

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on 27 September 2012 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillor Patrick Mulligan (Chairman); County Councillors Bill Chatt, Margaret-Ann de Courcey-Bayley, Robert Heseltine, Mike Jordan, Chris Pearson and Joe Plant.

External Members of the Committee:-

Mr James Daghish and Mr David Portlock.

In Attendance:-

County Councillor Carl Les (Deputy Leader of the Council).

Deloitte LLP Officers: Chris Powell and Alistair Lince.

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

County Council Officers: Sukhdev Dosanjh (Assistant Director (HAS) Performance and Change Management), Gary Fielding (Assistant Chief Executive – Policy Performance and Partnerships), Debbie Hogg (Assistant Director (HAS), Resources), Jon Learoyd (Interim Head of ICT), Steve Loach (Principal Democratic Services Officer), Fiona Sowerby (Corporate Risk and Insurance Manager) and Peter Yates (Assistant Director – Corporate Accountancy).

Apologies for Absence:-

Apologies for absence were received from County Councillor Karl Arthur.

Copies of all documents considered are in the Minute Book

226. Minutes

Resolved –

That the Minutes of the meeting held on 28 June 2012, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

227. Public Questions or Statements

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

228. 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 on progress on issues which the Committee had raised at previous meetings and providing updates on other matters that had arisen since the last meeting, relating to the work of the Committee. The report also provided updates concerning Treasury Management and the rationalisation of systems and data.

It was noted that further progress had been made on the rationalisation of systems and data, with over 1,000 applications having been removed through this process.

Resolved –

That the report be noted.

229. Resignation of Henry Cronin from the Committee

Considered –

The report of the Assistant Chief Executive (Legal and Democratic Services) advising the Committee of the resignation of Henry Cronin from the Committee and recommending that no action be taken, prior to the County Council elections in May 2013, to fill the resultant casual vacancy.

Resolved –

- (i) That the Committee formally records its thanks for the work undertaken by Henry Cronin during his service to the Committee as External Member;
- (ii) That Henry Cronin's resignation be noted;
- (iii) That no action be taken, prior to the County Council's elections in May 2013, to fill the casual vacancy resulting from this resignation.

230. 2011/12 Audit by the External Auditor

- (a) North Yorkshire Pension Fund

Considered –

The report of the External Auditor (De Loitte) in respect of their audit of the North Yorkshire Pension Fund for the year ended 31 March 2012.

The report outlined the principal matters that had arisen from the audit for the year ended 31 March 2012. The External Auditor, represented by Chris Powell, introduced the report and highlighted that there were no significant findings/areas of concern arising from the audit on the Pension Fund. The Auditor had made two control recommendations in relation to journal authorisation and cash pooling with North Yorkshire County Council, but stated that he was satisfied with the responses provided by Management in relation to those. Mr Powell advised that, overall, the control environment remained sound and the External Auditor was satisfied with responses which Management had provided.

Members discussed the report and highlighted the following points and issues:-

- The Corporate Director – Finance and Central Services provided clarification in relation to the cash pooling with North Yorkshire County Council and the Pension Fund and highlighted the factors already in place to ensure that the situation complied with the spirit of the regulations. The External Auditor emphasised that this matter was a technical difference and was satisfied with the arrangements that were in place.
- A Member noted that the complex financial instruments acted in accordance with the Pension Fund's own Risk Management Policies, but wondered why it did not comply with the CIPFA Code of Practice. In response it was stated that as the CIPFA Code of Practice had not been adopted in relation to that and, therefore, it was appropriate for the Risk Management Policies to be complied with.
- The difference between super users and users of journals was outlined.
- The Corporate Director – Finance and Central Services emphasised that journals were used in the way outlined because of the size of the team. It was noted that with only four users of those journals it was more practical to undertake business in that way. It was noted that appropriate practices were in place to mitigate against risk through having such a small team, together with appropriate checks that would identify the possible mis-use of journals.

Resolved –

That the report be noted.

(b) North Yorkshire County Council

Considered –

The report of the External Auditor which detailed the audit of North Yorkshire County Council for the year ended 31 March 2012 and highlighted the most significant matters which the External Auditor wished to bring to the Committee's attention.

Chris Powell (De Loitte LLP) introduced the report and stated that there were no significant issues which the External Auditor wished to bring to the Committee's attention.

