

# North Yorkshire County Council

## Audit Committee

Minutes of the meeting held on Thursday 12 March 2018 at 11 am at County Hall, Northallerton.

### Present:-

### County Councillor Members of the Committee:-

County Councillor Cliff Lunn (in the Chair); County Councillors Margaret Atkinson, Philip Broadbank (as substitute for Geoff Webber), Jim Clark and Don Mackay.

### External Member of the Committee:-

Mr David Marsh  
Mr David Portlock

### In Attendance:-

KPMG Officer: Alastair Newall (Manager)

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

County Council Officers: Gary Fielding (Corporate Director – Strategic Resources), Michael Leah (Assistant Director - Strategic Resources), Steve Loach (Democratic Services), Fiona Sowerby (Corporate Risk and Insurance Manager, Central Finance).

### Apology for absence:-

Apology for absence was received from County Councillors Karl Arthur, Robert Baker, David Hugill and Geoff Webber.

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**Copies of all documents considered are in the Minute Book**

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#### 44. Minutes

##### Resolved -

That the Minutes of the meeting held on 30 November 2017, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

#### 45. Declarations of Interest

There were no declarations of interest at this stage of the meeting.

#### 46. Exclusion of the Public and Press

##### Resolved -

That the public and press be excluded from the meeting during consideration of Appendices 2 and 3 to the report "Counter Fraud and Associated Matters", on the grounds that they involve the likely disclosure of exempt information as defined in

paragraph 7 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information)(Variation) Order 2006.

**47. Public Questions or Statements**

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

**48. 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) stated that the amendments to the Risk Register for the HAS Directorate would be undertaken shortly.

**Resolved -**

That the report, and action highlighted, be noted.

**49. External Audit Plan 2017/18 for North Yorkshire County Council and North Yorkshire Pension Fund**

Considered -

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

- ◆ Materiality had been set at £15m for the Council and £25m for the Pension Fund. The External Auditor was required to report uncorrected omissions or mis-statements, to those charged with governance, other than those which were clearly trivial, 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 valuation of PPE, pension liabilities, faster close of accounts and accounting treatment of the Allerton Waste Recovery Asset. 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 2017/18 would be consistent with that followed in 2016/17. The five stage process was set out in the report.
- ◆ The planned audit fee for 2017/18 was £94,490 for the Council and £24,943 for the Pension Fund. The fees were unchanged from 2016/17 and were in line with the scale fees published by PSAA.

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

- ◆ Reassurance was provided in relation to the possible risk of fraud in connection with the operation of subsidiary companies by the County Council.
- ◆ It was acknowledged that an area of risk was the loss of key staff, particularly in respect of finance.

- ◆ A Member noted that the tax figures for the Pension Fund had not been provided in this year's details and asked if that had any impact in terms of independence and objectivity requirements. In response it was considered that these arrangements had now come to an end, however, a check would be made on that situation and a report back to the Committee on this position would be made.
- ◆ A Member raised the issue of recruitment and retention trends over the last five years in terms of their risk to the Authority. In response, the Corporate Director - Strategic Resources, Gary Fielding, stated that retention was good, however, recruitment was much more difficult for a number of reasons. He noted that although this had been flagged as a risk it was not currently a major concern, although it was recognised that some areas were difficult to recruit to and some services required more experienced officers. The County Council's recruitment policy, and graduates development scheme, aimed to address these issues. It was noted that the County Council faced a great deal of competition in terms of recruitment, particularly in relation to graduate recruitment, however a package was in place to encourage people to take up work with the Authority. Sharing services with other Local Authorities was assisting in the development of the recruitment package.

**(Independent Member, Mr David Portlock, declared a non-pecuniary interest in respect of the discussions on this item in relation to him previously having been a partner at KPMG.)**

- ◆ Noting that KPMG had been the auditor of the recently demised Carillion Group it was asked whether they could continue to give confidence in respect of the audit work they carried out. In response it was acknowledged that KPMG were the auditors for Carillion and it was emphasised that their approach was robust in respect of all work undertaken. It was emphasised that lessons would be learned in terms of the issues arising from Carillion but there was confidence in the approach undertaken by KPMG. Members stated that they were content that this matter had been raised, as part of providing assurance to different stakeholders in the work of KPMG. It was emphasised that there was a need to address these concerns, in terms of the public perception of how such matters were being addressed. It was noted that the role of the auditor was to issue a 'materially true and fair' opinion on the financial statements. It was noted that there was a public perception that auditors had more of a role in this, which related to some of the recent bad publicity, around Carillion, for KPMG. It was emphasised that the role for auditors was clearly set out in the relevant regulations.

