

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 14 July 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 and John Fort BEM.

External Members of the Committee:-

Mr David Marsh and Mr David Portlock.

In Attendance:-

KPMG Officer: Rashpal Khangura.

County Council Officers: Gary Fielding (Corporate Director – Strategic Resources), Ruth Gladstone (Principal Democratic Services Officer), Neil Irving (Assistant Director (Policy and Partnerships)), Tom Morrison (Head of Commercial and Investments) and John Raine (Head of Technical Finance).

Apologies for Absence:-

Apologies for absence were received from County Councillors Robert Baker, John Blackie and Helen Grant.

Copies of all documents considered are in the Minute Book

189. Any Declarations of Interest

Rashpal Khangura of KPMG (External Audit) advised that he intended to leave the meeting before the Committee considered the item of business "Changes to Arrangements for Appointment of External Auditors".

190. Public Questions or Statements

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

191. Statement of Final Accounts 2015/16 - 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 2015/16 in advance of the accounts being audited by KPMG and being re-submitted to the Audit Committee for formal approval on 29 September 2016.

It was reported orally that North Yorkshire Pension Fund Committee had approved, as a draft, the Fund's draft Statement of Final Accounts which was now before the Audit Committee.

Tom Morrison (Head of Commercial and Investments) introduced the report. The Corporate Director – Strategic Resources and the Head of Commercial Investments, in response to Members' questions, provided additional information, including the following:-

- Formal proposals arising from the 2016 triennial funding valuation would be considered by North Yorkshire Pension Fund Committee during February 2017 and the outcome would be included in the Fund's 2016/17 accounts.
- All relevant information, including the impact of the Living Wage, would be taken into account during the triennial funding valuation. Such information was included in data submissions which officers sent to the Fund's Actuary.
- The Fund's overall return on investments had been marginally above 0% for 2015/16 due to market conditions. It was highlighted that, over the previous six years, North Yorkshire Pension Fund had been in the top 5 in terms of Pension Fund performance.
- There had been hardly any change, over the year, in the market value of Additional Voluntary Contributions. This was accidental but not surprising on the basis that the Fund's assets had also hardly changed.
- The reason why there was a significant rise in investment plans at a time when interest rates were so low (*note 24 to the Pension Fund Accounts*) was substantially due to an arrangement between the Pension Fund and the County Council and related to an administrative issue arising from the introduction of the Oracle financial system. Tom Morrison (Head of Commercial and Investments) confirmed that he was satisfied that no breaches in reporting had occurred.

Resolved –

- (a) That the draft Statement of Final Accounts of the North Yorkshire Pension Fund for 2015/16 be noted.
- (b) That Members contact officers (*email addresses to be supplied*) with further questions and queries with a view to satisfactorily resolving all issues in advance of the Audit Committee's meeting on 29 September 2016.

192. Statement of Final Accounts 2015/16 - North Yorkshire County Council

Considered -

The report of the Corporate Director – Strategic Resources inviting the Committee to consider the draft Statement of Final Accounts of North Yorkshire County Council for the financial year 2015/16 in advance of the accounts being audited by KPMG and being re-submitted to the Audit Committee for formal approval on 29 September 2016. The draft Statement of Final Accounts included the draft Annual Governance Statement which, at this stage, remained incomplete pending further work by the Governance sub-group established by the Committee on 23 June 2016.

Gary Fielding (Corporate Director – Strategic Resources) highlighted that the draft Statement of Final Accounts contained many accounting entries which were non-cash eg Capital Accounting. He also highlighted that the County Council's in-year

accounting and budgeting arrangements were designed to fit its organisational structure and were different to both the statutory year end and the requirements relating to Statements of Final Accounts. Therefore the management accounts as reported to the Executive on 14 June 2016 had been re-worked to fit the formal requirements. The main differences between the County Council's management accounts and the published statutory accounts was set out at Appendix B to the report. It was emphasised, however, that the resulting changes did not affect the overall net expenditure to be funded from Central Government Grant, Business Rates and Council Tax or the levels of working balances.

John Raine (Head of Technical Finance) introduced the report. The Corporate Director – Strategic Resources and the Head of Technical Finance, in response to Members' questions, provided additional information, including the following:-

- The County Council's management accounts, including the reasons for any variances, were considered by the Executive on a quarterly basis. The Corporate Director – Strategic Resources was responsible for signing off the accounts. External Audit had responsibility for stating whether the accounts were a true and fair record, for undertaking a range of tests and looking at the County Council's processes. Therefore Members could be assured that review of the accounts was in place.
- The County Council was not permitted to set a deficient budget, although it was permitted to set a deficit budget based on Reserves.
- The County Council, over the previous few years, had simplified its approach to maintaining a minimum level of working balances, including the eradication of small Reserves. This aimed to ease understanding of the accounts.
- If a school, in respect of which there was a PFI agreement in place, changed to become an Academy, the cost of the PFI agreement remained with the County Council.

The Chairman commended the officers' work to date in respect of the draft Statement of Final Accounts.

