

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 30 November 2017 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillor Cliff Lunn (in the Chair), County Councillors Karl Arthur, Margaret Atkinson, Robert Baker, Jim Clark, David Hugill, Don Mackay and Geoff Webber

External Member of the Committee:-

Mr David Portlock

In Attendance:-

KPMG Officer: Alastair Newall (Manager)

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

County Council Officers: David Bowe (Corporate Director – Business and Environmental Services), Gary Fielding (Corporate Director – Strategic Resources), Ruth Gladstone (Principal Democratic Services Officer), Anton Hodge (Assistant Director - Strategic Resources, Central Services), Fiona Sowerby (Corporate Risk and Insurance Manager, Central Finance), Louise Wallace (Assistant Director - Health and Integration, Health and Adult Services Directorate) and Richard Webb (Corporate Director – Health and Adult Services)

Apology for absence:-

An apology for absence was presented from Mr David Marsh (Independent Member)

Copies of all documents considered are in the Minute Book

31. Minutes

Resolved –

That the Minutes of the meeting held on 7 September 2017, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

32. Declarations of Interest

There were no declarations of interest.

33. Public Questions or Statements

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

34. Health and Adult Services Directorate - Internal Audit Work

Considered -

The report of the Head of Internal Audit which advised of the internal audit work performed during the year ended 31 August 2017 for the Health and Adult Services Directorate and set out the opinion of the Head of Internal Audit concerning the systems of internal control in respect of that area.

Max Thomas (Head of Internal Audit), in introducing the report, highlighted that his overall opinion on the framework of governance, risk management and control operating in the Health and Adult Services Directorate was that it provided “Substantial Assurance”.

During discussion,

- Max Thomas confirmed that no major issues had been identified during Veritau’s assignments which had not resulted in the completion of an audit report. The outcome of on-going fraud work would be reported to a future meeting.
- Max Thomas clarified that, in respect of visits to care provider establishments, the audit opinion of “Limited Assurance” related to The Lodge in Scarborough and the audit opinion of “No Opinion” related to Mencap in Scarborough.
- Max Thomas advised that an audit opinion of “No Opinion” was given in circumstances where the scope of the audit was limited, a follow-up audit was undertaken to ensure management were addressing issues raised during a previous audit, or where Veritau was providing critical friend support and helping to find solutions.
- Officers advised that the amount of money which had not been recovered from client contributions, due to a failure to update the Liquid Logic and ContrOCC systems in a timely manner, had not been significant. The money had now been recovered and the situation rectified. However, the issue was the administrative costs which had been incurred in order to recover the contributions.

Resolved -

- (a) That the information provided in the report be noted.
- (b) That it be recorded that the Committee is satisfied that the internal control environment operating in respect of the Health and Adult Services Directorate is both adequate and effective.

35. Health and Adult Services Directorate - Internal Control Measures

Considered -

The report of the Corporate Director – Health and Adult Services which outlined some of the key service risks and governance developments within the Directorate and provided details of the Risk Register for the Health and Adult Services Directorate.

Richard Webb (Corporate Director – Health and Adult Services) introduced the report, highlighting the key governance development risk issues, as set out at section 3.0 of the report, and explained the situation relating to each. The key issues related to:-

commissioning and the market; working with Health including delayed transfers of care; and the medium term financial strategy including the Council's 2020 programme and budget pressures.

Anton Hodge (Assistant Director - Strategic Resources, Central Services) referred to the Health and Adult Services Directorate's Risk Register, as set out in the appendices to the report, and advised that the risks were fundamentally the same now as they were a year previously.