#### **Resolved -**

That the External Audit Plan 2018/19 for North Yorkshire County Council and the North Yorkshire Pension Fund, be noted.

#### **50. Internal Audit Plan 2017/18 - Progress**

Considered -

The report of the Head of Internal Audit informing Members of the progress made to date in delivering the 2017/18 Internal Audit Plan and any developments likely to impact on the Plan throughout the remainder of the financial year.

The report indicated that the 93% target for the year would be exceeded by the end of April 2018. Details of the final reports issued in the period were provided and it was

noted that a further ten audit reports had been issued but were currently in draft. The fieldwork was underway for the majority of the scheduled audits.

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

- ◆ Contingency and counter fraud work.
- ◆ Information governance.
- ◆ Variations to the 2017/18 Audit Plan.
- ◆ Follow-up of agreed actions.

Max Thomas, the Head of Internal Audit, presented the highlights of the report and the following issues and points were raised during discussion:-

- ◆ The variations to the 2017/18 Audit Plan had all been discussed with the relevant Service Managers and agreed.
- ◆ A Member sought details in relation to the limited assurance given in respect of transparency for the Corporate Directorate. In response it was stated that a detailed report would be submitted to the Committee in due course. Issues around the compliance with the Code of Practice in respect of the publication of information had been recognised and were being addressed accordingly. The Corporate Director - Strategic Resources provided examples of how these were being addressed. It was noted that the Authority had not been the subject of reputational damage from the issues identified, but it was appropriate to address these.
- ◆ In relation to the limited assurance provided in respect of the care home visit to The Lodge, Scarborough, it was noted that details had been considered by the Committee a few meetings previously.

#### **Resolved -**

That the progress made in delivering the 2017/18 Internal Audit Programme of Work and the variations agreed by the Client Officer be noted.

#### **51. Internal Audit Plan 2018/19 - Consultation**

Considered -

The report of the Head of Internal Audit seeking Members' views on the priorities for Internal Audit in 2018/19 to inform the preparation of the Annual Audit Plan.

The Head of Internal Audit, Max Thomas, stated that discussions with Members, and Senior Council Officers, was an essential part of the assessment process and, as in previous years, the Audit Committee was being asked to identify any specific areas which should be considered as a priority for audit.

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

- ◆ It was noted that Veritau was now undertaking more counter fraud work for a number of the North Yorkshire District Councils. This was helping to identify increased levels of fraud within those councils and also had a benefit for the County Council in terms of maximising revenue.
- ◆ A number of details within the report had been stated as 2017/18 and should be amended to read "2018/19".

- ◆ Issues around third parties (external contractors, etc) involved with the County Council and their compliance with GDPR regulations were discussed. It was noted that checks were carried out at evaluation stages and tender award to ensure that appropriate compliance was in place, therefore, in terms of GDPR, this would be a further compliance check to undertake.
- ◆ Arrangements in relation to the governance of the County Council's commercial operations were outlined. It was noted that the Stakeholder Committee and Brierley Group, advisory groups of the Executive, had been created to ensure a transparent reporting mechanism was in place. It was noted that Internal Audit had highlighted some governance issues in respect of the commercial operations and these were being addressed, transparently, through these groups.
- ◆ It was noted that Internal Audit was carrying out the Computer Audit. Audit North, now called Audit One, was only now involved with the County Council on a call-up arrangement.

**Resolved -**

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

**52. 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, 2017/18, and noting potential changes in the pipeline that are likely to impact on the future years accounting policies and the Statement of Final Accounts.

**Resolved -**

- (a) That the update on accounting policies for 2017/18, as set out in paragraph 3.5 of the report, be noted; and
- (b) That the potential changes to the Statement of Final Accounts and accounting policies, which are in the pipeline for future years (2018/19 onwards), as set out in paragraph 4.1 and Appendix A of the report, be noted.

