

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 17 July 2014 2014 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillors Andrew Backhouse (Chairman), Margaret Atkinson, Eric Broadbent, David Chance, Jim Clark, Bill Hoult and Mike Jordan.

Independent Observer:-

Mr David Portlock.

In Attendance:-

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

Deloitte LLP Officers: Celia Craig and Chris Powell.

Veritau Ltd Officers: Stuart Cutts and Ian Marton.

County Council Officers: Trevor Clilverd (Assistant Director - Strategic Resources), Roger Fairholm (Corporate Asset Manager), Gary Fielding (Corporate Director – Strategic Resources), Steve Loach (Principal Democratic Services Officer) and Peter Yates (Assistant Director - Corporate Accountancy).

Copies of all documents considered are in the Minute Book

73. Minutes

Resolved –

That the Minutes of the meeting held on 26 June 2014, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

Arising from Minute No. 67 - External Audit 2014/15 Fee Letters – bullet point one, it was noted that Chris Powell had been provided with the one year extension for 2014/15, as the External Auditor to the County Council and North Yorkshire Pension Fund.

74. Public Questions or Statements

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

75. External Auditor - Audit Planning Reports

(a) **North Yorkshire Planning Report for the 2013/14 Audit**

Chris Powell (Deloitte) presented the report highlighting the following key points:-

- ◆ Changes to auditing processes from 2015/16 onwards.
- ◆ Key focus:-
 - valuation of current assets;
 - management controls of revenue;
 - value for money;
 - impact of Fund settlement;
 - capacity;
 - Waste PFI Project.
- ◆ Scope of work - areas of responsibility.
- ◆ Approach - test of controls - liaison with Internal Audit/materiality and error reporting threshold.
- ◆ The approach and scope of the audit - widening the range and considering smaller efficiencies.
- ◆ Assurance levels - raising the barrier to provide greater assurance.
- ◆ Confirmation of independence and fees.

Further to the presentation of the report the following issues were discussed:-

- ◆ The capacity for the Finance and Internal Audit functions to maintain current functions in view of budgetary restraints would continue to be monitored closely. Whilst there were no particular concerns currently, any that subsequently arose would be fed back to the Committee.
- ◆ The Quality Audit promise guaranteed a consistent approach to the auditing function, in line with what would be expected of the auditing process.
- ◆ In relation to the withdrawal of the Waste PFI Credits it was asked whether there was to be a further report to Audit Committee. In response it was noted that reports were expected to be submitted to Executive and full County Council during the current calendar year. Discussions would take place with the external auditors as to how the matter would be progressed and issues would be channelled back into the Audit Committee where necessary. It was stated that, should it be necessary, an additional meeting of the Audit Committee would be called for the matter to be discussed. It was emphasised that, initially contact would be undertaken through the Chairman of the Committee to determine a timetable for reporting back. It was emphasised that the matter would be considered by the Committee in due course.
- ◆ It was noted that a small amount of General Fund expenditure had benefited from European funding and exact details would be provided to the Member who had raised the issue.

Resolved -

That the document be noted.

(b) **North Yorkshire Pension Fund Planning Report for the 2013/14 Audit**

Chris Powell (Deloittes) introduced the report highlighting the following:-

- ◆ There had been no significant changes to the auditing approach undertaken in respect of the North Yorkshire Pension Fund in recent years.
- ◆ The key areas of focus had been:-
 - contributions;
 - benefits paid;
 - valuation of investments;
 - key management controls;
 - details of significant risks and audit work planned to address those.

The following issues were raised in relation to the report:-

- ◆ It was noted that Celia Craig would be leading on the audit rather than Chris Powell, as stated within the report. This was purely an operational issue and would have no effect on the process.
- ◆ It was noted that the timetable for the process for the County Council's audit stated 2013 rather than 2014, which had been a typing error and would be corrected.

Resolved -

That the report be noted.

76. Statement of Final Accounts 2013/14 - 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 2013/14.

It was noted that the Pension Fund Committee had considered the draft Statement of Final Accounts at its meeting held on 10 July 2014 and had not raised any significant issues in relation to those.

Resolved -

That the draft Statement of Final Accounts of the North Yorkshire Pension Fund for 2013/14 be noted.

77. Statement of Final Accounts 2013/14 - 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 2013/14 for the County Council in advance of the accounts being audited by Deloitte during July and August 2014 and being re-submitted to the Committee for formal approval on 25 September 2014 after the external audit had been completed.

