

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 7 March 2019 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, Jim Clark, David Hugill, Don Mackay and Geoff Webber

Independent Members of the Committee:-

Mr Nick Grubb, Mr David Marsh and Mr David Portlock

In Attendance:-

Deloitte Officers:- Paul Thomson and Nick Rayner

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

County Council Officers:- Gary Fielding (Corporate Director – Strategic Resources), Tony Law (Team Leader BES, Policy Partnerships and Communities), Michael Leah (Assistant Director - Strategic Resources), John Raine (Head of Technical Finance, Strategic Resources), and Ruth Gladstone (Principal Democratic Services Officer)

Apology for Absence:-

An apology for absence was received from County Councillor Robert Baker.

Copies of all documents considered are in the Minute Book

103. Minutes

Resolved -

That the Minutes of the meeting held on 20 December 2018, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

104. Declarations of Interest

There were no declarations of interest.

105. Exclusion of the Public

Resolved -

That the public be excluded from the meeting during consideration of appendices 2 and 3 to the report "Counter Fraud and Associated Matters" on the grounds that discussion of those appendices is likely to disclose 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.

106. Public Questions or Statements

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

107. 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 and other matters which had arisen since the last meeting which related to the work of the Committee.

With regard to a review of the Committee's effectiveness, it was reported orally that CIPFA had produced a paper setting out practical guidance for local authority audit committees. The Committee's Chairman and Max Thomas (Head of Internal Audit) had met to discuss the points within the CIPFA paper which were relevant to this Committee. It was proposed that a small group of the Committee's Members should meet to discuss how the Committee was functioning. The Committee discussed the function and membership of the group. *(The Committee's decision arising from this discussion is recorded at (b) of the following Resolution.)*

It was reported that a demonstration had been given for Committee Members, immediately prior to this meeting, of a tool being developed to provide 'real time' financial and other information about the County Council's suppliers. Members commented that the tool would be very useful.

It was reported that a budget briefing would be provided to the three Independent Members of the Committee during the afternoon of 7 March 2019.

Resolved -

- (a) That the report be noted.
- (b) That the Committee's Chairman, Vice-Chairman, Mr Nick Grubb and Mr David Portlock (with Mr David Marsh as substitute in the absence of either Mr Nick Grubb or Mr David Portlock) be appointed to comprise a group, facilitated by Max Thomas (Head of Internal Audit), to:- discuss how this Committee is functioning; seek feedback from others such as the Corporate Director – Strategic Resources and External Audit; review the findings; submit any proposed changes to a future meeting of the Committee for decision, and full Council if appropriate; and complete the CIPFA questionnaire with input from the Corporate Director – Strategic Resources.

108. Treasury Management Strategy

Considered -

The report of the Corporate Director - Strategic Resources which invited the Committee to review the 2019/20 Treasury Management Policy Statement and the 2019/20 Annual Treasury Management and Investment Strategy.

The Corporate Director – Strategic Resources, in introducing the report, highlighted that the Statement and the Strategy had been agreed by full County Council on 20 February 2019, in order to be in place before the start of the new financial year. The

Audit Committee was invited, at this meeting, to review the Statement and the Strategy and, if it wished, to suggest any proposals for change which would then be forwarded for consideration by the Executive and, if appropriate, to the meeting of full County Council to be held on 15 May 2019. It was confirmed that no fundamental changes had been made to either the Statement or the Strategy.

During discussion, Members asked about the criteria used to assess organisations as having “high credit quality”. The Corporate Director – Strategic Resources responded that the County Council used specialist external Investment Advisors, from whom a copy of the criteria would be sought and circulated to Members.

During discussion, Members referred to paragraph 12.11 of the 2019/20 Strategy which specified that Audit Committee Members were required to receive adequate training in Treasury Management. There was a further reference to this at the last bullet point of paragraph 13.6 of the Strategy. The Corporate Director – Strategic Resources advised that Treasury Management training had been provided for Committee Members in June 2018. In addition, training regarding commercial investments had been provided very recently. However, arrangements would be made to provide update training concerning Treasury Management if the Committee so wished. *(This issue was discussed again towards the end of this meeting and the outcome is recorded at Resolution (b) of Minute 119.)*

Resolved -

- (a) That no change be proposed to either the 2019/20 Treasury Management Policy Statement or the 2019/20 Annual Treasury Management and Investment Strategy.
- (b) That the criteria used to assess organisations as having “high credit quality” be obtained from the County Council’s Investment Advisors and be circulated to Members.