He highlighted the key findings on the following Value for Money Risks:-

- Delivery of financial targets and the management and reduction in financial resources.
- Delivery of the One Council transformation programme.
- Reduction in capacity resulting from reduction in the financial settlement. He also highlighted the key findings on audit risk and other matters as follows:-

- Changes to accounting framework.
- Adequacy of bad and doubtful debt provisions.
- Valuation of investments in group companies.
- Valuation of fixed assets.
- Presumed risk of revenue recognition fraud.
- Presumed risk of management override of control.

One mis-statement had been adjusted relating to the revaluation of the County Council's schools to exclude finance costs and reduce the level of planning fees so that the valuation was performed on an "instant bill" basis as required by the Code of Practice of Local Authority accounting in United Kingdom 2011/12. Officers had concluded that the total impact of uncorrected mis-statements, both individually and in aggregate, were not material to the context of the financial statement taken as a whole.

Members discussed the document with the External Auditor and a number of issues and points were raised as follows:-

- Details of the Audit adjustments and uncorrected mis-statements were set out in the report.
- Improvements to the IT environment of the Authority, following previous recommendations, were outlined. Weaknesses had been addressed through the continuing programme of improvement and the process was on-going, with Management clearly dealing with those issues.
- A Member questioned the rate of increase in salaries set out in the Pension Scheme assumptions. In response it was noted that this matter was not just affected by pay awards, with other factors taken into account, however, the figure in there was based on projected valuations and would only be confirmed at the time of the next valuation.

The External Auditor stated that the control environment within the County Council remained strong overall. He anticipated issuing an unmodified audit opinion on the truth and fairness of the financial statements and an unqualified value for money conclusion, following satisfactory completion of the outstanding matters detailed in the report.

Resolved –

That the report be noted.

231. North Yorkshire Pension Fund Annual Report 2011/12

Considered –

The report of the Corporate Director – Finance and Central Services/Treasurer to the Pension Fund. The report appended the North Yorkshire Pension Fund Annual

Report for the financial year 2011/12. The Pension Fund was required, by the Local Government Pension Scheme (Administration) Regulations 2008, to produce such a report, to include its accounts and various governance documents, and other information.

The Corporate Director – Finance and Central Services/Treasurer to the Pension Fund, in introducing the report, highlighted that the Pension Fund Committee had approved its Annual Report for 2011/12 on 27 September 2012 and that all necessary paperwork in that regard had now been signed.

Resolved –

That the North Yorkshire Yorkshire Pension Fund Annual Report for 2011/12, as set out in the Appendix to the report, be noted.

232. Statement of Final Accounts including Letter of Representation 2011/12

Considered –

The report of the Corporate Director – Finance and Central Services seeking the Committee's approval for a Letter of Representation for submission to the External Auditor and a Statement of Final Accounts for 2011/12 following completion of the external audit of those Accounts.

The report highlighted the changes that had been made to the Statement of Final Accounts further to the Committee's consideration on 28 June 2012. The changes were set out in an Appendix to the report and arose from:-

- Refinements agreed with the External Auditor during their audit of the accounts.
- Internally initiated refinements.
- The inclusion of two sections in the final version of the Statement of Final Accounts that were not included in the draft document on 28 June 2012 – the Annual Governance Statement and the External Auditors Certificate.

The Corporate Director – Finance and Central Services presented a circulated document which provided amendments to the Statement of Final Accounts for 2011/12. He noted that these had not been reflected in the booklet distributed to Members and were as follows:-

- (i) Insertion of an additional material contingent liability regarding Children's Social Care.

During 2011/12 legal firms acting on behalf of individual foster carers across the country had been contacting local authorities in relation to a potential issue in respect of payments made to relatives and family friends for Children's Social Care. The issue was at a preliminary stage and it was not possible to determine the outcome or magnitude at this stage.

This matter had been added to page 10 of the Final Statement of Final Accounts and a Disclosure Note 37.

- (ii) Disclosure Note 38 – Post Balance Sheet Events. An additional paragraph had been added to acknowledge the potential financial impact to the County Council of recent severe flooding across many areas of the Authority. Many

areas of North Yorkshire had been subject to severe flooding in late September 2012 which had caused impairment to the valuation of the County Council's property and infrastructure assets. As at 27 September 2012 it was not possible to quantify the estimated cost of damage caused to those assets. The financial statements and relevant disclosure notes had, therefore, not been adjusted as the event was considered to be a non-adjusting event.

Issues relating to where Members of the Council had direct control over the County Council's financial and operating policies were discussed. A number of examples of those were provided and it was noted that an explanation had been provided to the External Auditor. It was noted that adequate controls were in place in relation to this.