The Assistant Director - Corporate Accountancy presented the report, highlighting the following:-

- ◆ The Government were proposing to shorten the Statutory Final Accounts timetable so that the draft accounts were completed by 31 May rather than 30 June and the final accounts were approved and published by 31 July rather than 30 September. It was noted that the Government were proposing to make the change mandatory by 2017/18 but were encouraging Councils to adopt this position earlier. A response to the consultation on this had been undertaken by the Corporate Director - Strategic Resources for submission on 18 July 2014 and would be circulated to Members for any comments following the meeting. A Member asked whether the imposition of these deadlines could lead to the audit of the accounts following due practice rather than good practice. The external auditors emphasised that every effort would be made to maintain good practice despite the shorter timescales.
- ◆ It was noted that the public had a right to challenge the draft Statement of Accounts and such a challenge had been received.
- ◆ Details of the challenge were provided for Members and related to two issues which could be summarised as follows:
 - (i) Waste Management Strategy and the AmeyCespa Allerton Waste Recovery Park contract - it was requested that an explanation of the costs incurred so far, the current predicted costs of the contract, the County Council's financial justification for continuing and the cost of contingency plans should the project fail to reach financial completion, should be included within the accounts for completeness and transparency;
 - (ii) the Pending Issues Provision (PIP) - a clear statement should be provided addressing the major change in the amount invested in the PIP, the implications of this for the delivery of the Waste Strategy and the current value of the PIP together with the amount within that attributed to the Waste Strategy.

Details of the response, from the Corporate Director - Strategic Resources, to the issues raised, were provided. In summary it suggested the following:-

The potential material contingent liability in relation to the AmeyCespa contract was clearly set out in the draft accounts.

Expanding the accounts further would make them less accessible to the reader.

The draft accounts fully comply with the appropriate framework.

The draft accounts presented the true and fair view of the financial position of the County Council and the particular issues raised were outside the scope of

the accounts. In relation to the PIP details had been incorporated into the relevant statutory service income and expenditure headings and there was no requirement to include any further detail.

There was no major change to the approach undertaken through the PIP.

The PIP continued to be routinely monitored and reported to the Executive.

In summary it was not felt that the information being sought was relevant was inclusion in the Statement of Accounts for 2013/14.

Copies of both the objection to the draft accounts and the response to the objection were circulated and Members were provided with sufficient time to read through them.

It was noted that the objector had a right to reply to the response given, but nothing had been received at the time of the meeting.

It was also noted that the external auditors agreed in principle with the response provided by the Corporate Director - Strategic Resources.

The following issues were raised during discussion of the report:-

- ◆ The underspend on highways winter maintenance, due to the weather conditions during the 2013/14 winter, had been moved to the General Working Balance, but this would not affect the allocation or policy for winter maintenance in future years.
- ◆ Independent observer Mr Portlock indicated that he had a number of specific issues to raise with the Corporate Director - Strategic Resources in relation to the draft accounts, which he would discuss with him outside the meeting.

Resolved -

That the draft Statement of Final Accounts for 2013/14 be noted in advance of the accounts being audited and re-submitted to the Audit Committee on 25 September 2014 for formal approval.

78. Review of Assurance over Value for Money

Considered -

The report of the Corporate Director - Strategic Resources inviting Members to consider the arrangements made within the County Council in respect of achieving value for money and how assurance was obtained about those arrangements.

The Assistant Director - Strategic Resources presented the report providing details of the main focus in terms of delivering value for money, highlighting the following:-

- ◆ Emphasis within the 2020 Programme.
- ◆ Embedding the principles of the "One Council" initiative.
- ◆ Monitoring and feedback.
- ◆ Regular performance reviews and reporting.

Further to the presentation of the report the following issues were highlighted:-