During discussion:-

- County Councillor Jim Clark (Chairman, Scrutiny of Health Committee) advised that, in his opinion, the NHS was in denial about the NHS funding position. He highlighted that each of the CCGs in North Yorkshire was in financial deficit and advised that, as an Accountant, he would not have plugged gaps in funding in the way in which NHS England had advised CCGs to do. He also advised that he felt that the standards of auditing in local government were much better than they were in the NHS. Mr David Portlock added that, in his view, the County Council's governance and management of risk were excellent. Gary Fielding highlighted that NHS England was directive, whereas local government had more autonomy but more checks and balances. Gary Fielding reported that, in the forthcoming weeks, County Treasurer representatives were meeting the National Audit Office and that one of the concerns which the representatives intended to raise was financial reporting in the NHS.
- Mr David Portlock highlighted that the Risk Register did not specify a fall-back plan for financial risk. Gary Fielding (Corporate Director – Strategic Resources) responded that that was a fair challenge and that the Risk Register would be amended accordingly.
- In response to comments from County Councillor Geoff Webber, Richard Webb undertook to provide him with further information concerning private sector rates of pay for Domiciliary Care Workers and the County Council's comparative costs.

Resolved -

- (a) That the Risk Register for the Health and Adult Services Directorate be noted.
- (b) That the Risk Register for the Health and Adult Services Directorate be amended the inclusion of a fall-back plan for financial risk.

36. Business and Environmental Services Directorate - Internal Audit Work

Considered -

The report of the Head of Internal Audit which advised of the internal audit work performed during the year ended 30 November 2017 for the Business and Environmental Services Directorate and set out the opinion of the Head of Internal Audit concerning the systems of internal control in respect of that area.

Max Thomas (Head of Internal Audit), in introducing the report, highlighted that his overall opinion on the framework of governance, risk management and control operating in the Business and Environmental Services Directorate was that it provided "Substantial Assurance".

In response to questions, Max Thomas confirmed that, although only four audit reports had been issued during the year, there was sufficient evidence to enable him to issue an opinion.

Resolved -

- (a) That the information provided in the report be noted.
- (b) That it be recorded that the Committee is satisfied that the internal control environment operating in respect of the Business and Environmental Services Directorate is both adequate and effective.

37. Business and Environmental Services Directorate - Internal Control Matters

Considered -

The report of the Corporate Director - Business and Environmental Services which provided an update on progress against areas for improvement identified through internal procedures, together with the latest Risk Register for the Business and Environmental Services Directorate.

David Bowe (Corporate Director – Business and Environmental Services) introduced the report, highlighting the progress made, as set out at section 3.0 of the report, in areas for improvement and explaining the situation relating to each. The areas related to:- a review of the governance of LEPs; projects within the 2020 Programme regarding LED street lighting and street works; projects within the Capital Programme regarding Kex Gill and the A1 junction 47; and community transport.

- Mr David Portlock highlighted that some risks within the Risk Register did not specify a fall-back plan eg for the Minerals and Waste Development Framework. David Bowe responded that the fall-back plan for the Minerals and Waste Development Framework would be to continue to go through the process. However, if the County Council had a difference of opinion with the City of York Council or the National Park, then the fall-back position would be to go back to a certain point with one or other of the partners or on our own.
- Members congratulated David Bowe on progress of various work relating to highways.

Resolved -

- (a) That the updates on progress against areas for improvement be noted.
- (b) That the Risk Register for the Business and Environmental Services Directorate be noted.

38. 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 an update concerning Treasury Management.

Gary Fielding (Corporate Director – Strategic Resources) introduced the report and, in particular, asked whether the Health and Adult Services Directorate had, for now, provided Members with sufficient information to satisfy the Committee's resolution at

Minute 146 regarding Health governance. Members expressed the view that sufficient information had been provided by for now.

In respect of Treasury Management, Mr David Portlock indicated that he had not received a copy of the most recent quarterly report to the Executive. Gary Fielding advised that he would ensure that it was circulated.

Resolved -

- (a) That the report be noted.
- (b) That the Health governance information requested at Resolution 146 be regarded as complete and be deleted from the table in the Progress on Issues report to the next meeting.
- (c) That the most recent quarterly report to the Executive, regarding Treasury Management, be emailed to Members of the Committee.

39. External Auditor's Annual Audit Letter 2016-17

Considered -

KPMG's Annual Audit Letter 2016/17 which summarised the key matters arising from the External Audit work that KPMG had carried out in respect of the year ended 31 March 2017.

