

# North Yorkshire County Council

## Audit Committee

Minutes of the meeting held on Thursday 24 September 2015 at 1.30 pm at County Hall, Northallerton.

### **Present:-**

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

County Councillor Mike Jordan (in the Chair); County Councillors Margaret Atkinson, Robert Baker, Eric Broadbent, Jim Clark, John Fort BEM and Helen Grant.

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

Mr David Marsh and Mr David Portlock.

### **In Attendance:-**

County Councillor Carl Les (Leader of the Council) and County Councillor Gareth Dadd (Executive Member for Central Services, specifically Finance and HR issues).

Deloitte LLP Officers: Celia Craig and Alistair Lince.

Veritau Ltd Officer: Max Thomas (Head of Internal Audit).

County Council Officers: Paul Cresswell (Assistant Director - Strategic Resources), Gary Fielding (Corporate Director – Strategic Resources) and Ruth Gladstone (Principal Democratic Services Officer).

### **Apology for Absence:**

An apology for absence was received from County Councillor Bill Hoult.

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**Copies of all documents considered are in the Minute Book**

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### **137. Minutes**

#### **Resolved –**

That the Minutes of the meeting held on 16 July 2015, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

### **138. Declarations of Interest**

In the spirit of openness and transparency, Members advised of the following, whilst recognising that these were not declarable interests under the County Council's Members' Code of Conduct:-

- County Councillor Jim Clark as a Member of North Yorkshire Pension Fund Committee representing the District Councils.
- County Councillor Mike Jordan as a Member of North Yorkshire Pension Board.

- Mr David Portlock as Chair of North Yorkshire Pension Board, in which capacity he was invited to attend meetings of North Yorkshire Pension Fund Committee.

### **139. Public Questions or Statements**

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

### **140. 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) which advised of progress on issues which the Committee had raised at previous meetings and provided an update concerning Treasury Management.

A Member queried whether quarterly Treasury Management reports, produced for Executive meetings, were still being sent to Audit Committee Members. The Corporate Director – Strategic Resources advised that he would check that, following recent staffing changes, the necessary arrangements were still in place but there had not been any additional reports due since the last Audit Committee meeting.

**Resolved -**

- (a) That the report be noted.
- (b) That the Corporate Director – Strategic Resources check that the necessary arrangements are still in place to send Audit Committee Members quarterly Treasury Management reports produced for Executive meetings.

### **141. Report to Members on the 2014/15 Audit by the External Auditors**

The Chairman advised that this would be the last meeting to be attended by Deloitte before KPMG took over as the County Council's External Auditor. He advised that he and the Vice-Chairman had had a close-out meeting with Deloitte, had met representatives of KPMG, and that the hand over was proceeding smoothly.

#### **(a) North Yorkshire Pension Fund**

Considered -

The report of Deloitte setting out the principal matters which had arisen from the external audit of the North Yorkshire Pension Fund for the year ended 31 March 2015.

Alistair Lince (Deloitte), in introducing the report, highlighted various matters, including the following:-

- The audit was now complete, subject to receipt of the signed letter of representation.
- An uncorrected misstatement had been identified relating to Benefits, namely, a cut-off difference on benefits paid arising from using actual benefits owed as opposed to 52 week approximation.
- Two uncorrected misstatements had been identified relating to Investments, namely, an undervaluation of £6.483M in relation to the

Baillie Gifford Life Investments arising from the time of day that independent pricing information was obtained by Bloomberg and other independent sources; and an overstatement of £0.543M in relation to the Standard Life Diversified Growth Fund compared to the broker price.

- In relation to Management override of controls, there had been one unusual, yet anticipated, transaction, namely, the Pension Fund had performed a bulk transfer to the Greater Manchester Pension Fund in respect of members from the probation service as part of the national process to consolidate all probation service members into one local government pension. There were no matters, in relation to this, which Deloitte wished to bring to the Committee's attention.
- Deloitte felt that Management override of controls was acceptable but could be improved by more closely defining large and/or complex journals.
- Deloitte anticipated issuing an unmodified audit opinion on the truth and fairness of the Pension Fund's financial statements.

The Committee discussed the misstatements. Members noted that the misstatements were immaterial and two had arisen due to a timing difference, of about 5 hours, when the investments had been valued. Alistair Lince (Deloitte) advised that, in Deloitte's view, these misstatements did not require correction. A Member commented that it could be misleading to describe differences in valuations as "misstatements" when they had arisen due to timing differences when those valuations had been made. He felt that "uncorrected difference" more accurately described the situation.

#### **Resolved -**

That the report be noted.

#### **(b) North Yorkshire County Council**

Considered -

The report of Deloitte setting out the principal matters which had arisen from the external audit of North Yorkshire County Council for the year ended 31 March 2015.

