

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 26 September 2013 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillor Andrew Backhouse (in the Chair); County Councillors Eric Broadbent, Jim Clark, John Fort BEM (as Substitute for Margaret Atkinson), Bill Hoult, Patrick Mulligan and Stuart Parsons.

External Members of the Committee:-

Mr James Daglish and Mr David Portlock.

In Attendance:-

County Councillor Carl Les (Executive Member for Central and Financial Services including assets, IT and procurement).

Deloitte LLP Officers: Chris Powell and Alistair Lince.

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

County Council Officers: Gary Fielding (Corporate Director – Strategic Resources), Ruth Gladstone (Principal Democratic Services Officer), Neil Irving (Assistant Director (Policy and Partnerships)), Nick Morgan (Health and Adult Services Directorate Finance Manager, Resources), Helen Taylor (Corporate Director - Health and Adult Services) and Peter Yates (Assistant Director - Corporate Accountancy Service Unit).

Apology for Absence:-

An apology for absence was received from County Councillor David Chance.

Copies of all documents considered are in the Minute Book

19. Minutes

Resolved –

That the Minutes of the meeting held on 18 July 2013, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

20. Public Questions or Statements

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

21. 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) advising of progress on issues which the Committee had raised at previous meetings, together with updates concerning Treasury Management and the rationalisation of systems and data.

In response to Members' questions, confirmation was provided that the further information, sought at the Committee's meeting on 18 July 2013 concerning exit packages and termination benefits, was being prepared and would be provided to Members. The Chairman asked for this to be provided by email if it became available before the Committee's next meeting.

Confirmation was also provided that Veritau had now appointed an external contractor to support the provision of internal computer audit services and that they would be contributing to the next internal audit annual report on computer audit. *The appointment of this contractor was discussed again later in this meeting (see Minute 30).*

Resolved -

- (a) That the report be noted.
- (b) That the paper currently being prepared concerning exit packages and termination benefits be emailed to Members if it becomes available before the Committee's next meeting.

22. 2012/13 Audit by the External Auditor

Note: During consideration of this item of business, County Councillor Patrick Mulligan declared that he was a Member of North Yorkshire Pension Fund Committee and County Councillor Jim Clark declared that he was a Trustee of Harrogate Grammar School.

(a) North Yorkshire Pension Fund

Considered -

The report of the External Auditor (Deloitte) advising of the principle matters that had arisen from their audit of the North Yorkshire Pension Fund for the year ended 31 March 2013.

Chris Powell (Deloitte) introduced the report, highlighting that this had been a very satisfactory audit of the Pension Fund. There were no issues to bring to the Committee's attention. There was one uncorrected misstatement greater than 2% of materiality, although management had concluded that the total impact of that misstatement was not material in the context of the financial statements taken as a whole. Chris Powell added that all procedures had now been completed and that, subject to receipt of the signed Letter of Representation, Deloitte would be issuing an unmodified audit report.

Chris Powell also reported that Deloitte had found no significant control weaknesses. However, they had noted one area of potential improvement to the control environment which related to cancelled cheques appearing on the

reconciliation when they should have been removed. Management had accepted Deloitte's recommendation and had agreed that cancelled cheques would be removed from the bank reconciliations promptly and excluded from month end reconciliations.

Officers provided confirmation that they were in negotiations with Barclays Bank with a view to clearly ringfencing the assets of the Pension Fund from other monies of the County Council. The issue was expected to be resolved during the following few months.

Resolved -

That the report be noted.

(b) North Yorkshire County Council

Considered -

The report of the External Auditor (Deloitte) which set out the principal matters that had arisen from the audit of North Yorkshire County Council for the year ended 31 March 2013.

Chris Powell (Deloitte) introduced the report, highlighting that all the outstanding matters identified in the Executive Summary had now been resolved and it would therefore be possible, after this meeting, for Deloitte to issue an unmodified audit opinion on the truth and fairness of the financial statements and an unqualified value for money conclusion. Deloitte had identified a misstatement in respect of the Authority results. However, there was nil impact on either the income and expenditure account or the balance sheet. The misstatements, if adjusted, would decrease the deficit on the provision of services by £275k and increase net assets by £275k. County Council officers had concluded that the total impact of uncorrected misstatements, both individually and in aggregate, was not material in the context of the financial statements taken as a whole and Deloitte agreed with that opinion. There were two items of disclosure, relating to the Related Parties note and the Financial Instruments note, which Deloitte regarded as deficiencies which had not been corrected because County Council officers considered that the amount of work to generate the disclosures was not justified given the value to the users of the accounts. Chris Powell (Deloitte) confirmed that this was not a significant issue and that it was raised for the purpose of completeness.