- ◆ The Chairman noted that he had received an email challenging value for money and had responded to that issue, which was related mainly to the Waste Management Strategy. It was stated that Members of the Committee would be provided with a copy of the details, both of the challenge and of the response in relation to this matter.
- ◆ Details of the governance for moving forward with the 2020 Programme were outlined, indicating how this was being carried out throughout the Authority. It was noted that Member engagement was being undertaken and the aim was to ensure Members were fully briefed throughout the development of the programme through Members' Seminars, Overview and Scrutiny Committees and various initiatives. The aim was to ensure that all Members were kept up-to-date with how the programme was developing and were allowed to contribute into that. It was emphasised that Members would be focusing on delivering value for money from whichever process they were involved in to assist in delivering the 2020 Programme.
- ◆ It was asked how assurance could be provided that the County Council had delivered a good level of performance in 2013/14 as stated within the report. In response it was indicated that performance reports and inspections provided an evidential basis for determining that the County Council continued to provide a good level of performance and delivered value for money.
- ◆ It was asked how team performance data was validated and rated. The various comparators and inspection regimes in place were outlined emphasising how team performance was monitored. It was noted that independent inspections such as the OFSTED in relation to Children's Services corroborated the findings in respect of performance. Many reviews were taken on a semi-independent basis, involving other internal teams, to ensure that performance monitoring was undertaken objectively.
- ◆ It was noted that the report's recommendations referred to the Audit Committee's terms of reference having oversight of the arrangements across the County Council in securing value for money. Members noted that they had oversight of issues relating to the delivery of value for money but, in many instances, had no say on individual issues. It was unclear, therefore, whether they could definitively state that they were fulfilling the terms of reference as stated. The Corporate Director - Strategic Resources emphasised that Members were being included in delivering the value for money processes and that the Audit Committee was addressing the terms of reference in relation to that. He acknowledged the issues raised by Members and noted the need to expressly address value for money issues through Member involvement in the decision-making process. It was expected that the feedback from Members would continue to drive the quest to deliver value for money through the County Council's services and it would be ensured that Members had confidence that this was being delivered.

Resolved -

- (i) The arrangements currently in place for ensuring value for money be noted;
- (ii) That the areas for further development in the assurance arrangement, as detailed above, be noted,

- (iii) That, subject to the continuance of Members being involved in the delivery of the value for money process, it was agreed that the report adequately contributed to the requirements of fulfilling the terms of reference of the Audit Committee, as highlighted in the report.

79. Review of Contract, Property and Financial Procedure Rules

Considered -

The report of the Corporate Director - Strategic Resources inviting Members to consider, for recommendation to the Executive, various proposed changes to Contract, Property and Financial Procedure Rules.

Details were provided of the proposed changes to the listed Procedure Rules which were being undertaken in an attempt to clarify, simplify and update them to best fit legislation, reflect sound internal control and to assist the County Council to achieve value for money.

Property Procedure Rules

Details of the amendments were set out in Appendix A to the report and a further list of proposed amendments had been supplied prior to the meeting in relation to paragraphs 6.1.5, 9.2 and 9.5. The Corporate Director - Strategic Resources, noted that these were amendments to procedures rather than policy changes, therefore, they would be taken to Executive for adoption.

The following issues were raised:-

- ◆ It was asked, should property be passed on to a community group for example, how that was determined alongside value for money. In response it was explained how assets were identified within the Property Procedure Rules. In terms of transfer to a community group the disposal of asset would be offset by the reduction operating costs and the revenue budget. Simply, therefore, the reduction of costs and the increase in outputs delivered value for money.
- ◆ It was noted that procedure 7.2.2, 8.1.3.1(c) and 9.4(c) appeared to compel the Executive to undertake that recommendation, in view of the wording provided. The Corporate Director - Strategic Resources acknowledged this issue and stated that the wording would be amended accordingly.

Contract Procedure Rules

The Corporate Director - Strategic Resources highlighted the amendments to the Rules as set out in Appendix B to the report. The main amendments related to increased financial limits, allowing Directorates to deal more directly with issues at an appropriate level, enabling value for money to be pursued.

It was asked how the changes would be communicated and embedded into the County Council's procedures. In response the Corporate Director - Strategic Resources highlighted that the Corporate Procurement Group would disseminate the information to Directorates, ensuring everyone was aware of the altered procedures in place, to ensure that they were delivered correctly.

It was noted that a number of systems and procedures had been developed in recent times and it was asked that the Audit Committee be kept informed, on a regular

basis, of those developments. The Corporate Director - Strategic Resources stated that he would ensure regular update reports were provided to keep Audit Committee abreast of altered procedures and processes within the County Council.

Financial Procedure Rules

The Assistant Director - Strategic Resources outlined the alterations to the Financial Procedure Rules as set out in Appendix C to the report. He explained how the alterations had been developed, who had been involved and the reasons behind those. He emphasised that communication was the key to the Financial Procedure Rules ensuring that Directorates were aware of these and that they were delivered consistently. A review was being undertaken internally in relation to the implementation of the Financial Procedure Rules with a view to providing better access across the board.

