

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 3 March 2016 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, Eric Broadbent, Jim Clark, John Fort BEM, Helen Grant and Bill Houlton.

External Members of the Committee:-

Mr David Marsh and Mr David Portlock.

In Attendance:-

County Councillor Carl Les (Leader of the Council).

KPMG Officer: Rashpal Khangura.

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

County Council Officers: Gary Fielding (Corporate Director – Strategic Resources), Richard Flinton (Chief Executive), Ruth Gladstone (Principal Democratic Services Officer), Michael Leah (Assistant Director – Strategic Resources), John Raine (Head of Technical Finance) and Fiona Sowerby (Corporate Risk and Insurance Manager).

Copies of all documents considered are in the Minute Book

In opening the meeting, the Chairman advised that he, in his capacity as a Selby District Councillor, had attended the first meeting of Mazars' North Yorkshire Governance Forum which aimed to promote good governance and the sharing of ideas and best practice. He advised that a further meeting would be held during June/July 2016, to look at commercialisation and alternative models of service delivery, including trading companies and mutual organisations and the effective governance of these new arrangements, and that he would report on that meeting at a future meeting of this Committee.

161. Minutes

Resolved –

That the Minutes of the meeting held on 3 December 2015, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

162. Exclusion of the Public

Resolved -

That the public be excluded from the meeting during consideration of Appendices 2 and 3 to the report "Counter Fraud and Associated Matters" on the grounds that they

involve the likely disclosure of exempt information as defined in paragraph 7 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006.

163. Public Questions or Statements

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

164. 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 and providing an update concerning Treasury Management.

During debate, Members noted the difficulties surrounding the next governance review of the Health and Wellbeing Board and Integrated Commissioning Board. Members stressed the importance of retaining this matter on “Progress on Issues Raised by the Committee” reports to forthcoming Audit Committee meetings.

Resolved -

That the report be noted.

165. External Audit Plan 2015/16 for North Yorkshire County Council and North Yorkshire Pension Fund

Considered -

The External Audit Plan 2015/16 from KPMG, the headlines within which included the following:-

- Materiality for planning purposes was £15m for the Council and £25m for the Pension Fund. The External Auditor was obliged to report uncorrected omissions or misstatements other than those which were ‘clearly trivial’ to those charged with governance and this had been set at £0.75m for the Council and £1.25m for the Pension Fund.
- The significant risks requiring specific audit attention and procedures had been identified as the new financial systems and impairment of property, plant and equipment due to flooding.
- The National Audit Office had issued new guidance for the Value for Money audit which applied from the 2015/16 audit year. The approach was broadly similar in concept to the previous VFM audit regime, although there were some notable changes.

Rashpal Khangura (KPMG) responded to Members’ questions, during which he confirmed that the Committee could place reliance on the work of KPMG and that the significantly reduced external audit fee would be partly met by better use of technology.

In response to questions from the Chairman, the Corporate Director - Strategic Resources and the Head of Internal Audit both indicated that they were happy with KPMG’s External Audit Plan.

Resolved -

That the External Plan 2015/16 for North Yorkshire County Council and North Yorkshire Pension Fund be noted.

166. Progress on 2015/16 Internal Audit Plan

Considered -

The report of the Head of Internal Audit advising of the progress made to date in delivering the 2015/16 Internal Audit Plan.

Key issues within the report were that Veritau were well on track to meet and exceed the 2015/16 performance target of delivering 93% of the agreed Internal Audit Plan, and that a number of variations had been authorised to the Plan since 3 December 2015, the net effect of which was no change in the total number of audit days for the year.

During debate, the following issues were highlighted:

- ◆ Work was in progress in both the Children and Young People's Service Directorate and the Business and Environmental Services Directorate, although the audit reports had not yet been finalised.
- ◆ The reasons why there had been a reduction of ten audit days for the Health and Adult Services Domiciliary Care contracting audit was because the initial estimate had been considered to be too generous and also to make better use of audit days.

Resolved -

That the progress made in delivering the 2015/16 Internal Audit programme of work and the variations agreed by the client officer be noted.

167. Internal Audit Plan for 2016/17

Note: During discussion, Mr David Portlock declared an interest in respect of pensions because he was the Independent Chair of the County Council's Pension Board.

Considered -

The report of the Head of Internal Audit seeking Members' views on the priorities for internal audit in 2016/17 to inform the preparation of the annual audit plan.

The Head of Internal Audit highlighted that this was an outline Audit Plan and Members' views were sought to identify any areas of risks which they considered warranted inclusion. A final version of the Audit Plan would be submitted to the Committee's meeting on 23 June 2016.

During debate, the following issues were highlighted:

- ◆ A Member suggested the inclusion of an audit regarding the Teckal to assist Members' understood of the implications. The Corporate Director - Strategic Resources advised that Ian Fielding (Assistant Director – Waste

Management) was scheduled to address Audit Committee Members about the Teckal at the Committee's Seminar on 14 July 2016 and that arrangements could be made to factor-in the Teckal on the appropriate year's Audit Plan.