Celia Craig (Deloitte), in introducing the report, highlighted various matters, including the following:-

- Deloitte anticipated signing the Completion Certificate on 25 or 28 September 2015 as outstanding queries still needed to be resolved and revisions be made to the pack.
- The audit process and quality of information had been very good and the support from the County Council's Finance Team had been exceptional.
- During the audit, no instances of improper grant income recognition had been noted; no indications of management override of controls had been noted; no issues had been noted regarding the recoverability of inter-organisational balances; overall the quality of

valuation information had improved; the work undertaken supported an unqualified VFM conclusion, with the Authority's response to financial pressures being considered appropriate, no matters of concern having been identified from reducing capacity as a result of reducing resources, and no issues reported to indicate deteriorating controls as a result of reducing capacity. In addition, Deloitte had no issues to draw to the Committee's attention regarding the Annual Governance Statement.

- Deloitte had highlighted a number of observations arising from its audit procedures, although none were considered significant issues.
- Electors had raised five matters in relation to 2014/15 with Deloitte. Deloitte's view was that none of the five matters impacted on Deloitte's opinion on the accounts, VFM conclusion or required the exercise of Deloitte's other statutory powers.
- All disclosure deficiencies had been updated in the final version of the accounts.
- Two uncorrected misstatements had been identified in the County Council's accounts. Reference was also made to the misstatements relating to the Pension Fund's accounts, as reported during consideration of the previous item of business.

Following discussion, Members noted the misstatements in the County Council's and that the net impact was £1.9M which was regarded as immaterial.

Celia Craig (Deloitte) reassured Members that Deloitte would sign the Completion Certificate on 25 or 28 September 2015. She also reported that, if an unexpected problem arose before then, Deloitte would sign with a delayed Completion Certificate.

The Corporate Director – Strategic Resources reassured Members that he was happy for the Committee to sign both Letters of Representation submitted to today's meeting.

**Resolved -**

That the report be noted.

**142. North Yorkshire Pension Fund Annual Report 2014/15**

Considered -

The report of the Corporate Director - Strategic Resources and Treasurer to the Pension Fund. The report appended the North Yorkshire Pension Fund Annual Report for the financial year 2014/15.

**Resolved -**

That the report be noted.

**143. Review of Statement of Final Accounts (incorporating Annual Governance Statement) – Report of the Members' Working Group**

Considered -

The report of the Audit Committee Members' Working Group which:- advised of issues identified by the Working Group in reviewing the draft Statements of Final Accounts and the draft Annual Governance Statement; advised of actions taken as a result of issues being identified; and offered an opinion on the draft Statement of Final Accounts and draft Annual Governance Statement for 2014/15 in advance of the Audit Committee being asked to approve them. The Working Group had comprised the Chairman and Vice-Chairman of the Audit Committee and Mr David Portlock.

It was reported verbally that, subsequent to preparation of the Working Group's report, Members of the Working Group had seen the findings of the County Council's External Auditors and had no further comments to make.

Mr David Portlock highlighted that, in the spirit of continuous improvement, further improvements were to be sought for 2015/16 Directorate Statements of Assurance. He provided an assurance, however, that he supported the Working Group's recommendation that the 2014/15 Statements of Final Accounts and the Annual Governance Statement should be approved.

**Resolved -**

That the report be noted.

**144. Statement of Final Accounts for 2014/15 including Letter of Representation**

Considered -

The report of the Corporate Director - Strategic Resources which sought the Committee's approval of the following:- a Letter of Representation for submission to the External Auditor; a Statement of Final Accounts for 2014/15 following completion of the external audit of those accounts; and the Annual Governance Statement for 2014/15.

The Corporate Director – Strategic Resources thanked Katy Riley (Pensions and Projects Accountant) and Tom Morrison (Head of Commercial and Investments) for their work on the Statement of Final Accounts. He also thanked Deloitte for the manner and professionalism in which they had carried out their work.

The Chairman asked that the Minutes record Members' congratulations to the various Directorates which had made savings in the Revenue Budget, as listed on page 5 of the final Statement of Final Accounts.

**Resolved -**

- (a) That the Letter of Representation, as set out in Appendix A to the report, be approved and the Chairman be authorised to sign the Letter on behalf of the Committee.
- (b) That the changes to the final Statement of Final Accounts 2014/15, as set out in paragraph 4 of the report and Appendix B to the report, be noted; that the final Statement of Final Accounts for 2014/15 be approved as set out in paragraph 5.2 of the report; and that the Chairman be authorised to sign the Balance Sheet as set out at Appendix C to the report.
- (c) That the Annual Governance Statement 2014/15 be approved and the Chairman be authorised to sign the Annual Governance Statement on the Committee's behalf.

#### **145. Annual Report of the Audit Committee**

Considered -

The report of the Chairman of the Audit Committee which invited Members to consider, prior to its submission to the County Council, the draft Annual Report of the Audit Committee for the year ended 30 September 2015. The draft Annual Report was appended to the Chairman's report.

**Resolved -**

- (a) That the report be noted.
- (b) That the draft Annual Report of the Audit Committee be approved for submission to the County Council.

