

# North Yorkshire County Council

## Audit Committee

Minutes of the meeting held on Thursday 22 June 2017 at 1.30 pm at County Hall, Northallerton.

### Present:-

### County Councillor Members of the Committee:-

County Councillors Karl Arthur, Margaret Atkinson, Robert Baker, Richard Cooper, David Hugill, Cliff Lunn, Don Mackay and Geoff Webber

### External Members of the Committee:-

Mr David Marsh and Mr David Portlock

### In Attendance:-

County Councillor Carl Les (Leader of the Council)

KPMG Officer: Alastair Newall

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

County Council Officers: Kevin Draisey (Head of Procurement and Contract Management), Gary Fielding (Corporate Director – Strategic Resources), Ruth Gladstone (Principal Democratic Services Officer), Neil Irving (Assistant Director – Policy and Partnerships), Karen Iveson (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**

---

### 1. Election of Chairman

#### Resolved –

That County Councillor Cliff Lunn be elected Chairman, to serve until the first meeting of the Committee to be held following the County Council elections in 2021.

---

**County Councillor Cliff Lunn in the Chair**

---

### 2. Minutes

#### Resolved –

That the Minutes of the meeting held on 2 March 2017, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

### **3. Election of Vice-Chairman**

#### **Resolved –**

That County Councillor Margaret Atkinson be elected Vice-Chairman, to serve until the first meeting of the Committee to be held following the County Council elections in 2021.

### **4. Declarations of Interest**

There were no declarations of interest.

### **5. Public Questions or Statements**

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

### **6. 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, together with Treasury Management issues which had arisen since the last meeting.

With regard to Treasury Management, it was highlighted that the Executive was due to consider opportunities to generate more commercial returns on cash and that the matter would also be reported to the Audit Committee.

During discussion, Members highlighted that Capita Asset Services provided the County Council with specialist advice regarding Treasury Management.

#### **Resolved -**

- (a) That the report be noted.
- (b) That consideration of arrangements for the Committee to discuss governance of the Health and Wellbeing Board and the Integrated Commissioning Board be deferred to the Work Programme item of business at the end of this meeting.
- (c) That the Corporate Director - Strategic Resources check whether Members have been supplied with the information to which the second and fourth bullet points at Minute 234 refer. (Note: The second bullet point referred to a list of 12 Treasury Management Practices. The fourth bullet point referred to a report back concerning the figures within the section "Global Economy – Eurozone" within the updated Annual Treasury Management Strategy for 2017/18.)

### **7. North Yorkshire County Council and North Yorkshire Pension Fund - Audit of Accounts 2016/17 - Audit Progress**

Considered -

The letter from KPMG (External Audit) dated 25 April 2017 which advised of the progress of, and findings from, the planning and control evaluation phases of the external audit of the 2016/17 accounts.

Alastair Newall (KPMG), in introducing the report, highlighted that there were no significant issues which KPMG needed to bring to the Committee's attention arising from their audit work on the financial statements and that there were no significant risks to KPMG's VFM conclusion for 2016/17.

**Resolved -**

That the letter be noted.

**8. Statement of Final Accounts 2016/17 - North Yorkshire Pension Fund**

Considered -

The report of the Corporate Director – Strategic Resources which invited the Committee to consider the draft Statement of Final Accounts of the North Yorkshire Pension Fund for the financial year 2016/17.

The Corporate Director – Strategic Resources, in introducing the report, highlighted that the Pension Fund's draft Statement of Final Accounts was included within the County Council's draft Statement of Accounts. Any questions which the Audit Committee raised would be reported to the Pension Fund Committee when it considered its draft Statement of Final Accounts on 6 July 2017.

With reference to paragraph 3.2 of the report, it was clarified that the Audit Committee, rather than the Pension Fund Committee, was responsible for approving the Pension Fund's accounts, although the Pension Fund Committee was expected to sign off the Pension Fund Annual Report which would include the Pension Fund's Final Accounts.

**Resolved -**

That the draft Statement of Final Accounts of North Yorkshire Pension Fund for 2016/17 be noted.

**9. Draft Statement of Accounts 2016/17 - North Yorkshire County Council**

Considered -

The report of the Corporate Director – Strategic Resources which invited the Committee to comment on the draft Statement of Final Accounts of North Yorkshire County Council for the financial year 2016/17.

