

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 2 March 2017 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, David Ireton (as substitute for 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).

KPMG Officer: Rashpal Khangura.

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

County Council Officers: Rob Davisworth (Senior Accountant), Kevin Draisey (Head of Procurement and Contract Management), Gary Fielding (Corporate Director – Strategic Resources), Richard Flinton (Chief Executive), Steve Loach (Democratic Services), Paul Nicholson (Senior Accountant) and Fiona Sowerby (Corporate Risk and Insurance Manager).

Apology for Absence:-

An apology for absence was received from County Councillor John Fort BEM.

Copies of all documents considered are in the Minute Book

221. Minutes

Resolved -

That the Minutes of the meeting held on 1 December 2016, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

222. Declarations of Interest

County Councillor Mike Jordan (Chairman) declared an interest in relation to his daughter undertaking a safeguarding project on behalf of North Yorkshire County Council presently.

223. Public Questions or Statements

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

The Chairman agreed to take the following agenda item out of order due to officer commitments.

224. Review of the Contract Procedure Rules

Considered -

The report of the Corporate Director - Strategic Resources informing Members of the latest thinking relating to potential changes to the Contract Procedure Rules (the Rules).

The report outlined, in detail, key changes to the Rules, which would take effect from 18 May 2017, subject to Executive and full Council approval.

The key changes outlined related to the following:-

- ◆ Alignment to the new Procurement and Contract Management Service.
- ◆ Evaluation procedure.
- ◆ Authorisations.
- ◆ Grants.
- ◆ IR35 - Tax and NI requirements.
- ◆ Transparency.
- ◆ Small and Medium Enterprises (SMEs).

A discussion of the report was undertaken and the following issues and points were raised:

- ◆ It was clarified that the Audit Committee was the appropriate arena in which to review the Corporate Procurement Plan.
- ◆ Clarification was provided in relation to the details around grants, as opposed to contracts, and how these were evaluated.
- ◆ It was noted that the Regulations were embedded in UK Law and would not be affected by Britain leaving the EU, unless the Government decided to make changes to these.
- ◆ It was noted that IR35 requirements, being introduced from April 2017, would apply to current contracts and checks were being made to determine where these rules would be applied.
- ◆ Information was provided in relation to the receipt and opening of electronic tenders.
- ◆ Issues around corporate branding were discussed and it was considered that further consideration of how this was being used should be undertaken.

Resolved -

That the report be noted.

225. 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 progress on issues which the Committee had raised at previous meetings, together with Treasury Management issues.

The following issues were noted:-

- ◆ Details of how views on the effectiveness of the Audit Committee would be obtained were outlined.
- ◆ It was noted that the follow-up audit in relation to Integrated Passenger Transport was still ongoing and it was expected that the report would be available for the next meeting of the Committee.
- ◆ The seminar on cyber security undertaken immediately prior to the meeting was welcomed by Members.

Resolved -

- (a) That the report be noted.
- (b) That the Corporate Director - Health and Adult Services and the Chairman of the Scrutiny of Health Committee be invited to attend the Audit Committee meeting on 13 July 2017 to discuss governance relating to health and social care integration.
- (c) That the Corporate Director - Health and Adult Services be invited to attend the Audit Committee meeting on 28 September 2017, together with the relevant Executive Member, to discuss issues around the Better Care Fund and Health and Adult Services generally.
- (d) That the update regarding business continuity be submitted to the Audit Committee's meeting on 22 June 2017.

226. External Audit Plan 2016/17 for North Yorkshire County Council and North Yorkshire Pension Fund

Considered -

The report of the External Auditor, KPMG, which highlighted the following:-

- ◆ Materiality was set at £15m for the Council and £25m for the Pension Fund. The External Auditor was obliged to report uncorrected omissions or mis-statements other than those which were clearly trivial to those charged with governance which 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 significant changes in the pension liability due to LGPS triennial valuation and the valuation of schools. There were no specific significant risks identified within the Pension Fund.
- ◆ The National Audit Office had issued guidance for the value for money audit and it was noted that the approach for 2016/17 would be consistent with that

followed in 2015/16. The value for money conclusion work only applied to the Council and not to the Pension Fund.