Alastair Newall (KPMG) introduced the report, highlighting that the Committee had received, at its meeting on 7 September 2017, the information now included in the Annual Audit Letter. The Annual Audit Letter was a requirement of legislation. Alastair Newall advised that there were no issues which he wished to highlight.

It was noted that there was a typographical error on page 4 of the letter, namely, that "2016/17" should read "2017/18" so that the relevant sentence would consequently say "We will formally follow up these recommendations as part of our 2017/18 work".

In response to a question, Alastair Newall advised that the one medium priority recommendation to which the letter referred related to the Fixed Asset Register.

Members enquired whether the External Auditor had any comments following on from the Committee's discussion at the beginning of this meeting regarding more integrated working with the NHS and, in particular, regarding the NHS's financial systems and whether there was likely to be any impact on KPMG's work as the County Council's External Auditor. Alastair Newall reported that there were well publicised huge financial challenges in both NHS and Local Government. He was not aware that there were Accountable Care Organisations in North Yorkshire but there were developments elsewhere in the country. Also there were many differences between the way the NHS accounted, managed and controlled things and the way that that was done in local government. He suggested that those differences had to be addressed in order to make any joint organisations work and report effectively.

County Councillor Jim Clark (Chairman, Scrutiny of Health Committee) highlighted that a Health Bill had been scheduled for inclusion in the Queen's Speech but that the Bill had been dropped and consequently there was no statutory framework for STPs. He anticipated that, at some point, there would be a governance issue. He asked Alastair Newall whether he saw that as being a problem for auditing firms. Alastair Newall responded that currently STP expenditure is accounted for in existing NHS or LG organisations which are audited by the firms. If that arrangement changed then it would need to be clear how STPs fitted into the statutory governance, reporting and

audit framework before it became an area of attention for audit firms. He also reported that there were differences in the approach to governance in the NHS and local government but that didn't mean NHS organisations didn't have a focus on governance.

Resolved -

That the Annual Audit Letter be noted.

40. Governance and External Companies

Considered -

The report of the Corporate Director - Strategic Resources which provided an update on arrangements that had been put into place to ensure effective governance of the range of external companies that the County Council had an interest in. A report to the Executive's meeting on 17 October 2017 was appended to the report.

Gary Fielding (Corporate Director – Strategic Resources) introduced the report, highlighting:- the increase, in recent years, in the number of North Yorkshire County Council commercial companies; that it was important that there was good governance in respect of external companies; and that the County Council needed to ensure that the companies were working in the best interests of the County Council as shareholder. Gary Fielding also highlighted that the County Council's Executive had recently created a Shareholders Committee, which was a sub-committee of the Executive, together with a Stakeholder Board which aimed to ensure a good business planning approach.

County Councillor Geoff Webber advised that he was not comfortable with the arrangements and explained the reasons why. He suggested that a member of the political opposition within the County Council should be involved in the arrangements to provide an accountable balance. In response, Gary Fielding advised that:- if this arrangement was not introduced, there would be less governance; the arrangement fitted well with the Corporate and Partnerships Overview and Scrutiny Committee's remit; Audit Committee had a role in ensuring the arrangements were compliant with good practice; as the Shareholders Committee was a sub-committee of the Executive, its agendas would be published, elected Members could see the reports and attend its meetings, although members of the public would be excluded from commercially sensitive information; the County Council's call-in arrangements would apply.

Gary Fielding clarified that North Yorkshire Education Traded Services to schools/academies was not part of the governance arrangements because it was not a stand-alone company. However, it would have the same sort of approach to business planning as the external companies.

