

**NORTH YORKSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**

Minutes of the meeting held on 8 March 2012 at 1.30 pm at County Hall, Northallerton.

**PRESENT:-**

**County Councillor Members of the Committee:-**

County Councillor Patrick Mulligan (in the Chair); County Councillors Karl Arthur, Elizabeth Casling (as Substitute for Mike Jordan), Mrs Margaret-Ann de Courcey-Bayley, Robert Heseltine and Chris Pearson.

**External Members of the Committee:-**

Mr Henry Cronin, Mr James Daglish and Mr David Portlock.

**IN ATTENDANCE:-**

County Councillor Carl Les (Lead Executive Member for Children's Services, Special Educational Needs, Youth Justice and Chief Executive Group Services).

County Councillor John Watson OBE (Executive Member for Financial Services including Assets, IT and Procurement).

Celia Craig and Alistair Lince (Deloitte LLP).

Veritau Ltd Officers: Roman Pronyszyn (Audit and Information Assurance Manager) and Max Thomas (Head of Internal Audit).

County Council Officers: Justine Brooksbank (Assistant Chief Executive - Human Resources and Organisational Development), Richard Flinton (Chief Executive), Ruth Gladstone (Principal Democratic Services Officer), Sian Hansom (Assistant Director - Resources, Performance and Improvement, Business and Environmental Services Directorate) and John Moore (Corporate Director – Finance and Central Services).

**APOLOGY FOR ABSENCE:-**

An apology for absence was received from County Councillor Joe Plant.

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**COPIES OF ALL DOCUMENTS CONSIDERED ARE IN THE MINUTE BOOK**

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In opening the meeting, the Chairman and Members expressed their best wishes for a speedy recovery to County Councillor Joe Plant who was in hospital.

**186. MINUTES**

**RESOLVED –**

That the Minutes of the meeting held on 8 December 2011, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

## **187. EXCLUSION OF THE PUBLIC**

### **RESOLVED -**

That, in pursuance of Section 100(A)(4) of the Local Government Act 1972, 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 documents is likely to disclose 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.

## **188. PUBLIC QUESTIONS OR STATEMENTS**

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

## **189. PROGRESS ON ISSUES RAISED BY THE COMMITTEE**

### **CONSIDERED –**

The joint report of the Corporate Director – Finance and Central Services and the Assistant Chief Executive (Legal and Democratic Services) advising of progress on issues which the Committee had raised at previous meetings and providing updates concerning Treasury Management and the rationalisation of systems and data.

During discussion:-

- ◆ in relation to the Governance of Partnerships, the Corporate Director – Finance and Central Services clarified that the Committee's suggestion, recorded at Resolution (b) of Minute 177, would be incorporated within the work being undertaken by officers; and
- ◆ Members confirmed that they wished to continue to receive Treasury Management information in the same manner as such information was currently submitted to the Committee, as described in Section 3 of the report.

The Head of Internal Audit advised that there had been insufficient time, at the training session held immediately prior to this meeting, for Members to consider the checklist within the Audit Commission Annual Fraud Report "Protecting the Public Purse 2011". He advised that arrangements would be made for the checklist to be submitted to the Committee's meeting to be held on 19 April 2012.

### **RESOLVED –**

- (a) That the report be noted.
- (b) That the checklist within the Audit Commission Annual Fraud Report "Protecting the Public Purse 2011" be submitted to the Committee's meeting to be held on 19 April 2012.

## **190. DRAFT INTERNAL AUDIT PLAN 2012/13**

**Note: Mr David Portlock (External Member) declared a personal non-prejudicial interest, as Chairman of Governors of a primary school, during a discussion about training for school governors.**

### **CONSIDERED –**

The report of the Head of Internal Audit presenting, for the Committee's initial consideration, the draft plan of audit work to be performed by Veritau Limited, on behalf of the County Council, in the financial year 2012/13.