Members of the Committee discussed the report and the following issues were highlighted:-

- It was asked whether the results of the statements provided in relation to Yorewaste, NYnet and Veritau should state net results, rather than cost of services. Clarification was provided as to how the details of those companies were provided and that the cost of services only applied to North Yorkshire County Council.
- Members acknowledged the amendments to the statement of Final Accounts, circulated at the meeting, as detailed above.

Resolved –

- (i) That the Letter of Representation, as set out in the report, be approved.
- (ii) That the Chairman be authorised to sign the letter of authorisation on behalf of the Audit Committee;
- (iii) That the changes to the Final Statement of Final Accounts, set out in paragraph 5 and an Appendix to the report, be noted;
- (iv) That the Final Statement of Final Accounts for 2011/12 be approved;
- (v) That the amendments to the Statement of Final Accounts, as circulated at the meeting, be acknowledged and approved; and
- (vi) That the Chairman be authorised to sign the balance sheet attached to the report.

233. External Audit Fee Letter 2012/13

Considered –

The External Audit Fee Letter 2012/13, which confirmed the Audit work that was proposed to be undertaken for the 2012/13 financial year at North Yorkshire County Council, the fee that had been set by the Audit Commission to reflect the work programme auditors were required to deliver and the External Auditors assessment of audit risk. Details of the fee for the audit for 2012/13 (£125,987) were set out in the report.

Resolved –

That the External Audit Fee Letter 2012/13 be received and noted.

(The Corporate Director – Finance and Central Services paid tribute to Peter Yates and his staff for the work they had undertaken in respect of the statement of final accounts, which had resulted in a pleasing judgement from the External Auditor. Members of the Committee echoed the commendations provided by the Corporate Director.)

234. Annual Report of the Audit Committee

Considered –

The report of the Chairman of the Audit Committee allowing Members to consider the draft Annual Report of the Audit Committee for the year ended 30 September 2012, prior to its submission to County Council.

Copies of the draft Annual Report and the Committees Terms of Reference were appended to the report.

Members noted that issues had been raised in recent meetings relating to the changes being made to the position of Corporate Director – Finance and Central Services and it was noted that the Committee had stated that they would continue to monitor the effect that would have on the governance of the County Council. It was suggested that an additional item (No 29) be added into the Annual Report to reflect the position of the Committee.

It was noted that the number of meetings per year would remain at six, as was the position now, as it was felt that this was an appropriate number for the workload required of the Committee.

Members referred to training for Audit Committee Members and it was suggested that appropriate courses would continue to be monitored and where appropriate Members attendance would be recommended. The training sessions undertaken with Veritau would continue and Members welcomed these as being beneficial.

Resolved –

- (i) That the report be noted; and
- (ii) That, subject to the additional 'item 29', as detailed above, the draft Annual Report of the Audit Committee be approved and submitted to the next meeting of the County Council.

235. Progress on 2012/13 Internal Audit Plan

Considered –

The report of the Head of Internal Audit informing Members of the progress made to date in delivering the 2012/13 Internal Audit Plan and any developments likely to impact on the plan throughout the remainder of the financial year. It was noted that the current progress of the plan was as expected at this stage of the year. Details of the progress against 2012/13 performance target and audit reports issued to date were provided.

It was noted that since the start of the current financial year eight cases of suspected fraud had been referred to the Internal Auditor for investigation together with a

number of cases of possible malpractice. Some disciplinary action had resulted from those investigations.

There had been an unexpected drop in the number of Freedom of Information requests during the year after a number of years of these having steadily risen. It was considered that a move to treat a number of these requests as “business as usual” may be responsible for the decrease.

Members discussed the report and the following issues and points were raised:-

- Details of the monitoring of County Council owned mobile phones were discussed. It was noted that investigations were carried out both into land line usage and mobile usage within the County Council and details of the follow up action that was implemented was outlined.
- Details of some of the specialist action that was being taken in relation to audit checks was provided.
- It was stated that monitoring would continue to determine whether Freedom of Information requests were indeed decreasing, or whether their reduction during the year had just been a blip.

Resolved –

That the progress made by Veritua Limited in delivering the 2012/13 Internal Audit Plan be noted.

236. Veritau Limited – Progress Report

The Head of Internal Audit provided an oral update on the progress of Veritau Limited.

He outlined the continuing success of the development of Veritau and noted that Veritau North Yorkshire had been established this year to assist with the roll out of services to other Authorities in North Yorkshire.

Details of those currently benefitting from the work of Veritau in North Yorkshire were outlined.

Resolved –

That the update report be noted.