109. Accounting Policies

Considered -

The report of the Corporate Director - Strategic Resources which asked the Committee to review changes which were proposed to the County Council’s Accounting Policies for 2018/19, and note potential changes in the pipeline which were likely to impact on the Accounting Policies and the Statement of Final Accounts in future years.

John Raine (Head of Technical Finance, Strategic Resources), in introducing the report, highlighted that there were two main issues which impacted on the County Council’s Accounting Policies, namely, IFRS 9 and IFRS 15. These related to how financial assets were valued in the accounts and how the County Council recognised some elements of income.

Resolved -

- (a) That the update on Accounting Policies for 2018/19, as set out in paragraphs 3.4, 3.5 and Appendix A, be noted.
- (b) That the potential changes to the Statement of Final Accounts and Accounting Policies which are in the pipeline for future years (2019/20 onwards), as set out in paragraph 4.1 and Appendix B, be noted.

110. Corporate Risk Management Policy

Considered -

The report of the Corporate Director - Strategic Resources which invited the Committee to consider a triennial update on the Corporate Risk Management Policy.

The Corporate Director – Strategic Resources, in introducing the report, highlighted that a triennial update of the Corporate Risk Management Policy was underway, with minor changes having been made to the definition of risk and risk management and the principles of risk management to reflect the recently issued BS ISO 31000:2018 – Risk Management: Guidelines. He clarified that, although the words had altered, the fundamental rationale for the management of risk had not changed. Minor amendments had also been made to the Policy to ensure the appropriate links to the updated Council Plan, performance management and the delivery of services beyond 2020.

Resolved -

- (a) That Fiona Sowerby (Corporate Risk and Insurance Manager) be asked to contact Mr David Portlock to advise why the following are proposed for deletion from the Policy:-
- The last bullet point at paragraph 3.1, namely, “RM will be adequately resourced – we will ensure that the necessary resources are in place in order to deliver excellent risk management”.
 - The fifth bullet point at paragraph 4.2, namely, these objectives will be achieved by “providing opportunities for shared learning on risk management across the County Council”.
- (b) That all Members of the Committee be advised of the outcome of the discussion between the Corporate Risk and Insurance Manager and Mr David Portlock to which paragraph (a) of this Resolution refers.
- (c) That, subject to the Corporate Risk and Insurance Manager confirming that the two proposed deletions to which paragraph (a) of this Resolution refers are not errors, it be recommended, to the Chief Executive, Leader of the Council and the Executive Member for Finance and Assets, that the updated Corporate Risk Management Policy, as set out at Appendix B, be approved.

111. Corporate Governance

Considered -

The report of the Corporate Director - Strategic Resources which provided the updated version of the Local Code of Corporate Governance.

The Corporate Director – Strategic Resources, in introducing the report, highlighted that the Local Code of Corporate Governance was reviewed annually and this year’s review had resulted in minor changes and updates. He confirmed that there were no fundamental changes.

A Member commented that the wording of the first bullet-point at paragraph 1.4 of the Code, regarding openness and inclusivity, could give the impression that any consultation which the County Council undertook was like a referendum and that that paragraph should be amended to clarify that the outcome of consultation was one of

many factors which were taken into account in decision-making. During the Committee's debate, various views were expressed and various suggestions were put forward. The majority of the Committee felt that none of the suggested amendments put forward at the meeting should be recommended as an amendment of paragraph 1.4.

Resolved -

That the updated Local Code of Corporate Governance, as set out at Appendix A, 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).

112. Review of Assurance over Value for Money

Considered -

The report of the Corporate Director - Strategic Resources which asked the Committee to consider the ongoing arrangements made within the County Council in respect of achieving Value for Money and how overall assurance was obtained about the effectiveness of such arrangements.

Tony Law (Team Leader BES, Policy Partnerships and Communities) introduced the report and, together with the Corporate Director – Strategic Resources, responded to Members' questions.