- ◆ The planned audit fee for 2016 was £94,490 for the Council and £24,943 for the Pension Fund.

A discussion of the report was undertaken and the following issues and points were raised:-

- ◆ Clarification was provided as to how materiality was determined and how this was monitored by the External Auditor.
- ◆ Issues around the viability of primary schools and amalgamation taking place, to address that, were discussed in the context of how that affected the determination of the County Council's assets.

(County Councillor Mike Jordan (Chairman) declared a non-pecuniary interest as Governor to Drax Primary School.)

Issues around the determination of the ownership of primary schools, in respect of amalgamation, academisation and the involvement of the various Diocese were outlined in terms of the valuation of these as assets of the County Council.

- ◆ Details of the proposed earlier signing off date, by the External Auditor, were highlighted. It was noted that the timeframe for the completion of the 2016/17 accounts was being utilised as a forerunner for the implementation of the Account and Audit Regulations 2015 which would require the Statement of Final Accounts to be in place earlier than previously from 2017/18.
- ◆ Issues around the group of companies included as having group relationship with the Council and consolidated into group financial statements were discussed and it was noted that this matter was subject to further consideration.

Resolved -

That the External Audit Plan 2016/17 for North Yorkshire County Council and North Yorkshire Pension Fund, be noted.

227. Production of Statements of Accounts 2016/17

Considered -

The report of the Corporate Director - Strategic Resources reviewing the changes to the Statement of Accounts timetable and approach for 2016/17; and reviewing the changes in the approach to the Annual Governance Statement for 2016/17.

Statement of Accounts Timetable

To ensure compliance with the revised Account and Audit Regulations 2015 a revised timetable for the 2016/17 closure of accounts process had been devised, in line with the statutory deadline set for 2017/18.

Details of the timetable for the delivery of the Statement of Final Accounts 2016/17 was set out in section 4.6 of the report. It was noted that a report on the draft SOFA would be presented to a meeting of the Audit Committee, scheduled for 22 June 2017, to be followed by an Audit Sub-Committee group meeting to facilitate a more detailed review of the accounts. The external audit of accounts, by KPMG, was expected to

start in July 2017 and to be submitted to the scheduled meeting of the Audit Committee on 7 September 2017.

The Corporate Director - Strategic Resources highlighted the changes in approach to the closure of accounts process 2016/17 which were to be implemented to accelerate the final accounts process.

A discussion of the timetable was undertaken and the following issues and points were raised:-

- ◆ The dates, relating to Audit Committee meetings, set out in the timetable, were clarified.
- ◆ Issues around materiality, set by the External Auditors, were again clarified and it was stated that matters which were thought to be of note would continue to be reported to Audit Committee.
- ◆ It was noted that everyone would be required to work to the timetable, including joint venture companies, to ensure that the accounts were delivered on time.

Annual Governance Statement (AGS)

The Corporate Director - Strategic Resources provided details of the changes in approach required to the Annual Governance Statement 2016/17, in line with the accelerated closedown process, and as an integral part of the Statement of Final Accounts. He noted that the Council had been complying with the CIPFA/SOLACE 'Delivering Good Governance in Local Government 2007' framework which had been reviewed in 2016 to ensure that it met the up-to-date requirements of this framework. The framework and the 2016 principles were outlined in the report. Also outlined were the changes to the Local Code, Annual Governance Statement and Statements of Assurance that would be required to meet the accelerated closedown process.

It was noted that, in terms of Statements of Assurance, although the new approach would not see individual Statements of Assurance completed by Corporate Directors there would continue to be a review of the effectiveness of the systems of internal control, and risk management processes, reported to the Audit Committee and the reference points for those were outlined. Clarification was provided as to how this process would meet Section 7 of the AGS and how Audit Committee would continue to be involved.

Resolved -

- (i) That the Statement of Accounts timetable, and approach to that, be noted; and
- (ii) That the changes in approach to the Annual Governance Statement for 2016/17 be noted.