It was noted that there had been some alterations to financial limits, to provide more control for the Directorates and deliver value for money. It was explained that appropriate controls were still in place, through the Corporate Director - Strategic Resources, to ensure appropriate records were kept of issues addressed in this way. This enabled the relaxing of some of the rules in terms of virement and debt write-off but ensured that safety controls were still in place in terms of the process.

The following issues were discussed:-

- ◆ Clarification was provided as to when the next major revisions of the Financial Procedure Rules would be undertaken and it was noted that this would be following the County Council elections in 2017. It was noted that the rules stated that this would be carried over a four year cycle of reviews, and that the next review, therefore, would not fit into that cycle. The Corporate Director - Strategic Resources noted that a major review had not taken place following the previous County Council elections and, therefore, the rules was being altered to bring that into line.
- ◆ A Member noted that there had been a whole scale change in the Financial Procedure Rules, with many amendments undertaken, and asked whether there was confidence that everything contained was appropriate. It was suggested, that in future, it would be more beneficial to the Committee to have a report highlighting the changes that had been undertaken. The Corporate Director - Strategic Resources stated that should the Committee be minded then the report could be brought back with clarification of where alterations had taken place. It was emphasised that Members would accept the alterations on this occasion, but would like to see a report with details of where the revisions had taken place, put before the Committee in future.
- ◆ It was stated that should Members wish to have issues clarified prior to the reviews being submitted to Executive for adoption, then they could contact the Corporate Director directly.

Resolved -

That it be recommended to the Executive that:-

- (a) the changes to the Property Procedure Rules as set out in Appendix A;
- (b) the changes to the Financial Procedure Rules as set out in Appendix C to the report;

- (c) the changes to the Contract Procedure Rules as set out in Appendix E to the report;

be adopted and the Constitution be changed accordingly.

80. Annual Report on Partnership Governance 2013/14

Considered -

The joint report of the Chief Executive and the Corporate Director - Strategic Resources providing Members with an Annual Report on the Governance of Partnerships involving the County Council for the financial year 2013/14.

It was noted that the report had also been presented to the Executive on 8 July 2014 and had been accepted at that meeting.

The following issues were discussed:-

- ◆ Members highlighted a difficulty that they had in reading the appendix to the report. The Corporate Director - Strategic Resources stated that he would endeavour to find a solution to this matter.
- ◆ It was noted that a review of the key principles guiding partnerships had not been undertaken since 2010. The Corporate Director - Strategic Resources stated that he would ensure this was factored in appropriately.
- ◆ A Member raised issues relating to the “95 Alive” Highway Safety Partnership.
- ◆ County Councillor Les, commented on behalf of the Executive in relation to the report. He noted that there was likely to be more partnership working as the Authority worked towards the 2020 initiative and that the principles of partnership working would continue to be reinforced in relation to that. It was acknowledged that the overarching policy in relation to partnership governance may be altered, in view of the development of the 2020 initiative, in due course.
- ◆ It was noted that data from some partnership working was included in a range of more general updates and it was asked how the effectiveness of these partnerships could be tested if the detail was not provided to the Committee. In response the Corporate Director - Strategic Resources emphasised that the worthiness of partnerships and their work was tested and the processes carried out by the County Council. He emphasised that care was taken not to duplicate the reporting of these details so as to remain as cost effective as possible. Details of alternative reporting arrangements, so as not to miss any significant issues relating to the performance of partnership, was set out in the report.
- ◆ The Corporate Director - Strategic Resources noted that everyone involved in a partnership should undertake a review to determine what was being gained from the arrangement. The County Council undertook monitoring to determine whether the partnership was delivering what was intended, and if this was deemed not to be the case, then consideration should be given to whether to continue to be involved within the partnership. He considered that this course of action was appropriate to be embedded within the principles outlined.

Resolved -

- (i) That the Annual Report on Partnership Governance be received.
- (ii) That the arrangements in place to ensure governance, and reporting of the partnership activity, be noted.
- (iii) That the contents of the schedule of partnerships that were within the scope of the report as at 31 March 2014 be noted.

81. Programme of Work

Considered -

The Committee's programme of work for 2014/15.

Members asked whether it would be appropriate to have a session on the 2020 programme at the next meeting of the Committee. In response the Corporate Director - Strategic Resources noted that the matter would be discussed at forthcoming Members' Seminars and that it would be more beneficial for a report to be submitted to the December meeting of the Committee in respect of this.

Resolved -

That the programme of work be approved subject to an amendment to include a session on the 2020 programme at the meeting to be held on 4 December 2014.

The meeting concluded at 3.40 pm.

SL/JR