Officers responded to Members' various questions arising from the report, during which it was clarified that:-

- ◆ the overall reduction of 61 audit days for 2012/13, compared to the previous year, was mainly due to Veritau Limited losing the services of a secondee from Children and Young People's Services who had been made redundant;
- ◆ a strategic decision had been made to increase the number of audit days within the Plan for Special Investigations to reflect developments in this type of work; and
- ◆ the Head of Internal Audit was of the opinion that there were sufficient audit days within the Plan, considering the risks faced by the County Council and on the control environment. Celia Craig (Deloitte LLP) advised that Deloitte's were comfortable with the Plan.

#### **RESOLVED –**

That the Draft Internal Audit Plan 2012/13, as set out at Appendix 2 to the report, be noted.

### **191. COUNTER FRAUD AND ASSOCIATED MATTERS**

#### **CONSIDERED –**

The report of the Head of Internal Audit:- advising of the number and type of investigations undertaken by Veritau Limited during 2011/12 to date; inviting the Committee to consider the Annual Fraud and Loss Risk Assessment for the County Council; and inviting the Committee to approve, for recommendation to the Executive, an updated Counter Fraud Strategy.

The Corporate Director – Finance and Central Services advised that a proposal was being drafted for consideration in due course, the aim of which was to delegate power to the Audit Committee to approve changes to the Counter Fraud Strategy after May 2012.

The Head of Internal Audit introduced the report, advising that the various minor changes now recommended in respect of the Counter Fraud Strategy aimed to ensure its content reflected best practice and current guidance. He advised that a summary of the type and number of investigations into possible fraudulent or corrupt working practices was set out in Appendix 2 to the report and highlighted that, whilst the number of investigations were similar compared to previous years, some investigations were becoming more complex. Appendix 3 to the report provided the outcomes of the 2011/12 Fraud and Loss Risk Assessment exercise and it was highlighted that this reflected recent national issues.

In relation to the proposed changes to the Counter Fraud Strategy, a Member suggested that a statement should be included advising of the types of fraud which had occurred in North Yorkshire. Other Members expressed support for that suggestion.

Officers responded to Members' various questions arising from the report.

#### **RESOLVED –**

- (a) That the revised Counter Fraud Strategy, set out at Appendix 1 to the report, be recommended for approval by the Executive, subject to the inclusion of a statement advising of the types of fraud which have occurred in North Yorkshire.
- (b) That the investigations carried out by Veritau in 2011/12 to date, and the outcome of the annual Fraud and Loss Risk Assessment, be noted.

#### **192. EXTERNAL AUDIT CERTIFICATION OF CLAIMS AND RETURNS 2010/11**

CONSIDERED –

A report from Deloitte LLP outlining the work undertaken to ascertain that claims and returns had been certified and submitted to the appropriate entities within relevant deadlines. It was reported that the following claims/returns had been certified within deadline and without requiring adjustment or qualification:- Sure Start, Early Years and Child Care Grant (in the value of £22.6m); Teachers' Pension Return (in the value of £38.5m); Rural Access to Opportunities Programme (in the value of £406k); and RMT Delegated Fund (in the value of £24k). However, a grant claim form for the York and North Yorkshire Partnership Unit (in the value of £130k) had been substantially altered and a qualification letter had been issued because the allocation of the grant between capital and revenue expenditure had not matched the allocation of the grant offered and therefore it appeared that the relevant element had been over-claimed by £2,000 and the capital element had been under-claimed by £2,000.

Celia Craig (Deloitte LLP) highlighted that this was, in fact, an extremely positive report and that it was unusual for adjustments to be required in respect of the County Council's grant claims and returns. It was noted that the York and North Yorkshire Partnership Unit had been undergoing re-organisation at the time when it had dealt with its grant claim.

**RESOLVED –**

That the report be noted.

#### **193. INTERNAL AUDIT WORK ON CONTRACT ARRANGEMENTS**

CONSIDERED –

The report of the Head of Internal Audit advising of the internal audit work performed during the year ended 31 January 2012 on contract arrangements and related matters and giving an opinion on the systems of internal control in respect of that area.