228. Progress on 2016/17 Internal Audit Plan

Considered -

The report of the Head of Internal Audit advising of the progress made to date in delivering the 2016/17 Internal Audit Plan.

The report indicated that the 93% target for the year would be exceeded by the end of April 2017. Details of the final reports issued in the period were provided and it was noted that a further seven audit reports had been issued but were still in draft.

Further details in relation to the following areas of work were also outlined:-

- ◆ Contingency and counter fraud work.
- ◆ Information governance.
- ◆ Variations to the 2016/17 Audit Plan.
- ◆ Follow-up of agreed actions.

During discussion of the report the following issues and points were raised:-

- ◆ An update in relation to assurances around Filey Junior School would be included in the detailed audit report for CYPS due in June.
- ◆ There were no specific trends in relation to the submission of Freedom of Information requests.
- ◆ The process in relation to the audit reports that had been issued but were yet to come before the Committee was outlined.

Resolved -

The progress made in delivering the 2016/17 Internal Audit Programme of Work and the variations agreed by the Client Officer be noted.

229. 2017/18 Internal Audit Plan Consultation

Considered -

The report of the Head of Internal Audit seeking Members' views on the priorities for Internal Audit in 2017/18 to inform the preparation of the Annual Audit Plan.

The Head of Internal Audit stated that this was an outline Audit Plan and Members' views were sought to identify any areas of risk that they considered warranted inclusion. A final version of the Audit Plan would be submitted to the Committee's meeting on 22 June 2017.

During discussion of the report the following issues and points were raised:-

- ◆ The advantages of having Internal Audit as a joint venture company were highlighted in terms of the ability to share best practice.
- ◆ The auditors had not been prevented from reviewing any areas.
- ◆ Clarification was provided in relation to the reduction in work being undertaken in relation to the settlement of refugees in the area.
- ◆ It was noted that, as a Teckal, the Internal Audit function (Veritau) was not required to be subject to a procurement exercise, however, it was emphasised that the Service provided value for money.
- ◆ Clarification was provided as to how issues relating to the North Yorkshire Pension Fund were dealt with under corporate/cross cutting audits, in terms of the administration service for the Pension Fund and how they were separated out from specific Pension Fund audit issues.
- ◆ A robust evaluation process was being developed by the Council in relation to the implementation of IR35 Regulations.

- ◆ The planned work on the Allerton Waste Recycling Park was not related to the issues discussed at the December meeting.
- ◆ It was noted that details of what was to be included in the Fleet Management audit were yet to be clarified and issues raised during December's Audit Committee meeting could be included.
- ◆ The audit relating to Pension Fund expenditure would include a review of pension calculations.

Resolved -

That the comments made by Members on the outline Internal Audit Plan for 2017/18, and the specific areas identified, be noted.

230. Internal Audit Work/Internal Control Matters for the Central 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 January 2017 for the Central Services Directorate and the opinion of the Head of Internal Audit of the systems of internal control in respect of that area.
- (b) The report of the Corporate Director - Strategic Resources which advised of the progress against the areas of improvement identified in the Central Services Directorate's Statement of Assurance and provided the latest Risk Register for the Central Services Directorate.

The Leader of the Council, County Councillor Carl Les, the Chief Executive, Richard Flinton and the Head of Internal Audit, Max Thomas, were present at the meeting and were questioned by Members in relation to issues raised in the reports.

During discussion of the report the following issues and points were highlighted:-

- ◆ The Head of Internal Audit stated that, in his opinion, the framework of governance, risk management and control operating in the Central Services Directorate provided substantial assurance. The Chief Executive welcomed the opinion of the Head of Internal Audit.
- ◆ It was noted that concerns with regards to claims submitted by Members of the Council in relation to Members' allowances continued. The Corporate Director - Strategic Resources stated that this matter would be addressed further, following the forthcoming elections.
- ◆ Issues around the community ownership of a number of North Yorkshire libraries were discussed and the Chief Executive stated that appropriate timescales were being met in relation the development of those proposals. A Member suggested that there was a need to ensure that local Members were included in publicity arrangements relating to the development of community library initiatives.
- ◆ The provision of broadband and how this was being developed for the difficult to reach, deeply rural areas in North Yorkshire was highlighted as a concern and the Chief Executive provided details of how proposals were being developed to address this situation. Members highlighted how some difficult to reach areas had undertaken self-help initiatives to enable broadband to be provided to their local communities. It was recognised that there were

challenges in supplying some areas with appropriate levels of broadband but efforts were being made to address this.