- ◆ A Member suggested factoring-in, on the appropriate year's Audit Plan, the development of arrangements for pensions pooling.
- ◆ The Head of Internal Audit provided confirmation that the planned audits relating to North Yorkshire Pension Fund would include, in their scope, a follow up of the arrangements whereby pension payments cease on the death of a Pension Scheme member.
- ◆ The Head of Internal Audit confirmed that Veritau was already looking, and would continue to look, at implementation of the new financial system and that, at present, Veritau was happy with how the new system was working. He also confirmed that Veritau would be co-ordinating its work in this regard with the External Auditor.

Resolved -

That the comments made by Members on the outline Internal Audit Plan for 2016/17 and the specific areas identified be noted.

168. Accounting Policies

Considered -

The report of the Corporate Director - Strategic Resources reviewing the changes to the County Council's Accounting Policies for the 2015/16 financial year and advising of potential changes in the pipeline that were likely to impact on future years' Accounting Policies and the Statement of Final Accounts.

It was reported that the Fair Value Measurement was the only change which impacted on the County Council's 2015/16 Accounting Policies. The 2015/16 Accounting Policies would be reported to Audit Committee on 14 July 2016 as part of the report accompanying the draft Statement of Final Accounts. There were also Code of Practice changes which would result in changes to the Statement of Financial Accounts which could apply to the County Council in 2015/16 or future years. All changes relating to 2015/16 were set out in Appendix A to the report.

During discussion, the Corporate Director - Strategic Resources advised that the County Council would not be trying, this year, to achieve early closure of the accounts and this was due to the recent change in External Auditor and the implementation of the new financial system.

Resolved -

- (a) That the 2015/16 change in Accounting Policy required to comply with the 2015 'Code of Practice on Local Authority Accounting', as set out in paragraph 3.5 of, and Appendix A to, the report be noted.
- (b) That the potential changes to the Statement of Financial Accounts Accounting Policies which are in the pipeline for future years (2016/17 onwards), as set out in paragraph 4.1 of, and Appendix B to, the report be noted.

169. Information Governance - Progress Report

Considered -

The report of the Corporate Director - Strategic Resources updating on the progress made to develop further the County Council's Information Governance arrangements.

It was reported that the original Information Governance Policy suite had been reviewed and revised to take account of recent developments and current best practice and also to consolidate and simplify the previous policies. The updated suite of policies now consisted of:- Information Governance Policy; Personal Privacy Policy; Information Access Policy; Document and Records Management Policy; and the Mobile Device Policy. Veritau continued to carry out unannounced compliance audits relating to information security. Examples of the recent security incidents were listed in the report and it was noted that the majority had been caused by human error. The three in-depth Information Governance mandatory online learning courses had recently been revised and re-launched. All identified employees were required to complete these courses by 31 March 2016. It was also reported that significant progress had been made with regard to data sharing with partner agencies to ensure that the County Council was sharing information appropriately, at the right time, with the right people and by the correct means. In particular, a collaborative multi-agency overarching information sharing protocol had been produced during recent months. The ethos of the protocol was to share information except where it would be unlawful to do so.

During discussion, Members asked questions about the County Council's vulnerability to computer hacking. The Head of Internal Audit advised that the County Council's contracts with private sector companies ought to contain provisions regarding how the company protected personal data. With regard to the County Council's website, the Corporate Director - Strategic Resources advised that the County Council relied on its computer firewall which had proved to be very effective to date.

A Member suggested that a letter should be sent to staff at Swaledale House in Colburn and at Belle Vue Square in Skipton because the recent information security compliance audits at those locations had been classified as "high assurance". Other Members expressed support for that suggestion.

The Chairman thanked Fiona Sowerby (Corporate Risk and Insurance Manager) for her assistance in relation to Information Governance.

Resolved -

- (a) That the progress made on Information Governance issues be noted.
- (b) That a letter from the Chairman, on behalf of the Committee, be sent to staff at Swaledale House in Colburn and at Belle Vue Square in Skipton to congratulate them on their good practice in relation to information security compliance.

170. Counter Fraud and Associated Matters

Appendices 2 and 3 to the report "Counter Fraud and Associated Matters" were considered in private and the public have no right of access to those appendices.

Considered -

The report of the Head of Internal Audit providing an update on the number and type of investigations undertaken by Veritau Limited during 2015/16 to date, asking the Committee to consider proposed changes to the County Council's whistleblowing policy framework prior to approval, and seeking consideration of the Annual Fraud Risk Assessment for the County Council.

It was reported that all organisations were at an increased risk of fraud and corruption. As such, there was a continuing need for the County Council to maintain counter fraud arrangements and to ensure it responded appropriately. In particular the County Council had a Counter Fraud Policy Framework which it kept under review. The framework included whistleblowing policies. There had been two such policies since March 2014, namely, a policy covering County Council employees, Members and contractors, plus a related policy for schools. It was now considered appropriate to simplify arrangements and to adopt a single policy. The report also set out details of investigations undertaken during 2015/16 into concerns and allegations of possible fraudulent or corrupt working practices. The detail was set out in Appendix 2 to report which was considered in private session. The outcome of an annual Fraud Risk Assessment, designed to identify the activities and areas within the County Council which presented the greatest risk of loss, was set out at Appendix 3 to the report which was considered in private session.