#### **146. Internal Audit Work and Related Internal Control Matters for the Health and Adult Services Directorate**

Considered -

- (a) The report of the Head of Internal Audit which advised of the internal audit work performed during the year ended 31 August 2015 for the Health and Adult Services Directorate and gave an opinion on the systems of internal control in respect of that area.
- (b) The report of the Corporate Director – Health and Adult Services which provided details of the draft Risk Register for the Health and Adult Services Directorate.

It was reported that Richard Webb (Corporate Director – Health and Adult Services) was unable to attend this meeting due to other commitments. However, he would be happy to attend a future Audit Committee Member Seminar.

During debate, the following issues were highlighted:-

- The overall opinion of the Head of Internal Audit on the controls operated within the Health and Adult Services Directorate was that they provided Substantial Assurance.
- Paul Cresswell (Assistant Director - Strategic Resources) confirmed that all new public health contracts had followed the County Council's rules concerning procurement.
- Workload had increased significantly (ie rising from 113 cases in 2013/14 to an anticipated 3000 cases for the year 2015/16) as a result of a Deprivation of Liberty Supreme Court ruling in 2014. Whilst the Directorate's performance was good, risks remained in relation to financial and reputational issues including potential legal action. The Officers reassured the Committee that the Directorate had contingency plans in place to deal with the surge in workload.
- A governance review of the Health and Wellbeing Board and Integrated Commissioning Board had already been completed and implemented. The Corporate Director – Strategic Resources advised that a similar review was likely to be undertaken sometime again in the near future and that he intended to discuss this issue further with the Corporate Director, HAS, the Assistant Director – Strategic Resources and the Head of Internal Audit.

Members commended the internal audit work undertaken, and the internal control environment operating, within the Health and Adult Services Directorate.

**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 Health and Adult Services Directorate is both adequate and effective.
- (b) That the draft Risk Register for the Health and Adult Services Directorate be noted.
- (c) That the Corporate Director – Strategic Directors discuss the timing of the next governance review of the Health and Wellbeing Board and Integrated Commissioning Board with the Assistant Director – Strategic Resources and the Head of Internal Audit.

**147. Internal Audit Report on Information Technology, Corporate Themes and Contracts**

Considered -

The report of the Head of Internal Audit which advised of the internal audit work completed during the year to 31 August 2015 in respect of information technology, corporate themes and contracts and set out an opinion on the systems of internal control in respect of these areas.

During debate, it was highlighted that the overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating across the three functional areas was that it provided Substantial Assurance. The Head of Internal Audit had commissioned specialist IT audit services from Audit North to support the delivery of this aspect of audit work.

**Resolved -**

That it be noted that this Committee, having considered the report of the Head of Internal Audit, is satisfied that the overall control environment operating in respect of information technology, corporate themes and contract arrangements is both adequate and effective.

**148. Review of Assurance over Value for Money**

Considered -

The report of the Corporate Director - Strategic Resources inviting the Committee to consider the arrangements made within the County Council in respect of achieving Value for Money (VFM) and how assurance was obtained about these arrangements.

It was reported that VFM was the optimal use of resources to achieve intended outcomes. A wide ranging package of activities was required to ensure delivery of VFM. Previously reported arrangements provided sound assurance and further enhancements had been made (eg 2020 North Yorkshire Programme; the “plan on a page” approach; a new Corporate Procurement Strategy; base budget reviews; and conducting a business case appraisal process within the 2020 North Yorkshire Programme structure). This would continue as part of how the Council developed itself to meet future challenges and expectations. The overall ambition for development areas was to push for having the right quality of information at the right time.

During debate, Members expressed concern that future external auditors, when judging “proper arrangements” in reaching a VFM conclusion, might not fully appreciate the vast range and complexity of partners with which the County Council worked (eg District Councils, CCGs, NHS Federation Trusts, Police, Fire).

A Member suggested Procurement/VFM as a topic for a future Audit Committee Member Seminar.

Members requested copies, which were easier to read, of Appendices A and B to the report.

**Resolved -**

- (a) That the arrangements currently in place for assuring Value for Money be noted.
- (b) That it be noted that the Committee is satisfied that the report adequately contributes to the requirement within its terms of reference “to have oversight of the arrangements across the County Council in securing Value for Money”.
- (c) That the Corporate Director – Strategic Resources provide Committee Members which copies, which are easier to read, of Appendices A and B to the report.

**149. Review of Finance, Property and Contract Procedure Rules**

Considered -

The report of the Corporate Director - Strategic Resources providing an overview of the thinking behind changes which were likely to be recommended to the Finance, Property and Contract Procedure Rules in the near future.

The Corporate Director – Strategic Resources outlined the possible changes described in the report and highlighted that it might be more practical, in future, to bring separately to the Committee Contract, Finance and Property Procedure Rules as and when they were available. This was because the drivers for the changes were often completely separate.

**Resolved -**

That the report be noted.

**150. Programme of Work**

Considered -

The report of the Corporate Director - Strategic Resources which invited the Committee to review its programme of work for 2015/16.

**Resolved -**

That the Programme of Work be noted.

The meeting concluded at 3.25pm.

RAG/JR