Members questioned Deloitte's representatives, the Corporate Director - Strategic Resources, and the Assistant Director - Corporate Accountancy in respect of issues arising in the report. The following clarifications were provided:-

- Management had undertaken further work to address the issue, identified in 2011/12, relating to Whole Government Accounts and on the basis of the outcome of these new procedures Deloitte were satisfied with the way in which the Whole Government Accounts return for 2012/13 had been prepared.
- Deloitte were satisfied with the consistent approach applied in respect of the accounting treatment of NYnet and Veritau.

- Deloitte had looked at the Actuarial assumptions within the Pension Fund Scheme and, although one very small change had been made in assumptions, there was nothing which Deloitte wished to bring to the Committee's attention.
- Deloitte were satisfied with the management responses to Deloitte's recommendations concerning internal control systems.
- There was more work to be done in respect of the earlier observations concerning IT passwords.
- Credit notes above the value of £5k could now be authorised by the officer who had raised the invoice in the first place with the consequence that the Credit Control Manager was no longer chasing debts for which a credit note was already in the system.
- The SYSadmin IT password, which was known by only two people, would be changed whenever one of those two people left the County Council's employment.
- An explanation was provided in respect of the accounting treatment of Academies' and Voluntary Controlled Schools' land and buildings.
- Deloitte were satisfied that, in all significant respects, the County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- Deloitte were very satisfied with the process of this audit, they had had no disagreements with management, and had had no concerns regarding timeliness of papers.

In respect of the disclosure deficiency in relation to the Related Parties note, the Assistant Director - Corporate Accountancy explained that the additional work for Schools, District Councils and the County Council would not be justified. Mr James Daghish suggested that the County Council might instead seek the necessary information from the Yorkshire Purchasing Organisation. The Assistant Director - Corporate Accountancy responded that that suggestion could be taken into account in preparation of the accounts for 2013/14. A County Councillor commented on the need to avoid using lots of officer time to obtain information which no one then read.

In response to a question from Members, Deloitte advised that no member of the public had raised questions with Deloitte about the County Council's accounts.

Resolved -

- (a) That the report be noted.
- (b) That arrangements be made for the SYSadmin IT password, which is known by only two people, to be changed whenever one of those two people leaves the County Council's employment.
- (c) That consideration be given, in order to avoid a future disclosure deficiency in relation to the Related Parties note, to seeking additional information from the Yorkshire Purchasing Organisation.

23. North Yorkshire Pension Fund Annual Report 2012/13

Considered -

The report of the Corporate Director - Strategic Resources/Treasurer to the Pension Fund. The report appended the North Yorkshire Pension Fund Annual Report for the financial year 2012/13. 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.

During debate, confirmation was provided that the North Yorkshire Pension Fund Committee had considered the report but had not drawn any issues to the Audit Committee's attention. Confirmation was also provided that the Pension Fund had a very strict policy regarding the admittance of new employer organisations.

Mr David Portlock congratulated the North Yorkshire Pension Fund for its performance. The Corporate Director - Strategic Resources undertook to pass that comment on.

Resolved -

That the report be noted.

24. Statement of Final Accounts including Letter of Representation 2012/13

Considered –

The report of the Corporate Director - Strategic Resources seeking the Committee's approval the following:- a Letter of Representation for submission to the External Auditor; Statement of Final Accounts for 2012/13 following completion of the external audit of those accounts; and the Annual Governance Statement for 2012/13.

The Assistant Director - Corporate Accountancy introduced the report, highlighting that the process for the final accounts had now been completed and a number of minor refinements had been made to the Statement of Accounts since the booklet had been printed for today's meeting, such amendments having resulted from discussions with the External Auditors. The Chairman asked that the Committee be provided with an example of the sort of refinement which had been made to the accounts. The Assistant Director - Corporate Accountancy responded that a set of brackets had been inserted around a figure, to show that it was a minus, within a note to the balance sheet. Other Members indicated that they accepted the approach of considering the Statement of Accounts including the late minor refinements agreed between officers and the External Auditor.

The Assistant Director - Corporate Accountancy confirmed that a late amendment had also been drafted to the Appendix to the Letter of Representation. The amended page had been circulated to all Committee Members with a covering letter of 19 September 2013.

Members expressed concern that officers were asking the Committee to approve documents to which the officers wished to make further amendments subsequent to circulation of the Committee's agenda papers. The Corporate Director - Strategic Resources explained that the nature of the external audit meant that it was inevitable that changes would be made to documents up until the start time of the Committee's meeting. This was due process. It was not due to mistakes. The Chairman agreed that this was not a new development and highlighted that the amendment to the Appendix to the Letter of Representation related to the disclosure deficiency about the Related Parties note which the Committee had discussed under the previous item of business. Chris Powell (Deloitte) confirmed that timescales for approving the Statement of Final Accounts meant that changes, such as those now described, would occur. However, Deloitte would endeavour to conclude their work as quickly as possible. Members commented that the timeliness of the circulation of reports for the Committee's consideration was much improved compared to previous years.