The Corporate Director - Strategic Resources, in introducing the report, highlighted that the County Council was currently working to a revised timetable for the 2016/17 closure of accounts process which was in line with the new statutory deadlines set for the following year. The accounts were scheduled to be audited by KPMG during July and August 2017 and re-submitted to the Audit Committee for formal approval on 7 September 2017. The External Auditor was required to sign off the County Council's 2016/17 accounts by 7 September 2017. The External Auditor would report to the Committee's meeting on 7 September 2017 when the Committee would be asked to approve the final Statement of Final Accounts prior to it being formally signed off by the External Auditor. A reserve date of 28 September 2017 had been set aside for a meeting of the Audit Committee, should it be required.

The Corporate Director - Strategic Resources highlighted that Audit Committee Members had opportunity to ask questions about the accounts at today's meeting and

up until the Committee's meeting on 7 September 2017. He added that, as in previous years, Mr David Portlock (External Member), over the forthcoming months, would be asking questions about the accounts and identifying possible problems.

John Raine (Head of Technical Finance) and his team were congratulated on the earlier preparation of the accounts.

In response to a Member's question, the Corporate Director - Strategic Resources, advised that there were no areas of outturn which had given cause for concern.

**Resolved -**

That the report be noted.

**10. Corporate Governance**

Considered -

The report of the Corporate Director - Strategic Resources which invited the Committee to review the updated Local Code of Corporate Governance and recommend it for collective approval by the Chief Executive, the Leader of the Council, the Executive Member for Central Services, the Corporate Director - Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services). The report also invited the Committee to note the progress on other Corporate Governance related matters.

Fiona Sowerby (Corporate Risk and Insurance Manager), in introducing the report, highlighted the principles of the "Delivering Good Governance in Local Government Framework 2016" and two consequential changes made to the Local Code to reflect the new principles. She advised that the new Local Code was not hugely different to the previous version and that Mr David Portlock (External Member) had been providing challenge as part of this work.

Mr David Portlock advised that he was content that the version of the updated Local Code of Corporate Governance, as now presented, could be recommended for adoption.

In response to Members' questions, the Corporate Director - Strategic Resources, confirmed that evidence existed to support the Local Code and explained that the suggestions about creating a shareholder group, training directors of companies etc were considered necessary due to the creation of additional companies during the previous year.

With regard to approval of the updated Local Code, the Corporate Director - Strategic Resources clarified that, as significant changes were not being proposed, the changes would be approved by officers using their delegated powers. He added that, if major changes were being recommended, they would be referred to full Council for decision.

**Resolved -**

- (a) That the updated Local Code of Corporate Governance, as set out at Appendix A to the report, be recommended for collective approval by the Chief Executive, the Leader of the Council, the Executive Member for Central Services, the Corporate Director - Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services).
- (b) That the improvements that have been, and are to be, made in Corporate Governance, as set out at Appendix B to the report, be noted.

## 11. Annual Report of the Head of Internal Audit

Considered -

The annual report of the Head of Internal Audit which advised of:-

- internal audit work performed during the year ended 31 March 2017 and the opinion of the Head of Internal Audit in respect of the overall framework of governance, risk management and control in place within the County Council;
- breaches of Finance, Contract and Property Procedure Rules identified during 2016/17 audit work;
- Internal Audit performance outturn for 2016/17 and Veritau's 2017/18 performance targets;
- Veritau's conformance to professional standards and the conclusions arising from the Quality Assurance and Improvement Programme; and
- changes to the County Council's Audit Charter.

The report was introduced by Max Thomas (Head of Internal Audit (Veritau)). The Head of Internal Audit responded to Members' questions, during which the following information was clarified:-

- schools had been using the former Data Centre located at Highfield House in Ripon but their data had not been compromised;
- the Head of Internal Audit considered that the performance targets set for Veritau were challenging, in particular the target relating to answering FOI requests;
- the Head of Internal Audit undertook to provide information to Mr David Portlock concerning the aggregate total of the contracts where there had been five breaches relating to inadequate contract monitoring and two significant breaches relating to cost variation forms not completed;
- Veritau recognised that it was important to encourage the County Council's senior managers to respond to Veritau's customer survey and the necessary actions were being taken;
- all additional work undertaken by Veritau during 2016/17 had been dealt with as variations to the Internal Audit Plan. The Head of Internal Audit could not recall any additional consultancy projects undertaken during 2016/17;
- the Head of Internal Audit undertook to contact Mr David Marsh with a response to his question about the level at which contracts which were rolling forward could be signed off;
- in relation to information security, despite e-learning packages for staff, regular sweeps to identify unsecured sensitive information, and messages within Directorates, individuals continued to take action which they knew was incorrect. Further training was therefore required;
- when minor breaches of the Financial Procedure Rules were identified by Veritau, Veritau reported to management to require training to be undertaken, processes to be changed or some other appropriate action.