**53. Treasury Management**

Considered -

The report of the Corporate Director - Strategic Resources, providing details of an updated Annual Treasury Management Strategy for the financial year 2018/19 which incorporated:

- (a) The Annual Investment Strategy.
- (b) A minimum revenue provision policy.
- (c) A policy to cap 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 2018/19 had been approved at the meeting of the full County Council held on 21 February 2018. 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:-

- ◆ A Member suggested that there had been notable period of time elapsed since the in-house training, organised for Members of the Audit Committee, had taken place. The Corporate Director - Strategic Resources stated that he would check when the training was previously provided and would look to provide an opportunity for Members of the Committee to undertake some appropriate training in the near future.
- ◆ Issues were discussed regarding the investment opportunities offered through the Debt Management Office (DMO) deposit account. It was noted that the facility had not been utilised and no investments were anticipated however the account would remain on the County Council's approved lending list as a precaution. It was noted that, should an opportunity arise that was of benefit to the County Council, in terms of investment to grow through low interest loans, these would be utilised. Opportunities would also be undertaken, where debts could be made cheaper through utilising external opportunities available.
- ◆ The use of balances was discussed and it was considered that the County Council was making appropriate use of its reserves. It was noted that the County Council was in a healthy position in terms of its reserves and was not facing the difficulties that had been widely reported for a number of other Councils.

**Resolved -**

- (a) That the review of the 2018/19 Treasury Management documentation, as appended to the report, be noted;
- (b) That the in-house training raised by Members be provided by the Corporate Director - Strategic Resources accordingly; and
- (c) That no proposals be referred back to the Executive.

**54. Review of Assurance over Value for Money**

Considered -

The report of the Corporate Director - Strategic Resources requesting Members to:-

- (a) consider the ongoing arrangements made within the County Council in respect of achieving Value for Money (VFM); and
- (b) consider how overall assurance was obtained about the effectiveness of these arrangements.

The Assistant Director - Strategic Resources, Michael Leah, presented the report highlighting the criteria for an auditor reaching a statutory VFM conclusion and highlighting the different issues affecting value for money.

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

- ◆ A Member stated that there were a number of acronyms within the report making it difficult to understand in parts. In response it was stated that this would be addressed for future reports.
- ◆ Issues around the savings delivered by the County Council, both in monetary terms and in real terms, and the likely savings figure to 2021/22 were discussed. It was noted that a further £11m of savings were required over the next four years. It was considered that, in coming years, more savings were likely to be required making it difficult to maintain the value for money agenda. Further reports would be brought back to the Committee in due course in relation to this.
- ◆ It was noted that procurement and contract management had made major contributions to the delivery of value for money and it was expected that further savings of around £1m would be acquired from these areas.
- ◆ Value for money reviews continued to be undertaken for all services to ensure that VfM was being delivered appropriately.
- ◆ It was noted that the delivery of value for money was also monitored to determine whether this, in itself, provided value for money and the issue would continue to be discussed by the Committee, going forward.

#### **Resolved -**

That the arrangements currently in place for assuring value for money be noted and it be confirmed that the report adequately contributes to the requirements of fulfilling the terms of reference noted in section 2.1 of the report.

#### **55. Central Services Directorate - Internal Audit Work**

##### **Considered -**

The report of the Head of Internal Audit informing Members of the Internal Audit work performed during the year ended 31 January 2018 for the Central Services Directorate and giving an opinion on the systems of internal control in respect of this area.

The Head of Internal Audit, Max Thomas, presented the report. He outlined the work undertaken for the Directorate and the outcome of the audits, which were provided in Appendix 1 to the report. He noted that progress had been made by management to implement previously agreed actions necessary to address identified control weaknesses and stated that, on the framework of governance, risk management and control, operating in the Central Services Directorate, it provided substantial assurance.

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

- ◆ Clarification was provided in relation to the Action Plan developed for debtors and income management system and it was noted that further audit work would be carried out in relation to this during the coming year. The Corporate Director - Strategic Resources highlighted the action that was being undertaken to address the issues raised within the report. It was stated the mechanisms were in place to determine the extent of the debts and how these were being addressed.
- ◆ Details of how the issues relating to officer responsibility for managing compliance with the Payment Card Industry Data Security Standard were being addressed were outlined. It was noted that staff had a better understanding of

the Standard and, with technology in place, appropriate policies and processes were being developed. It was noted that there was a relatively low level of card payments made to the County Council, in terms of compliance with this. The Head of Internal Audit stated that a further update would be provided to inform Members as to whether the actions suggested had been implemented accordingly.