The Audit and Information Assurance Manager, in introducing the report, highlighted that the overall opinion of the Head of Internal Audit concerning the controls operated in respect of contract matters was that they provided Substantial Assurance. In addition, on the basis of the follow up work undertaken during the year, the Head of Internal Audit was satisfied with the progress that had been made by management to implement previously agreed actions necessary to address identified control weaknesses.

Officers responded to Members' various questions arising from the report.

**RESOLVED –**

That it be noted that the Committee is satisfied that the internal control environment operating in relation to contract arrangements is both adequate and effective.

**194. INTERNAL AUDIT WORK AND RELATED INTERNAL CONTROL MATTERS FOR FINANCE AND CENTRAL SERVICES AND MATERIAL FINANCIAL SYSTEMS**

The Chairman advised that this and other items of business on today's Agenda would be re-ordered for the convenience of Members and officers who were in attendance for only part of this meeting.

**CONSIDERED –**

The joint report of the Head of Internal Audit and the Corporate Director – Finance and Central Services advising of the internal audit work performed during the year ended 31 January 2012 for the Finance and Central Services Directorate and on material financial systems and giving an opinion on the systems of internal control in respect of that area. The report also invited the Committee to consider the Statement of Assurance for 2011/12 signed by the Corporate Director – Finance and Central Services and the latest Risk Register for that Directorate.

The Audit and Information Assurance Manager, in introducing the report, highlighted that the overall opinion of the Head of Internal Audit on the controls operated in the Finance and Central Services Directorate and for material financial systems was that they provided Substantial Assurance. In addition, on the basis of the follow up work undertaken during the year, the Head of Internal Audit was satisfied with the progress that had been made by management to implement previously agreed actions necessary to address identified control weaknesses.

Officers responded to Members' various questions arising from the report, during which it was clarified that:-

- ◆ Debbie Hogg (Assistant Director – Resources, Health and Adult Services Directorate) was confident that the problems identified during the review of the reconciliation and debt recovery process between the County Council and the Primary Care Trust would be resolved, although the matter would take some time, largely due to changes affecting the Primary Care Trust.
- ◆ The Risk Register set out at Appendix 3 to the report contained several typographical errors in relation to the current risk ratings and post risk ratings. The correct information was presented to the meeting and was as follows:- for Risk A, the current risk rating was 1 and the post risk rating was 2; for Risk B, the current risk rating was 2 and the post risk rating was 4; for Risk C, the current risk rating was 2 and the post risk rating was 4; for Risk D, the current risk rating was 3; for Risk E, the current risk rating was 3; for Risk F, the current risk rating was 3; for Risk G, the current risk rating was 3; for Risk H, the current risk rating was 3; for Risk I, the current risk rating was 4; and for Risk J, the current risk rating was 4. The Audit and Information Assurance Manager apologised to the Committee for the errors.
- ◆ With regard to Information Governance, a specific report on that matter was scheduled to come before the Committee shortly and the information on page 130 of the papers for today's meeting was therefore brief. The Corporate Director – Finance and Central Services clarified that he was satisfied with the current situation in respect of Information Governance.

**RESOLVED –**

That it be noted that the Committee is satisfied that the internal control environment operating in the Finance and Central Services Directorate, and for material financial systems, is both adequate and effective.

**195. INTERNAL AUDIT WORK AND RELATED INTERNAL CONTROL MATTERS FOR THE CHIEF EXECUTIVE'S GROUP**

CONSIDERED -

The joint report of the Chief Executive and the Head of Internal Audit advising of the internal audit work performed during the year ended 31 January 2012 for the Chief Executive's Group and giving an opinion on the systems of internal control in respect of that area. The report also invited the Committee to consider the Statement of Assurance for 2011/12 signed by the Chief Executive and the Risk Register for the Group.

The Audit and Information Assurance Manager, in introducing the report, highlighted that the overall opinion of the Head of Internal Audit on the controls operated in the Chief Executive's Group was that they provided Substantial Assurance. In addition, on the basis of the follow up work undertaken during the year, the Head of Internal Audit was satisfied with the progress that had been made by management to implement previously agreed actions necessary to address identified control weaknesses.