During debate, Members asked questions and the following responses were provided:-

- ◆ The whistleblowing policy was confidential and consequently the identity of the person whistleblowing was protected.
- ◆ The County Council always sought to prosecute people, where appropriate, for theft and fraud.
- ◆ The Head of Internal Audit did not believe that North Yorkshire County Council was out of step with other authorities with regard to the amount of attempted fraud. However, sufficiently reliable comparison information with other authorities was not readily available.
- ◆ Most allegations of fraud involving Social Care Funding were against people outside the County Council.

Resolved -

- (a) That the investigations carried out by Veritau in 2015/16 to date, and the outcome of the annual Fraud Risk Assessment, be noted.
- (b) That the proposed changes to the County Council's whistleblowing policy framework, as set out at Appendix 1 to the report, be approved.

171. Annual Treasury Management Strategy 2016/17

Considered -

The report of the Corporate Director - Strategic Resources concerning a review of the County Council's Treasury Management Policy Statement and Annual Treasury Management and Investment Strategy for 2016/17.

It was reported that the County Council was required to approve an up-to-date Annual Treasury Management and Investment Strategy before the start of the new financial year. Accordingly, a Treasury Management Policy/Strategy for 2016/17 had been approved at a meeting of the full County Council on 24 February 2016. A copy was appended to the Committee's report and the Committee was invited to review the documentation and consider whether it would wish to refer any proposals back to the Executive.

During debate:-

- ◆ A Member commented that it would have been useful if the changes had been shown as tracked changes in the documentation.
- ◆ It was clarified that the key issue in relation to the possibility of Britain leaving the EU was the uncertainty created in the markets.
- ◆ Members highlighted that the County Council was very prudent in its borrowing, for example, some capital expenditure might be financed by short-term borrowing from the Council's revenue cash balances.

Resolved -

- (a) That the review of the 2016/17 Treasury Management documentation, as appended to the report, be noted.
- (b) That no proposals be referred from this Committee back to the Executive.

172. Programme of Work

Considered -

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

Resolved -

That the Programme of Work be approved, subject to the Audit Committee Members' discussion with the External Auditor being scheduled for 1 December 2016.

173. Internal Audit Work/Internal Control Matters for the Central Services Directorate

Note: During debate, County Councillor Mike Jordan declared an interest as a Member who claimed travelling expenses from the County Council.

Considered -

- (a) The report of the Head of Internal Audit which advised of the internal audit work performed during the year ended 31 January 2016 for the Central Services Directorate and the opinion of the Head of Internal Audit on the systems of internal control in respect of that area.
- (b) The report of the Corporate Director – Strategic Resources which advised of progress against the areas for improvement identified in the Central Services Directorate's Statement of Assurance and provided the latest Risk Register for the Central Services Directorate.

Members questioned County Councillor Carl Les, Richard Flinton, Max Thomas and Michael Leah concerning the issues in the reports.

During debate:-

- ◆ The Head of Internal Audit confirmed that a detailed Business Continuity Policy was now in place but that a further audit was underway to assess how well the arrangements were embedded.
- ◆ Both External Members of the Committee expressed disappointment that County Councillors were not providing sufficient detail on claims submitted using MyView to enable easy verification of claims and easy confirmation that the mileages claimed were reasonable. The Corporate Director – Strategic Resources advised that additional resources had been allocated to check and refer back claims lacking sufficient detail. The Chief Executive commented that the view expressed by the External Members was fair. It was highlighted that Members were expected to retain VAT receipts for fuel for three years. It was also highlighted that Members were expected to state the time at which journeys started, although MyView did not include a field specifically requesting such information. It was report that it was not intended that the MyView software should be re-written. However, it was agreed that correct advice should be provided to Members to assist them in submitting claims containing sufficient detail.
- ◆ The Chief Executive confirmed that the County Council had every intention of publishing the outcome of the LGA Corporate Peer Challenge being conducted 8 – 11 March 2016.
- ◆ An External Member criticised the “wooliness” of the wording of some documents from the Central Services Directorate eg the draft of the previous year’s Central Services Directorate’s Governance Statement and parts of the Statement of Assurance now submitted to the Committee, eg the last two bullet points on page 65. The Chief Executive acknowledged the need for the Central Services Directorate to set standards and explained that the two statements on page 65, to which reference was made, were expectations that the Central Services Directorate would follow.

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 Central Services Directorate is both adequate and effective.
- (b) That the Central Services Directorate’s Statement of Assurance be noted.
- (c) That the latest Risk Register for the Central Services Directorate be noted.

The meeting concluded at 3.40pm.

RAG/JR