Resolved -

- (a) That the draft Statement of Final Accounts for 2015/16 be noted in advance of the accounts being audited and re-submitted to the Audit Committee on 29 September 2015 for formal approval.
- (b) That Members contact officers (*email addresses and timescale to be supplied*) with further questions and queries with a view to satisfactorily resolving all issues in advance of the Audit Committee's meeting on 29 September 2016

193. Annual Report on Partnership Governance 2015/16

Considered -

The annual report of the Assistant Director (Policy and Partnerships) concerning the governance of partnerships involving the County Council for the financial year 2015/16.

Neil Irving (Assistant Director (Policy and Partnerships)), in introducing the report, outlined the range of criteria and risk ratings against which each partnership was judged. It was reported that no partnership had a high risk rating, and that 17 of the

approximately 60 partnerships had a medium risk rating. Neil Irving highlighted that the governance arrangements of all partnerships with a medium or high risk rating overall were reviewed by officers from Legal and Democratic Services to ensure that robust arrangements were in place to protect the interests of the partnership and, in particular, of the County Council. No concerns regarding governance arrangements had been identified. Neil Irving also referred to work undertaken by Veritau concerning the York, North Yorkshire and East Riding Local Enterprise Partnership, including governance arrangements, the outcome of which was to provide a substantial assurance audit opinion.

In response to Members' questions, Neil Irving advised of the following:-

- The County Council's reputational risk arising from its involvement in partnerships was considered by County Council officers. Although there had been no governance problems, some issues had been identified and further work needed to be done. None of the partnership concerns identified in the report were about reputational risk and were instead about whether finances were in place to carry out the partnership's work, or whether there were so many partners involved that it was difficult for the partnership to make a decision.
- It was confirmed that outside organisations to which the County Council appointed County Councillors were not included in the report because they were organisations in their own right rather than partnerships. Instead, outside organisations were listed in the County Council's Constitution. If an elected Member had any issues about the governance of an outside organisation, they would report those issues to officers who would then carry out an investigation.
- The Directors of a Company, which might include a County Councillor, were responsible for ensuring that that Company complied with company law requirements. Advice was provided to Members about their responsibilities either as a Director or Trustee of an outside organisation. Neil Irving undertook to inform Committee Members of the frequency with which that advice was reviewed.
- Concerns about a partnership could be escalated under normal reporting arrangements and, if necessary, to the County Council's Monitoring Officer or Veritau.

Resolved -

- (a) That the Annual Report on Partnership Governance be received.
- (b) That the arrangements in place to ensure good governance and reporting of partnership activity be noted.
- (c) That the contents of the schedule of partnerships that are within the scope of the report as at 31 March 2016, as set out at Appendix 1 to the report, be noted.
- (d) That Neil Irving (Assistant Director (Policy and Partnerships)) advise Members of the frequency of review of the advice which is provided to County Councillors about their responsibilities either as Directors or Trustees of an outside organisation.

194. Programme of Work

Considered -

The Committee's programme of work for 2016/17.

Members commented on the large quantity of business currently scheduled for the Committee's meeting on 29 September 2016. The Corporate Director - Strategic Resources undertook to review the situation and make adjustments if necessary.

It was highlighted that, prior to the Committee's meeting on 1 December 2016, Committee Members and the Head of Internal Audit would have a private discussion between 12.30pm and 1.00pm and that, between 1.00pm and 1.30pm, Committee Members would have a private discussion with External Audit.

It was noted that currently the Committee had no Seminars scheduled for immediately prior to its meetings in March and June 2017. It was highlighted that the Committee's meeting in June 2017 would be the first following the County Council elections in May 2017.

Resolved -

That, subject to any changes made by the Corporate Director – Strategic Resources, the programme of work be approved.

195. Changes to Arrangements for Appointment of External Auditors

Note: Prior to consideration of this item of business:-

- Rashpal Khangura of KPMG (External Audit) left the meeting.
- County Councillor Mike Jordan advised that he was Chairman of Selby District Council's Audit Committee which had already considered Selby District Council's arrangements for the appointment of that Council's External Auditor. Therefore he intended to abstain from voting on this item of business at today's meeting.

Considered -

The report of the Corporate Director - Strategic Resources inviting the Committee to agree a recommendation for consideration and decision by the full County Council concerning the arrangements for the appointment of the County Council's External Auditor.

The report set out the following information:-

- A summary of the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.
- That the County Council needed to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.
- Three options were available, namely:- (i) to make a stand-alone appointment; (ii) a joint appointment with other authorities; and (iii) an appointment via a sector led body established by the Local Government

Association for this purpose. The advantages/benefits and disadvantages/risks of each option were set out in the report.

- The recommendation of the Corporate Director – Strategic Resources, namely, to opt-in to the appointment via a sector led body.

Committee Members expressed clear support for the option to opt-in to the appointment via a sector led body. They gave the following reasons for supporting that option:-

- Firms would be able to offer better rates and lower fees for large contract values.
- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- The LGA had knowledge and experience acquired through the setting up of the transitional arrangements.
- Using a sector led body would improve transparency.

Resolved -

That it be a recommendation to the County Council – That, subject to confirmation of the proposals by the Local Government Association, North Yorkshire County Council opt-in to a sector-led body for the appointment of external auditors when the current transitional arrangements expire.

The meeting concluded at 2.30pm.

RAG/JR