**Resolved -**

That Members, following consideration of the information provided in the report, were satisfied that the internal control environment operating in the Central Services Directorate was both adequate and effective.

**56. Central Services Directorate - Internal Control Matters**

Considered -

The report of the Corporate Director - Strategic Resources providing an update to Members of progress against the areas for improvement identified for Central Services (CS) Directorate in the Annual Governance Statement and providing details of the latest Risk Register for the Directorate.

The report provided updates in relation to the following:-

- ◆ HR structure.
- ◆ Commercial development.
- ◆ Library reconfiguration.
- ◆ Strategic support.
- ◆ Statutory accounts window.

The report also provided details of key governance issues and a copy of the Directorate Risk Register was attached as an Appendix.

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

- ◆ Clarification was provided as to the role and purpose of the Brierley Group.
- ◆ Details of how North Yorkshire Education Services had been established and its purpose were provided. The operating procedures for the Service were discussed together with the various services that were provided to schools throughout North Yorkshire, and, in some cases, beyond. The impact of the introduction of a national living wage on some charges being made were noted.
- ◆ It was stated that the awareness raising exercise, in terms of phishing emails sent out to staff, had resulted in some staff responding to these, and that had been followed up. It was explained that if a pattern of behaviour, in relation to these, could be observed, then additional action would be taken, with those staff members, to address the issue.
- ◆ A member suggested that having 12 risks in the Risk Register was excessive. It was noted that this matter had been discussed previously and that it was considered worthwhile having a discussion around the risks identified, however, further consideration would be given as to whether there was value in producing a reduced number of risks for the Directorate. It was also stated that internal controls within the Directorate ensured that when risks were addressed these dropped off the system.



- ◆ Clarification was provided in relation to the action points within the Risk Register and it was noted that due to a quirk of the system it appeared that some of the action timetable had been missed, however, this was not the case and the issues had been addressed.

**Resolved -**

- (i) That the position on the Central Services Directorate key governance issues be noted;
- (ii) That the Directorate Risk Register for the Central Services Directorate be noted;
- (iii) That the feedback and comments on the Directorate's Risk Register be noted.

**57. 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 2017/18 to date, the outcome of the Annual Fraud Risk Assessment and the adequacy of the Counter Fraud Policy framework.

It was noted that Appendices 2 and 3 to the report contained exempt information with no public access and the following minutes reflect that position.

The Head of Internal Audit, Max Thomas, presented the report noting that North Yorkshire County Council continued to benefit from having the Corporate Fraud Team to assist with the implementation of the Counter Fraud Strategy. The report provided details on the Counter Fraud Policy framework, investigations undertaken in 2017/18 and the fraud risk assessment. These set out the areas of high risk and actions undertaken to address those. Details of the updated policies within the Counter Fraud Policy framework were outlined.

Issues relating to potential contract related fraud and the management of that, were discussed.

**Resolved -**

- (i) That the investigations carried out by Veritau in 2017/18 to date, and the outcome of the Annual Fraud Risk Assessment be noted; and
- (ii) That the planned update to the County Council's Anti Money Laundering Policy and the measures being adopted to strengthen the current anti money laundering arrangements be noted.

**58. Corporate Governance**

**Considered -**

The report of the Corporate Director - Strategic Resources reviewing the updated Local Code of Corporate Governance and recommending, 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 Corporate Director - Strategic Resources, Gary Fielding, presented the report noting that the Local Code of Corporate Governance was reviewed on an annual basis and provided details of the Audit Committee's role in respect of that. He noted that there had been some minor changes to the Local Code since last year and provided details of those. The revised Code was provided as an Appendix to the report.

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

- ◆ Members complimented Fiona Sowerby on her work undertaken in reviewing and updating the Local Code in the previous year, which made identifying alterations easier in the current year.
- ◆ Issues around the current Members' Code of Conduct and the lack of opportunity to take direct action against Members, when the Code had been breached, were discussed.

#### **Resolved -**

That the updated Local Code of Corporate Governance, as detailed at Appendix A to the report, be recommended for collective formal 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).