237. Service Continuing Planning

Considered –

The report of the Corporate Director – Finance and Central Services on the progress with the implementation of the Service Continuity Strategy.

The report outlined how Managers now took responsibility for completing business impact analysis and an Incident Management Plan for their individual units. A copy was then sent to the Emergency Planning Unit who carried out an ongoing analysis to identify the individual and corporate resources required to support a high impact event. Each Corporate Director was also required to assert, in their annual statement of assurance that a full set of service continuity plans was in existence and up to date. Each Directorate had at least one Service Continuity Officer, trained by

the Emergency Planning Unit, to act as a single point of contact for their particular Directorate.

It was noted that generic areas such as ICT and property were a core part of the strategy, which was highlighted in a recent exercise undertaken by the Management Board. An audit of the service continuity process was due to take place later in the year.

It was emphasised that service continuity would only succeed if the current momentum was maintained and it was noted that Directorates clearly understood the deadlines in relation to the development of their plans. The next update report would be submitted to the Audit Committee in March 2013.

Resolved –

That the progress on service continuity be noted.

238. Annual Report on Partnership Governance 2011/12

Considered –

The report of the Chief Executive providing details enabling the Audit Committee to review the Annual Report on the governance of partnerships involving the County Council for the financial year 2011/12.

The report provided details on the governance of partnerships involving the County Council where a mechanism was provided to ensure that the partnerships and the resulting commitments were reviewed regularly and that the County Council was only involved with those partnerships which added value to the work of the Council. A brief summary of the key issues arising during the previous year was provided.

It was noted that the Executive had considered the report on 19 June 2012 and that the Corporate and Partnerships Overview and Scrutiny Committee had considered this on 10 September 2012. Details of the resolutions that resulted were provided.

It was explained that the role of the Audit Committee was to determine whether partnerships were adequately governed and details of how assurance was sought and determined on partnership governance were outlined in the report. It was noted that no issues with regard to partnership governance had been identified within the Annual Report.

Details of the Annual Governance Statement approved by the Audit Committee on 28 June 2012 were included in the report, providing details of the various commitments in relation to this.

It was noted that only one significant governance issue in relation to a partnership had been identified in the Annual Governance Statement which related to the need to provide support to the York, North Yorkshire and East Riding Local Enterprise Partnership and the role the County Council had as an accountable body.

Members discussed the report in detail and the following issues and points were raised:-

- A stringent risk assessment process was in place in terms of partnership governance and a number of what were previously considered to be partnerships were no longer considered as such.

- Details were provided as to what was considered to be a partnership and how that was determined. It was clarified that Elected Members did not necessarily have to be involved in the process for a body to be considered a partnership. Details of the checks that were put in place in respect of governance arrangements for partnerships that did not involve Elected Members were outlined and the processes and checks that were in place were provided. The specific example of the Supporting Vulnerable People's Group was explored, with details of the process for this outlined.
- Issues relating to 'Welcome to Yorkshire' were raised and it was emphasised that the Committee were required to consider appropriate governance arrangements and not any other issues.

Resolved –

That the Annual Report on the Governance of Partnership involving the County Council for the financial year 2011/12 be noted.

239. Internal Audit Work and Related Internal Control Matters for the Health and Adult Services Directorate

Considered –

The joint report of the Head of Internal Audit, Veritau Limited and the Corporate Director – Health and Adult Services informing Members of the internal audit work performed, during the year ended 31 August 2012, in respect of the Health and Adult Services Directorate, giving an opinion on the systems of the internal control in respect of this area, considering the statement of assurance for 2011/12 signed by the Corporate Director Health and Adult Services and considering the risk register for the Directorate.

The Head of Internal Audit, in introducing the report, highlighted that his opinion on the controls operated in the Health and Adults Services Directorate was that they provided moderate assurance. He stated that on the basis of the follow up work undertaken during the year, he was satisfied with the progress that had been made by management to implement previously agreed actions necessary to address identified control weaknesses.

Details of the internal audit reports, the relevant extract from the Statement of Assurance and a copy of the current Directorate Risk Register were all appended to the report.

The Assistant Director – Resources, Health and Adult Services Directorate and the Assistant Director – Performance and Change Management, Health and Adult Services Directorate, were in attendance at the meeting to assist Members with their discussion of the report. The Corporate Director – Finance and Central Services and the Head of Internal Audit also assisted with those discussions.

Members considered the report and the following issues and points were raised:-

- Clarification was provided as to how a substantial opinion could be provided in particular circumstances when a number of Priority One Risks had been identified. It was noted that in a number of cases such risks could be easily addressed and related to individual circumstances, which did not have an overall bearing on the audit opinion.