Officers responded to Members' various questions arising from the report, during which Members emphasised that, during the course of restructuring, it was important that strong controls remained in place. The Chief Executive concurred that, when reducing bureaucracy, it was important to take care with what was being dismantled and, for that reason, key officers were involved in the process.

**RESOLVED –**

That it be noted that that the Committee is satisfied that the internal control environment operating in the Chief Executive's Group is both adequate and effective.

**196. INTERNAL AUDIT WORK ON CORPORATE THEMES**

CONSIDERED –

The report of the Head of Internal Audit advising of the internal audit work performed during the year ended 31 January 2012 on corporate/cross-cutting themes and giving an opinion on the systems of internal control in respect of the areas examined. The report also invited the Committee to consider the Corporate Risk Register.

The Audit and Information Assurance Manager, in introducing the report, highlighted that the overall opinion of the Head of Internal Audit on the controls operated in respect of the corporate themes was that they provided Moderate Assurance. In addition, on the basis of the follow up work undertaken during the year, the Head of Internal Audit was satisfied with the progress that had been made by management to implement previously agreed actions necessary to address identified control weaknesses.

Officers responded to Members' various questions arising from the report, during which it was highlighted that:-

- ◆ corporate themes were targeted areas which managers recognised needed to be addressed;
- ◆ the Corporate Director – Finance and Central Services would ensure that a complete list of touchdown points (for flexible working purposes) was compiled; and

- ◆ Justine Brooksbank (Assistant Chief Executive - Human Resources and Organisational Development) was confident that managers were committed to compliance with corporate HR processes. However, some staff did not necessarily see such processes as being relevant to them and would not comply unless managers required it. The Chief Executive was therefore communicating fortnightly and cascading compliance messages to managers. It was also highlighted that the new systems which were being developed would identify where there was insufficient commitment to follow corporate HR procedures.

#### **RESOLVED –**

That it be noted that the Committee is satisfied that the internal control environment operating in relation to the corporate themes which have been examined is both adequate and effective.

#### **197. PROGRESS ON 2011/12 INTERNAL AUDIT PLAN**

##### **CONSIDERED –**

The report of the Head of Internal Audit advising of the progress made to date in delivering the 2011/12 Internal Audit Plan and developments likely to impact on the Plan throughout the remainder of the financial year.

The Head of Internal Audit, in introducing the report, highlighted a significant variation which had been made to the agreed Audit Plan, details of which were at paragraph 3.11 of the report. The variation was to defer work to 2012/13, or reduce the scope of planned work, to reflect new or changed priorities and other current developments in the County Council. A change was also necessary to reflect the agreed early termination of a trainee secondment to Veritau. The time which had been made available had been added to the contingency for Special Investigations.

The Head of Internal Audit referred to the CIPFA Better Governance Forum briefing paper for Audit Committee Members, a copy of which was at Appendix 3 to the report. The briefing paper invited Audit Committee Members to consider whether they were receiving adequate assurance across all the organisation's key areas rather than just financial risks and whether other sources of assurance might exist within the organisation which were otherwise being overlooked. The paper identified ten potential risk areas which were likely to have implications for some or all local authorities in 2012.

Officers responded to Members' various questions arising from the report, during which:-

- ◆ Members expressed concern at the reduction of 60 audit days for Information Governance Compliance because they were aware of the issues and that the County Council could be fined if non-compliance occurred. The Head of Internal Audit agreed that Information Governance issues needed to be addressed but explained that there would be limited benefits in undertaking certain audits in this area during 2011/12 and that this was a timing issue relative to the actions being rolled out under the Information Governance Action Plan during 2012/13.
- ◆ Members expressed concern at the reduction of 10 audit days for auditing recruitment. The Head of Internal Audit responded that a new system was scheduled to be introduced and this was therefore a timing issue. The Corporate Director – Finance and Central Services added that there were

other more significant risks within the programme and also that redeployment was more of an issue than recruitment at present.