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.

231. Accounting Policies

Considered -

The report of the Corporate Director - Strategic Resources reviewing the changes to the County Council's accounting policies for the current financial year, 2016/17, and noting potential changes in the pipeline that are likely to impact on the future years accounting policies and the Statement of Final Accounts.

The report highlighted the following issues:-

- ◆ Changes to the County Council's accounting policies for 2016/17 arose from the updated IFRS based Code of Practice on Local Authority Accounting issued by CIPFA in April 2016. Further updates to the 2016/17 Code of Practice had also been issued to reflect developments regarding statutory accounting and disclosure requirements.
- ◆ There were no changes in the Code of Practice that impacted on the County Council's 2016/17 accounting policies, however, the accounting policies ultimately determined for 2016/17 would be reported to Members on 13 July 2017 as part of the report accompanying the draft Statement of Final Accounts for 2016/17.
- ◆ An Appendix to the report listed the changes to the latest 2016/17 Code of Practice on Local Authority Accounting, which required consideration and, where appropriate, reflected in the Statement of Final Accounts for 2016/17.
- ◆ CIPFA had recently consulted on a draft Code of Practice on Local Authority Accounting for 2017/18 which were set out in an Appendix to the report. The key changes related to transport infrastructure assets.

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

- ◆ Details relating to IFRS 16 - Leases were provided and it was noted that these predominantly related to leases held by schools. Information relating to how these assets were valued was provided.

Resolved -

- (a) That the 2016/17 changes in accounting policy required to comply with the 2016 Code of Practice in Local Authority Accounting, as set out in the report, and Appendix A to the report, be noted.

- (b) That the potential changes to the Statement of Final Accounts, and accounting policies, which are in the pipeline for future years (2017/18 onwards), as set out in paragraph 4.1 of the report and Appendix B to the report, be noted.

232. Information Governance - Progress Report

Considered -

The report of the Corporate Director - Strategic Resources updating Members on the progress made to further develop the County Council information governance arrangements.

Highlights of the report included:-

- ◆ Strategic overview and prioritisation of work.
- ◆ Information Asset Registers.
- ◆ Information security compliance.
- ◆ Training and culture.
- ◆ Data sharing with partner agencies.

Discussion of the report highlighted the following issues and points:-

- ◆ Members reiterated their commendation in respect of the seminar that took place in relation to cyber security and information governance immediately before the meeting.
- ◆ Concern was raised regarding the areas of limited assurance issued in relation to information security compliance checks. It was noted that some disciplinary action had been taken where necessary, however, the emphasis was on working together to ensure that poor practice was recognised and eliminated. It was also noted that the Council had self-reported some breaches to the Information Commissioner's Office, who had been satisfied with the action taken by the Council and had, therefore, considered the matters to be closed..
- ◆ Issues around data sharing with partner agencies and the development of protocols were highlighted and the difficulties faced in creating agreements to which all bodies could sign up to were noted.

Resolved -

That the progress made on information governance issues be noted.

233. Counter Fraud and Associated Matters

Considered -

The report of the Head of Internal Audit reporting on the number and type of investigations undertaken by Veritau Limited during 2016/17 to date; requesting Members' to consider proposed changes to the County Council's Money Laundering Policy prior to approval; and requesting Members to consider the Annual Fraud Risk Assessment for the County Council.

The report highlighted the following:-

- ◆ The Counter Fraud Policy Framework.
- ◆ Investigations undertaken in 2016/17.
- ◆ Fraud Risk Assessment.