- The areas of concern identified within the report were of no surprise given the complex nature of those issues and it was noted that significant improvements had been made to issues previously identified as weaknesses. The particular difficulties relating to the management of direct payments were outlined and it was stated that every effort was being made to improve and support those arrangements, details of which were outlined.
- The issues relating to the judicial review proceedings issued against the County Council in terms of residential and nursing home fees were provided, together with the relevant facts as to how these had been generated initially.

Resolved –

That, following consideration of the information presented, and the explanations provided by relevant officers, the Committee were satisfied that the internal control environment operating in Health and Adult Services was both adequate and effective.

240. Internal Audit Work on Computer Audit

Considered –

The joint report of the Head of Internal Audit and the Interim Head of ICT Services informing Members of the internal audit work performed during the year ended 31 August 2012 on computer audit and providing an opinion on the systems of internal control in respect of this area.

The report stated that PriceWaterhouseCoopers (external contractor for the provision of internal computer audit services) followed up all agreed actions on an annual basis. Based on the follow up audit work undertaken by PriceWaterhouseCoopers to date, the Head of Internal Audit was satisfied that Management were taking steps to implement the agreed actions necessary to address identified control weaknesses.

The overall opinion of the Head of Internal Audit on the County Council's computer related controls was that they provided substantial assurance.

The Interim Head of ICT and the Head of Internal Audit assisted Members with their consideration of the report. Summaries of each of the final audit reports issued were detailed.

During their consideration of the report Members raised the following points and issues:-

- Members complimented the success of the on going switch to Microsoft and the benefits that would bring to the County Council's computer related controls. Details of the reduced number of software applications and the reduction of time in implementing the change over were highlighted.
- A Member referred to the increased use of technology to cut down on the amount of paperwork, etc received by Members and it was stated that further consideration would be given to this once the switch to Microsoft had been completed.

- Details of the collaborative working with the External Auditor in respect of the audit of ICT services were provided.

Resolved –

That following consideration of the information provided in the report and by the officers present at the meeting, the Committee was satisfied that the internal control environment operating in respect of IT systems was both adequate and effective.

241. Risk Management – Progress Report

Considered –

The report of the Corporate Director – Finance and Central Services providing details of the updated Corporate Risk Register, requesting Members to consider an updated Corporate Risk Management Strategy and requesting Members to consider progress made on Risk Management matters.

The Corporate Director provided highlights of the report including:-

- The review of the Corporate Risk Register.
- The Risk Management Strategy.
- The Corporate Risk Management Group.
- The Annual Risk Management Conference.
- Better Governance Forum.
- Insurance self fund review.
- Annual insurance renewals.

He noted that the Risk Management Policy was currently being updated and a further report on this would be provided to a subsequent meeting of the Committee.

Members considered the report in detail and the following issues and points were raised:-

- Details of the funding of internal premiums charged to Directorates and the shortfall to be funded from the Corporate Miscellaneous provision in the Revenue Budget for 2012/13. It was clarified that, at this stage, it could not be determined whether this was a regular pattern and further consideration would be given to this issue in due course.
- Members welcomed details of the Corporate Risk Register and were glad to see that some of the identified risks had diminished since the previous review.
- Issues relating to the draft Corporate Risk Management Strategy were discussed, together with the approach to a number of specific risks.

Resolved –

- (a) That the updated Corporate Risk Register, as set out at Appendix A to the report, be noted;
- (b) That the Corporate Risk Management Strategy provided at Appendix B be noted;

- (c) That the Self Assessment report on the BGF's risk outlook for 2012 be considered at the next meeting of the Audit Committee; and
- (d) That the update on Risk Management matters be noted.

242. Programme of Work

Considered –

The report of the Corporate Director – Finance and Central Services inviting the Committee to review its programme of work for 2012/13.

Resolved –

That the Programme of Work for the remainder of 2012/13, as set out in Appendix A to the report, be noted.

243. John Moore

The Chairman highlighted the fact that this would be the final meeting of the Audit Committee that John Moore, Corporate Director – Finance and Central Services, would be attending, with him moving to a new role within the County Council. Members paid tribute to the expertise that John Moore had brought to the Audit Committee and to the hard work he had undertaken over the years on behalf of the Committee.

Resolved –

That the commendations of the Committee for John Moore's work and expertise on behalf of the Audit Committee, over the years, be recorded, together with their best wishes for his future role.

The meeting concluded at 3.45 pm.

SL/ALJ