## **Resolved -**

- (a) That the overall "Substantial Assurance" opinion of the Head of Internal Audit regarding the overall framework of governance, risk management and control operating within the County Council be noted.
- (b) That the outcome of the quality assurance and improvement programme and the confirmation that the internal audit service conforms with the Public Sector Internal Audit Standards be noted.
- (c) That the breaches to Contract and Finance Procedure Rules and the actions taken to address such matters be noted.
- (d) That the performance outturn for 2016/17 and the corresponding performance targets for Veritau for 2017/18 be noted.
- (e) That the proposed changes to the Internal Audit Charter, as set out at Appendix 1 to the report, be approved.
- (f) That the Head of Internal Audit provide information to Mr David Portlock concerning the aggregate total of the contracts where there had been five breaches relating to inadequate contract monitoring and two significant breaches relating to cost variation forms not completed.
- (g) That the Head of Internal Audit contact Mr David Marsh with a response to his question about the level at which contracts which are rolling forward can be signed off.

## **12. Internal Audit Plan for 2017/18**

Considered

The report of the Head of Internal Audit which sought approval for the planned programme of internal audit work to be undertaken in 2017/18.

The Head of Internal Audit, in introducing the report, highlighted that comments provided by Audit Committee Members earlier in the year had been reflected in the Plan now submitted for approval.

In response to Members' questions, the Head of Internal Audit clarified the following:-

- the number of audit days within the Plan was based on best estimates and assumptions of work required. Variations to the Plan were agreed during the year as necessary;
- 20 audit days was considered appropriate to review the effectiveness of the strategy and delivery of smoking cessation services. The Head of Internal Audit highlighted that contracts needed to be put in place and checks needed to be made to ensure that those contracts were delivered;
- a review of the arrangements which were in place to manage the potential risks of market failure in the care market was necessary because many providers were struggling and therefore there were risks of supply. The review would look at whether contingency plans were in place to manage those risk;
- Mr David Portlock highlighted that a number of areas of work had been dropped from the draft programme. He asked the Head of Internal Audit whether Veritau

had been “lent on” to make reductions and at what point would the quantity of Veritau’s work render the Head of Internal Audit’s opinion less reliable. The Head of Internal Audit confirmed that some work had been dropped from the draft Plan and this had been done on the basis of prioritising. He highlighted that the same situation occurred every year and that this year had been no different. He advised, however, that he had been more open this year by bringing the Plan to the Audit Committee at an earlier stage in draft form. The Head of Internal Audit reported that he and the Corporate Director - Strategic Resources had had a frank conversation about reductions and that he had highlighted that any further reductions would be more difficult. The Corporate Director - Strategic Resources confirmed that a frank conversation had taken place and that the Head of Internal Audit had “fought his corner” in terms of what he thought was an adequate provision. The Corporate Director - Strategic Resources advised that these were unpredictable times and that, if the County Council required more audit days, he would find the necessary funding on a non-recurring basis;

- a report was scheduled to be submitted to the next meeting of the Pension Board concerning future Pension Fund audits;
- the Head of Internal Audit confirmed that Veritau’s forthcoming work would include looking at the preparations which the County Council would be making to ensure that it would comply with the requirements of the General Data Protection Regulations which would apply from 25 May 2018;
- the Corporate Director - Strategic Resources advised that he was comfortable with the reduction from 85 audit days in 2016/17 to 60 audit days for 2017/18 in relation to procurement and contract audit. The Head of Internal Audit advised that some audits within individual services related to procurement.

**Resolved -**

That the Internal Audit Plan for 2017/18, as set out at Appendix 1 to the report, be approved.

**13. Review of the Effectiveness of the Audit Committee**

**Considered -**

The report of the Head of Internal Audit which advised of the results of the effectiveness questionnaire issued to all Members of the Audit Committee in March 2017, together with a similar questionnaire sent to officers who regularly attended the Committee’s meetings and the External Auditors. Respondents had been asked to rate the Committee’s effectiveness across its areas of responsibility and in the way it operated. Paragraph 3.2 of the report listed the areas which did not score as highly as others. The Committee was asked whether a review of its effectiveness should be undertaken.

**Resolved -**

- (a) That the report be noted.
- (b) That the Committee be asked, in six months’ time, whether it wished to proceed with a review of the Committee’s effectiveness and the form and scope of any such review.
- (c) That the results of the questionnaire issued to all Members of the Audit Committee in March be circulated to Audit Committee Members.