- ◆ The Head of Internal Audit confirmed that he hoped to achieve the Performance Indicator, of delivering 93% of the agreed Internal Audit Plan by 30 April 2012, whilst acknowledging that, as at 31 January 2012, 66% had been delivered.
- ◆ Committee Members were asked to contact Max Thomas (Head of Internal Audit) if they were interested in attending any of the CIPFA workshops and training events for Audit Committee Members which were listed on page 105 of the papers for today's meeting.
- ◆ With regard to the CIPFA Better Governance Forum briefing paper for Audit Committee Members, the Chairman highlighted Assurance Mapping as a way of supporting committee oversight of key risks. He suggested that Assurance Mapping should be considered for the One Council Programme or possibly for implementation of the Localism Act. The Corporate Director – Finance and Central Services commented that Assurance Mapping was a recognised and rigorous new process to provide assurance to Audit Committee Members. However, it could not be resourced across the piece and it was therefore suggested that the Committee should pick one issue for Assurance Mapping. It was further suggested that the other potential risk areas identified in the briefing note could be the subject of a report. Some risk areas were considered to be straightforward and others irrelevant. Members expressed support for these suggestions, together with the preference for Assurance Mapping to be undertaken in respect of the One Council Programme. Celia Craig (Deloitte LLP) advised that Deloitte would be happy to assist Veritau in the initial Assurance Mapping exercise.

The Corporate Director – Finance and Central Services reported orally that it had been suggested, at the recent meeting of the Veritau Board, that the Audit Committee should be invited to express an opinion on the internal audit process. Members indicated that they wished to accept such an opportunity and asked the Corporate Director – Finance and Central Services to organise a process to obtain views from Members concerning the Internal Audit Service.

#### **RESOLVED –**

- (a) That the progress made by Veritau Ltd in delivering the 2011/12 Internal Audit Plan be noted.
- (b) That Members contact the Head of Internal Audit if they are interested in attending any of the CIPFA workshops and training events for Audit Committee Members in 2012, as listed on page 105 of the papers for today's meeting.
- (c) That Assurance Mapping be undertaken in respect of the One Council Programme and that the offer from Deloitte LLP to work alongside that exercise be accepted.
- (d) That the Corporate Director – Finance and Central Services report to a future meeting concerning the County Council's position with regard to the risk areas, with the exception of transformation programmes, listed on pages 8-10 of the CIPFA Better Governance Forum briefing paper.
- (e) That the Corporate Director – Finance and Central Services organise a



process to obtain views from Audit Committee Members concerning the Internal Audit Service.

**198. PROGRAMME OF WORK**

**CONSIDERED –**

The report of the Corporate Director – Finance and Central Services inviting the Committee to review the Programme of Work for 2011/12 and consider a draft Programme of Work for 2012/13.

A Member highlighted that there was no obvious reference to Treasury Management policies within the Programme of Work. The Corporate Director – Finance and Central Services offered to schedule a discussion concerning Treasury Management policies for a future meeting, although it was emphasised that, due to other priorities, the issue was unlikely to come to either the April 2012 or June 2012 meetings.

Celia Craig (Deloitte LLP) advised that the External Audit Fee Letter was likely to be available for consideration at the Committee's September 2012 meeting. She highlighted that the Audit Commission had decided to delay publication until completion of the consultation process.

Members expressed support for the earlier timings used today, ie for training commencing at 1 pm, with the Committee's meeting commencing at 1.30 pm.

A Member sought confirmation that, regardless of the Programme of Work, if the auditors became aware of an issue which needed to be brought to the attention of the Committee, such an issue would be notified at the first available meeting. The Head of Internal Audit confirmed that the Committee would be made aware of significant issues. The Member asked for this to be recorded in the Minutes of the meeting.

**RESOLVED –**

That the Programme of Work for 2012/13 be approved, subject to the inclusion of the following:-

- (a) Treasury Management Policies to be scheduled for a future meeting, such meeting to be identified by the Corporate Director – Finance and Central Services; and
- (b) the External Audit Fee Letter being scheduled for the September 2012 meeting.

The meeting concluded at 4.15 pm.

RAG/ALJ/JR