The Head of Internal Audit reported that all organisations were at an increased risk of fraud and corruption and, 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 the County Council's Money Laundering Policy and, following a review, a copy of the revised policy was provided with the proposed amendments shown as track changed. The report also set out details of investigations undertaken during 2016/17 into concerns and allegations of possible fraudulent or corrupt working practices. The details were set out in Appendix 2 to the report. The outcome of Annual Fraud Risk Assessment, designed to identify the activities and areas within the County Council which presented the greatest risk of loss was also set out in Appendix to the report.

A discussion of the report highlighted the following issues:-

- ◆ In relation to the Anti-money Laundering Policy it was noted that further changes may be required shortly due to new regulations being introduced, however, it was considered appropriate that the new policy be implemented with any changes made at a later stage where necessary.
- ◆ Issues around allegations of improper behaviour, investigations that had taken place as a result and the numbers that were proved to be correct were detailed.
- ◆ Details relating to improper school admission applications and the significant increase in the numbers of allegations around those were provided.
- ◆ Issues relating to procurement related fraud were highlighted and it was noted that this was not predominant within North Yorkshire County Council which was likely to be due to the strategy and controls in place.
- ◆ It was noted that a particular strength of having Veritau as a joint venture company alongside the County Council was highlighted in the provision of a Corporate Fraud Team, a facility many other Councils did not provide.
- ◆ The development and changes to the Anti-Money Laundering Policy had assisted in highlighting areas which had not been considered previously. It was noted that when the new Regulations were published, the policy would return to the Audit Committee and any further changes would be detailed at that stage.

Resolved -

- (a) That the investigations carried out by Veritau in 2016/17 to date, and the outcome of the Annual Fraud Risk Assessment, be noted.
- (b) That the proposed changes to the County Council Anti-money Laundering Policy be approved.

234. Annual Treasury Management Strategy 2017/18

Considered -

The report of the Corporate Director - Strategic Resources providing details of an updated Annual Treasury Management Strategy for the financial year 2017/18 which incorporates:-

- (a) The Annual Investment Strategy.

- (b) A minimum revenue provision policy.
- (c) A policy to cap capital financing costs as a proportion of the annual net revenue budget.

The Corporate Director 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 and, accordingly, a Treasury Management Policy/Strategy for 2017/18 had been approved at the meeting of the full County Council held on 15 February 2017. 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 the discussion of the report the following issues and points were raised:-

- ◆ It was requested that the previous in-house training, organised for Members of the Audit Committee, be repeated after the forthcoming elections, when the new Audit Committee had been appointed.
- ◆ A Member noted the list of 12 Treasury Management Practices and was unsure whether these had been to the Audit Committee as stated. The Corporate Director - Strategic Resources stated that he would check on that and report back.
- ◆ In respect of gross debt and the capital financing requirement it was noted that the process outlined was undertaken every year and the strategy altered accordingly.
- ◆ A Member suggested that the figures contained within the section headed "Global Economy - Eurozone" appeared to be rather high. The Corporate Director - Strategic Resources agreed to check those, amen if necessary and report back.
- ◆ It was noted that internal capital financing was monitored on a very frequent basis to ensure that short term savings could be achieved and credit risks mitigated against. The Corporate Director - Strategic Resources stated that monitoring was undertaken on a daily basis.

Resolved -

- (a) That the review of the 2017/18 Treasury Management documentation, as appended to the report, be noted.
- (b) That the information requested by Members be provided by the Corporate Director - Strategic Resources.
- (c) That no proposals be referred from this Committee back to the Executive.

235. Programme of Work 2016/17

Considered -

The report of the Corporate Director - Strategic Resources which invited the Committee to review its Programme of Work for 2016/17.

The following additional information was highlighted:-

- ◆ A provisional date for an additional meeting of the Committee was added on 28 September 2017 at 1.30 pm.
- ◆ A training session for the newly appointed Audit Committee, following the forthcoming elections, would be added into the Programme of Work.

Resolved -

That the Programme of Work be approved, subject to the addition of the issues listed above.

The meeting concluded at 4 pm.

SL/JR