Paul Thomson (Deloitte (External Audit)) highlighted that Deloitte would be expressing a view on the County Council's management arrangements, including the robustness of governance of decision-making, and the production of a report, such as the one now under consideration, was good practice.

Resolved -

That it be noted that this Committee is satisfied that the report currently under consideration adequately contributes to fulfilling the Committee's terms of reference regarding Value for Money.

113. Information Governance Annual Report

Considered -

The report of the Corporate Director - Strategic Resources which provided an update on information governance matters, developments in the County Council's information governance arrangements, details of related performance, and compliance with relevant legislation.

The Head of Internal Audit, in introducing the report, highlighted that there had been significant change and challenge during the year arising from the introduction of the General Data Protection Regulation and the Data Protection Act 2018. He also referred Members' attention to the number of data breaches made by County Council employees and reported that, whilst the total number of breaches had increased, this was due to greater awareness of the need to report breaches.

Following discussion, the Corporate Director – Strategic Resources commented that information governance continued to be a high risk area, although good progress had been made.

Resolved -

That the progress made in developing the County Council's information governance arrangements during the year be noted.

114. External Audit Planning Report to the Audit Committee for the Year Ending 31 March 2019

Considered –

Two planning reports of Deloitte, one relating to North Yorkshire County Council and the second relating to North Yorkshire Pension Fund. Each report advised of respective responsibilities in relation to Deloitte's forthcoming audit of the financial statements for the year ended 31 March 2019, and Deloitte's audit plan which included Deloitte's consideration of key audit judgements and Deloitte's planned scope.

Paul Thomson and Nick Rayner of Deloitte introduced the reports and responded to Members' questions. Paul Thomson and Nick Rayner confirmed that there were no issues arising from the work which Deloitte had undertaken to date. They also provided clarification that, if there was "a big hole" in the accounts, responsibility for spotting it lay primarily with Management rather than this Committee, although all parties had a duty to look for such situations.

County Councillor Jim Clark flagged-up that the County Council was involved in arrangements with NHS organisations such as Clinical Commissioning Groups whose finances were poorly managed, although he had been assured, by the Corporate Director – Strategic Resources, that the County Council was not at risk in that regard. Paul Thomson advised that Deloitte would be looking carefully at the situation.

In response to Members' questions, the Corporate Director – Strategic Resources confirmed that he was satisfied with Deloitte's planning reports.

Resolved -

That the reports be noted.

115. Progress on the 2018/19 Internal Audit Plan

Considered -

The report of the Head of Internal Audit which advised of the progress made to date in delivering the 2018/19 Internal Audit Plan and, in particular:- contingency and counter fraud work; information governance; variations to the 2018/19 audit plan; follow-up of agreed actions; and the outcome of an external assessment of Veritau.

The Head of Internal Audit, in introducing the report, highlighted that the South West Audit Partnership had undertaken an external assessment of Veritau's internal audit working practices and had given Veritau the highest possible rating available under the Public Sector Internal Audit Standards. It was also reported that, overall, the findings of the external assessment were very positive. Members congratulated Veritau on the outcome of this external assessment.

In response to a Member's request, the Head of Internal Audit undertook to arrange for Internal Audit to look at the procedures operating in the Health and Adult Services Directorate, under which a considerable outstanding debt had recently been written-off, and for Internal Audit to satisfy themselves that the procedures in place were appropriate and operating correctly.

Resolved -

- (a) That the progress made in delivering the 2018/19 Internal Audit programme of work, and the variations agreed by the client officer, be noted.
- (b) That Veritau be congratulated on the outcome of the external assessment of Veritau's internal audit working practices.
- (c) That the proposed action plan arising from the external assessment of Veritau's internal audit working practices, as set out at Appendix 4, be noted.

116. 2019/20 Internal Audit Plan Consultation

Considered -

The report of the Head of Internal Audit seeking the Committee's views on priorities for internal audit in 2019/20 to inform preparation of the 2019/20 Internal Audit Plan.

The Head of Internal Audit, in introducing the report, highlighted that the draft Plan was set out at Appendix 1 and that this was an opportunity for Members to influence items in the Plan.