### **59. Information Governance - Progress Report**

Considered -

The report of the Corporate Director - Strategic Resources, updating Members on a range of current information governance issues and on the progress made to further develop the County Council's information governance arrangements.

The Corporate Director - Strategic Resources, Gary Fielding, highlighted how information governance remained a high risk area on the Corporate Risk Register and provided details of the Audit Committee's role in respect of reviewing corporate policies and procedures around this. Details of work carried out in the following areas were provided within the report:-

- ◆ Information security - including information security compliance checks, breaches and a recent Information Commissioner's Office case.
- ◆ Phishing exercises.
- ◆ Data Governance Team and Directorate Information Governance Champions (DIGC) - roles and responsibilities.
- ◆ Services information, asset owners and registers.
- ◆ Cyber Security Strategy.
- ◆ Data Protection Bill, General Data Protection Regulation (GDPR) and the Digital Economy Act.
- ◆ Internet banding.

The Head of Internal Audit, Max Thomas, highlighted the work being undertaken in relation to breaches and how people were encouraged to report these, when they had

occurred. This, in the main, was now taking place with breaches in relation to information security being reported appropriately.

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

- ◆ Efforts continued to prevent breaches of information and staff were regularly updated with policies and procedures in relation to this. Every effort was made to avoid staff complacency when dealing with sensitive information.
- ◆ It was noted that there was no particular pattern in relation to information security breaches, in terms of length of service and seniority of officers.
- ◆ Details in respect of the one incident reported to the ICO over the last 12 months were provided, which related to the theft of a car, containing a laptop with sensitive casework on it. It was noted that all Council held IT equipment had encryption in place.
- ◆ Phishing exercises continued to be undertaken and those that continued to be caught out by these exercises were provided with additional training.
- ◆ The roles and responsibilities of the Data Governance Team, how they had changed and the allocation of officers in each Directorate were outlined.
- ◆ A great deal of work was being undertaken in relation to compliance with the General Data Protection Regulation and to comply with the Data Protection Act in respect of data processes required to deliver services.
- ◆ Details of the Cyber Security Strategy were outlined and recent cases of national prominence were highlighted as a reminder of the importance of that. Members welcomed the recent presentation to Audit Committee in relation to cyber security and the confidence they had gained from that.
- ◆ Issues around contingency planning were discussed. It was noted that a large proportion of staff were able to work from home during the recent freezing weather, which had been a good test of the system.
- ◆ The County Council continued to work on cyber security and was not complacent in relation to recognising that a cyber-attack could occur at any time. The current system appeared to be secure but new methods of attack were being developed constantly and, therefore, every effort had to be made to guard against these.
- ◆ Issues in relation to the progress being made in response to the forthcoming General Data Protection Regulations (GDPR), were outlined.
- ◆ Details of internet banding for staff, at different levels, were provided.

#### **Resolved -**

That the progress made on information governance issues be noted.

## **60. Audit Committee Programme of Work 2017/18**

Considered -

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

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

- ◆ It was suggested that the dates outlined in section A of the Work Plan required updating, as they were incorrect. It was noted that many of the issues within that section of the Work Plan were recurring matters and, therefore, there was no need to have the years following them and for future reports these would be removed.
- ◆ It was noted that further training was to be arranged for Members of the Committee and a timetable for that would be developed and submitted to a subsequent meeting. It was requested that Members also provide suggestions for suitable training sessions.
- ◆ The timetabling of meetings was questioned in respect of the changes to accounting procedures. In response it was anticipated that the meetings outlined for July and September would still be held, but would have a different focus, in relation to the new reporting arrangements for accounts. The Annual Audit Letter would now be provided to the September meeting not December and the Annual Report of the Audit Committee would be published earlier.
- ◆ The Independent Members, David Portlock and David Marsh, stated that, under their current appointments, this would be their final meeting. The Corporate Director - Strategic Resources, Gary Fielding, stated that to enable an appointment process to be carried out the Independent Members would be retained for an additional meeting, for the purposes of that meeting only, until new appointments, following the appropriate recruitment process, were made.

### **Resolved -**

- (i) That the report be noted and the action highlighted above be undertaken accordingly.
- (ii) That an appropriate recruitment process be undertaken in respect of the Independent Members to the Audit Committee, and, in the interim, David Portlock and David Marsh, continue this role, until the process is completed.

The meeting concluded at 13.05 pm

SL/JR