:-

- The officers confirmed that they would, in accordance with an earlier decision of today's meeting, alter the alignment of Audit Committee meetings to which the various Directorates reported in order to ensure that Directorate Risk Registers submitted to those meetings were as up-to-date as possible.
- Members referred to earlier discussion at today's meeting (as recorded as Minute 63) and discussed whether Directorate Risk Registers were the correct document to inform the Committee. Members emphasised that Risk Register entries must be complete, risk reduction actions must be quantifiable, and Registers must be treated with importance within Directorates. The Corporate Director – Strategic Resources confirmed that Directorates took Risk Registers seriously. He added, however, that Risk Registers were not the chief planning document which drove business, although they were very important because they made management look at business through a different prism.

Resolved -

- (a) That the updated Corporate Risk Register, as set out at Appendix A to the report, be noted.
- (c) That the links between the Corporate Risk Register and the Directorate Risk Registers, as shown in the diagram at Appendix B to the report, be noted.
- (d) That Directorate Risk Registers continue to be submitted to Audit Committee, although officers be asked to note that Committee Members wish Risk Register entries to be complete, risk reduction actions to be quantifiable, and Registers to be treated with importance within Directorates.

72. Programme of Work

Considered -

The Committee's Programme of Work for 2014/15.

Resolved –

- (a) That the Programme of Work be approved, subject to the following amendments:-
- “Partnership Governance – Progress Report” be submitted to the Committee's meeting on 17 July 2014, rather than to the 25 September 2014 meeting, on the basis that the report will be available in time for the 17 July 2014 meeting.
 - The business deferred from today's meeting, namely “Review of Assurance over Value For Money”, be rescheduled for the Committee's meeting on 17 July 2014.
- (b) That dates and times for the Committee's meetings scheduled for the period 1 January 2015 to 30 April 2015 be emailed to Mr David Portlock.

The meeting concluded at 4.20 pm.

RAG/JR