In response to Members' questions, the Head of Internal Audit clarified that Management within each school was responsible for making arrangements to ensure that the school complied with the General Data Protection Regulations. He also confirmed that Veritau had the necessary resource to provide the level of assurance which this Committee required.

Resolved -

That the draft Internal Audit Plan for 2019/20, as set out at Appendix 1, be noted.

117. Counter Fraud and Associated Matters

Appendices 2 and 3 to the report for this item of business were considered in private. Members of the public have no right of access to Appendices 2 and 3 to the report

Considered -

The report of the Head of Internal Audit which advised of the number and type of investigations undertaken by Veritau during 2018/19 to date, and the outcome of the annual Fraud Risk Assessment and the adequacy of the counter fraud policy framework.

The Head of Internal Audit introduced the report and responded to Members' questions.

The Corporate Director – Strategic Resources provided confirmation that he was satisfied that the County Council's systems were robust, subject to a "huge health warning".

Resolved -

That the investigations carried out by Veritau in 2018/19 to date, and the outcome of the annual Fraud Risk Assessment, be noted.

118. Central Services Directorate – Internal Audit Work and Control Matters

Considered -

- (a) The report of the Head of Internal Audit which advised:- of the internal audit work performed during the year ended 31 January 2019 for the Central Services Directorate, including the opinion of the Head of Internal Audit for each of the specific systems or areas under review; and that the Head of Internal Audit was satisfied with the progress which had been made by Management to implement previously agreed actions necessary to address identified control weaknesses.
- (b) The report of the Corporate Director - Strategic Resources which provided an update on progress against the areas for improvement identified for the Central Services Directorate in the Annual Governance Statement, together with details of the latest Risk Register for the Central Services Directorate.

The Head of Internal Audit and Michael Leah (Assistant Director - Strategic Resources) introduced the reports and responded to Members' questions.

Arising from discussion, the Corporate Director – Strategic Resources undertook to check the situation regarding communications to schools and school governors regarding secure emails following the cessation of the national GCSx secure email system.

In response to a request, the Corporate Director – Strategic Resources undertook to email to all Members of this Committee with a copy of the report considered recently by the Corporate and Partnerships Overview and Scrutiny Committee which identified the trend in the number of personal injury claims which the County Council received.

In response to a request from an Independent Member, the Corporate Director – Strategic Resources undertook to reinforce the importance of County Councillors including, on their mileage and subsistence claims, information which was sufficiently detailed to enable the claim to be processed without delay.

Resolved -

- (a) That the reports, including the key governance issues and the Risk Register for the Central Services Directorate, be noted.
- (b) That it be noted that this Committee is satisfied that the internal control environment operating in the Central Services Directorate is both adequate and effective.
- (c) That the Corporate Director – Strategic Resources reinforce the importance of County Councillors including, on their mileage and subsistence claims, information which is sufficiently detailed to enable the claim to be processed without delay.
- (d) That the Corporate Director – Strategic Resources email all Members of this Committee with a copy of the report considered recently by the Corporate and Partnerships Overview and Scrutiny Committee which identifies the trend in the number of personal injury claims which the County Council has received.

119. Audit Committee Programme of Work 2018/19

Considered -

The Committee's Work Programme.

Mr David Portlock highlighted that, in previous years, a working group had been set up to review the draft Statement of Final Accounts prior to its submission to this Committee for approval. It was suggested that a small working group should be formed again to review the 2018/19 draft Statement of Final Accounts.

The Chairman and Mr Nick Grubb reported orally that they had attended a recent CIPFA training session which had also been an excellent opportunity to network with Members of other authorities' audit committees.

Resolved -

- (a) That the Programme of Work, as set out in the report, be approved.
- (b) That Members contact the Corporate Director – Strategic Resources outside this meeting if they feel that a further training session concerning Treasury Management needs to be held for the Committee in order that Members feel confident in carrying out the Committee's terms of reference regarding Treasury Management.
- (c) That a working group, comprising the Chairman and/or Vice-Chairman and other Members/Independent Members of this Committee, be formed to review the 2018/19 draft Statement of Final Accounts prior to its submission to the Committee for approval.

The meeting concluded at 4pm.

RAG