#### **14. Partnership Governance 2016/17 - Annual Report**

Considered -

The report of the Assistant Director (Policy and Partnerships) concerning governance of partnerships involving the County Council for the financial year 2016/17.

Neil Irving (Assistant Director (Policy and Partnerships)), in introducing the report, highlighted that, as at 31 March 2017, there were 54 partnerships within the scope of this Annual Review. During the year, one partnership namely the Scarborough Whitby Filey Opportunity Area (CYPS) had been added. Two other partnerships which had been subsumed or ended had been removed. The Assistant Director (Policy and Partnerships) also highlighted that no partnership had been identified as having a high overall risk rating. 19 partnerships had a medium overall risk rating. Two partnerships' overall risk rating had increased from low to medium. One partnership (the Board of Rail North Ltd) had had a governance failure during 2016/17 and action was being taken to reduce the risk of this occurring again in future years.

It was noted that there was a clear national agenda for closer working between the NHS and Social Care. This manifested itself in various ways including the Better Care Fund, Integration Plans, and the Health and Wellbeing Board. There were also numerous areas of activity at the more local level where the County Council was seeking to develop better working arrangements with various parts of the NHS. There were numerous cultural and operational issues that needed to be addressed as part of that closer working agenda and it was highly likely that there would be further legislation and direction from Government that would also necessitate change. It was not possible to capture these issues in a single entry in the list of partnerships. However, an assurance was given that any partnerships which materialised in future would be included within the list as part of future Annual Reports.

Members questioned the Assistant Director (Policy and Partnerships) and asked, in particular, why the County Council's Finance Officers were not involved in the HAS Involvement Forums when the County Council was making a £170k budget contribution to those Forums in addition to officer time. The Assistant Director (Policy and Partnerships) undertook to pick-up that issue.

**Resolved -**

- (a) That the 2016/17 annual report on partnership governance be noted.
- (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 were within the scope as at 31 March 2017, as set out in Appendix 1 to the report, be noted.
- (h) That the Assistant Director (Policy and Partnerships) pick-up the issue that the County Council's Finance Officers are not involved in the HAS Involvement Forums although the County Council is making a £170k budget contribution to those Forums in addition to officer time.

#### **15. Business Continuity Update**

Considered -

The report of the Resilience and Emergencies Manager which provided an overview of the County Council's current business continuity arrangements and advised of the



continued high assurance for the management of risk within Directorates and Service areas.

The Assistant Director (Policy and Partnerships), in introducing the report, highlighted that Veritau, in March 2017, had stated that the current arrangements for business continuity within the County Council were deemed to provide “Substantial Assurance”. He also highlighted that the Corporate Director - Strategic Resources had overall responsibility for business continuity within the County Council, with the function co-ordinated and supported by the County Council’s Resilience and Emergencies Team. The Leader of the Council held the Executive portfolio for resilience, emergency planning and business continuity. Each Directorate worked with the Resilience and Emergencies Team to ensure that staff knew what to do and when to do it during any disruptive incident. Directorates were required to provide a business continuity red/amber/green status update every quarter to the Corporate Risk Management Group.

The Corporate Director - Strategic Resources highlighted that the County Council’s Corporate Business Continuity Plan was now in place and had recently been used to good effect during recent fracking protests, cyber-attacks and flooding incidents which had impacted on the County Council. The provision of a structured framework for communication and management of information across all Directorates during any disruption allowed informed strategic management decisions to be made across the organisation to identify priorities in the restoration of critical services. It was acknowledged that business continuity planning was an on-going process. The Resilience and Emergencies Team and Directorates would continue to work together within the identified structures to ensure robust well-planned and exercised business continuity arrangements were in place to provide the required assurance across the organisation.

Members questioned the officers about the threat of cyber-attacks. The Corporate Director – Strategic Resources undertook to find out, for information purposes, whether the County Council made back-ups anywhere other than in Councils’ buildings.

**Resolved -**

- (a) That the current business continuity, planning and resilience arrangements within North Yorkshire County Council, and the Management Board endorsement of the County Council’s Corporate Business Continuity Plan, be noted.
- (b) That the Corporate Director – Strategic Resources find out, for information purposes, whether the County Council makes back-ups anywhere other than in Councils’ buildings.

**16. Corporate Procurement Strategy Update**

Considered -

The report of the Corporate Director - Strategic Resources which provided an update on progress in delivering the Corporate Procurement Strategy, including the Strategy Action Plan, and recent activity and next steps.

The Head of Procurement and Contract Management referred to the Committee’s previous request for information about the number of local suppliers subsequent to the recent change in Contract Procedure Rules. He reported orally that there had been a small increase in the Council’s spend with local suppliers since the change in Contract Procedure Rules.