Mr David Portlock advised that he had previously notified officers of some concerns he had with high level issues. One of those issues, regarding where the democratic oversight would come into it, had been picked-up by County Councillors Geoff Webber and Don Mackay. He advised that he was comfortable with Gary Fielding's response on that matter. Mr David Portlock advised that his second concern was that the report to the Executive was almost conflating a PLC independent business with the conditions under which a local authority must operate. The two were very different and the situation would have to be monitored. He commented that the external companies were going to have to run as commercially as possible or otherwise they would not survive and contribute anything to County Council finances. Mr David Portlock advised that his third concern was that, a few years previously, the City of York Council had made mistakes and sought an assurance that there would be no possibility of that happening with the remuneration and other things relating to elected Members and others involved in the County Council's external companies. Gary Fielding responded

by giving an assurance that there would be no remuneration issues because, for example, he was a director on several companies and that was part of his job of the County Council's Corporate Director – Strategic Resources. The more challenging issue was potential conflicts of interest and, in that regard, elected Members and officers would need to be very careful and opt out of discussions where necessary. Gary Fielding advised that Barry Khan (Assistant Chief Executive (Legal and Democratic Services) and Monitoring Officer) had wanted to be in attendance for this discussion but instead had sent apologies because he had another important commitment elsewhere.

Resolved -

That the report and the comments made by elected Members and Mr David Portlock be noted.

41. Audit Committee Terms of Reference/Review of Effectiveness

Considered -

The report of the Corporate Director - Strategic Resources which proposed changes to the Audit Committee's terms of reference, in line with the requirement to review the terms of reference on an annual basis, and asked the Committee to consider whether to proceed with a review of its effectiveness and the form and scope of any review.

Max Thomas (Head of Internal Audit) introduced the report, highlighting that the proposed changes to the Committee's terms of reference were minor in nature. He also highlighted that, with regard to a review of the Committee's effectiveness, the results of the previous survey had now been provided to Committee Members.

During discussion:-

- It was suggested that it might be helpful to seek officers' views separately about the effectiveness of the Committee in any future survey.
- Various Members expressed the view that the Committee was currently working effectively. They suggested waiting a year before repeating the survey.

Resolved -

- (a) That it be a recommendation to the County Council - That the proposed changes to the terms of reference of the Audit Committee, as set out in Appendix A to the report, be approved.
- (b) That a review of the Committee's effectiveness be undertaken after November 2018 and, in the meantime, the Chairman take informal soundings from individual Members on a one-to-one basis and the Corporate Director Strategic Resources speak with relevant officers on a one-to-one basis to seek any comments they may have regarding the effectiveness of the Committee.

42. Risk Management - Progress

Considered -

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

Fiona Sowerby (Corporate Risk and Insurance Manager, Central Finance) introduced the report, highlighting the following:- a new risk 'Commercial Strategy' had been included in the Corporate Risk Register to reflect the need successfully to secure commercial opportunities where appropriate; two risks, ie 'Schools Organisation and Funding' and 'Health and Safety', had changed significantly within the Register; a diagram was appended to the report to illustrate links between Corporate and Directorate Risk Registers; additional workshops had been carried out to develop risk registers for various specific areas of activity; and the outcomes from the 2017 insurance renewals.

Resolved -

- (a) That the updated Corporate Risk Register, as set out in Appendix A to the report, be noted.
- (b) That the links between the Corporate Risk Register and the Directorate Risk Registers, as set out in Appendix B to the report, be noted.
- (c) That the position on other Risk Management related matters be noted.

43. Audit Committee - Programme of Work

Considered -

The Committee's Programme of Work which listed business scheduled for future meetings.

During discussion:-

- Gary Fielding confirmed that the Procurement Strategy business would encompass Contract Management.
- Alastair Newall advised that KPMG would have no objection if the County Council wished to organise early briefings with its new External Auditor.

Resolved -

That the following changes be made to the Programme of Work:-

- (a) A joint session be held immediately prior to the Committee's meeting in March 2018 when both External Audit and Internal Audit shall brief Committee Members on an informal basis.
- (b) The briefing to be held immediately prior to the Committee's meeting in June 2018 be for the purpose of updating on the overall budget position.
- (c) "2015/16" be amended to "2017/18" so that the relevant entry on the Programme reads "Annual Audit Plan 2017/18 (NYCC & NYPS)".

The meeting concluded at 3.25pm.

RAG/JR