The Head of Procurement and Contract Management, in introducing the report, highlighted the work undertaken to increase involvement at the pre-procurement “discovery” stage, the new contract management structures, changes to the way in which savings were recorded, and the plan to update the Procurement Strategy by 31 December 2017.

In response to Members’ questions, the Head of Procurement and Contract Management advised as follows:-

- The Head of Procurement and Contract Management undertook to provide Mr David Marsh with information about the increase in the number of local businesses which were now supplying the County Council.
- All contract roll-overs now went through the Procurement and Contract Management Team as a consequence of amendment of 18.2 and 18.3 of the Contract Procedure Rules.

Members asked about the County Council’s actions subsequent to the recent horrific fire at Grenfell Tower in London. The Head of Procurement and Contract Management advised that savings targets would drive behaviour but good professional procurement would result in a good understanding being obtained of required standards including statutory requirements. The Corporate Director – Strategic Resources reported that, subsequent to the fire, DCLG had requested information regarding all Councils’ buildings which were over 18m or six floors in height and were residential in nature and had aluminium composite material in any cladding. The County Council had provided a “nil” return on the basis that it had only two buildings that were potentially above 18m but were 18m only if chimney stacks were counted as part of that 18m height measurement. The County Council had two Special Schools with residential facilities but neither had cladding. The Corporate Director – Strategic Resources advised that, to the best of his knowledge, the County Council had not used a contractor which had carried out cladding work at Grenfell Tower. He could not say for definite that such contractors were not used as part of some supply chain. The Corporate Director – Strategic Resources reported that the County Council had a number of buildings, largely schools, which had external cladding and, to the best of his recollection, there was only one which had used aluminium composite material, this being a 1m high panel running at high level around the building. The panel had been certified as being in accordance with Building Regulations. The County Council was looking at fire safety issues in its buildings to ensure that all necessary procedures were in place. It was, however, emphasised that all the County Council’s buildings fell below the Government’s threshold of risk.

**Resolved -**

- (a) That the progress on delivering the Procurement Strategy be noted.
- (b) That the Head of Procurement and Contract Management provide Mr David Marsh with information about the increase in the number of local businesses which are now supplying the County Council.

**17. Risk Management Progress**

Considered -

The report of the Corporate Director - Strategic Resources which provided information about the updated Corporate Risk Register and progress on other Risk Management related matters.

The Corporate Risk and Insurance Manager, in introducing the report, highlighted that a six monthly update of the Corporate Risk Register had been carried out in April 2017 when no changes had been made to the risks listed within the Register, although significant amendments had been made to six of those risks. The Corporate Risk and Insurance Manager also highlighted that workshops were carried out when necessary to develop risk registers for specific areas. At the present time, workshops were being carried out in respect of the North Yorkshire Development Company, the increase in Basic Need (Additional School Places), Harrogate Rail Line Development, and Tour de Yorkshire.

It was noted that Veritau had undertaken an audit of the County Council's risk management and had provided an overall opinion of "High Assurance" in respect of the procedures and controls within the system.

**Resolved -**

- (a) That the updated Corporate Risk Register, as set out in Appendix 1 to the report, be noted.
- (b) That the position on other Risk Management related matters be noted.

**18. Audit Committee Work Programme**

Considered -

The report of the Corporate Director - Strategic Resources which advised of dates of meetings of the Committee to be held during the remainder of 2017.

The Corporate Director - Strategic Resources, in introducing the report, highlighted that a review of Internal Audit work in respect of the Children and Young People's Service Directorate had been rescheduled for the September 2017 meeting of the Committee when the new Corporate Director for that area would be in place.

Veritau had arranged training for Audit Committee Members to be held on 4 July 2017 in York and KPMG was welcome to attend.

**Resolved -**

- (a) That the report be noted.
- (b) That the Committee's meeting previously scheduled for 13 July 2017 be cancelled for the reasons set out at paragraph 1.2 of the report.
- (c) That Members be requested to keep in their diaries the meetings of the Audit Committee on both 7 September 2017 and 28 September 2017 and that it be noted that a decision will be made mid/late August concerning which of those meetings shall be cancelled.
- (d) That County Councillor Jim Clark (Chairman of the Scrutiny of Health Committee) and Richard Webb (Corporate Director – Health and Adult Services) be invited to give a 30 minute presentation at a seminar to be held on the date of the Committee's meeting in September 2017 in respect of governance issues relating to Health.

The meeting concluded at 3.40pm

RAG/JR