In respect of the Statement of Final Accounts, the Assistant Director - Corporate Accountancy referred to the recent meetings when the Committee had considered the draft Statement of Accounts and the questions which Members had submitted between meetings. Mr David Portlock advised that he was satisfied with the explanations which had been provided by the Assistant Director - Corporate Accountancy.

Members questioned the officers and Deloitte about issues within the Statement of Final Accounts. In particular, Deloitte confirmed that they were satisfied that there was no new liability for 2012/13 in respect of Ordinary Residence. The Corporate Director - Strategic Resources confirmed that there would be an ongoing assessment throughout the year, as a result of which greater clarity would be provided during 2013/14.

In response to a question relating to Related Party Transactions, the officers confirmed that all Members and senior officers had provided signed returns, with the exception of two former County Councillors who had not been re-elected to the County Council in May 2013. The absence of those two returns had been discussed with Deloitte.

Mr David Portlock questioned whether the North Yorkshire Police and Crime Panel was a Related Party which should be mentioned on page 66 of the booklet. The Corporate Director - Strategic Resources responded that the Panel was below the materiality threshold as it received a grant of only £60k per annum and that the Panel's membership included only one County Councillor. However, he undertook to give the question further consideration in respect of the accounts for 2013/14. Chris Powell (Deloitte) confirmed that the question should not prevent the signing off of the accounts at today's meeting but agreed that it should be considered for 2013/14.

In respect of the Annual Governance Statement, the Corporate Director - Strategic Resources apologised that the version within the Statement of Accounts booklet was not the most up to date version but reassured the Committee that the version shared with Members in August had been subsequently updated and was the version they were being asked to approve.

Resolved -

- (a) That the Letter of Representation, as set out at Appendix A to the report and the replacement Appendix to the Letter posted to Members with a covering letter dated 19 September 2013, be approved and that the Chairman be authorised to sign that resultant document on behalf of the Committee.
- (b) That, in relation to the Statement of Final Accounts 2012/13:-
 - (i) The changes to the final SOFA, as set out in paragraph 4 of, and Appendix B to, the report, together with the late refinements agreed between the officers and Deloitte and mentioned orally at this meeting, be noted and the resultant document be approved.
 - (ii) The Chairman be authorised to sign the Balance Sheet as set out at Appendix C to the report.
 - (iii) The question of whether the Police and Crime Panel should be regarded as a Related Party be considered during preparation of the Statement of Accounts for 2013/14.

- (c) That the Annual Governance Statement 2012/13, as circulated to Members during August 2013, be approved and that the Chairman be authorised to sign the document on the Committee's behalf.

25. External Audit Fee Letters 2013/14

Considered –

- (a) Deloitte's External Audit Fee Letter 2013/14 which confirmed the audit work that was proposed to be undertaken for the 2013/14 financial year at North Yorkshire County Council, the fee that had been set by the Audit Commission to reflect the work programme which auditors were required to deliver, and the External Auditor's assessment of audit risk. Details of the fee for the audit for 2013/14 (£125,987), ie the same amount as for the previous year, were set out in the report.
- (b) Deloitte's External Audit Fee Letter 2013/14 which confirmed the audit work that was proposed to be undertaken for the 2013/14 financial year in respect of North Yorkshire Pension Fund, the fee that had been set by the Audit Commission to reflect the work programme which auditors were required to deliver, and the External Auditor's assessment of audit risk. Details of the fee for the audit for 2013/14 (£24,943), ie the same amount as for the previous year, were set out in the report.

In response to a question from Mr David Portlock, Chris Powell (Deloitte) confirmed that Deloitte were continuing to receive a separate additional fee from the Audit Commission in respect of its work in connection with North Yorkshire County Council and North Yorkshire Pension Fund.

Resolved -

That the External Audit Fee Letters 2013/14 be noted.

26. Annual Report of the Audit Committee

Considered –

The report of the Chairman of the Audit Committee inviting Members to consider, prior to its submission to the County Council, the draft Annual Report of the Audit Committee for the year ended 30 September 2013. The draft Annual Report was appended to the Chairman's report.

County Councillor Andrew Backhouse, in introducing the report, highlighted that the Committee had been chaired, for part of the year to which the report related, by County Councillor Patrick Mulligan and that they were both satisfied with the content of the report.

In response to a question from County Councillor Patrick Mulligan, the Corporate Director - Strategic Resources confirmed that paragraph 22 of the draft report, which related to a revised methodology for service continuity, was consistent with the work in which Veritau was currently engaged. County Councillor Patrick Mulligan responded that he was happy with that explanation.

In response to a question from Mr David Portlock, the Corporate Director - Strategic Resources confirmed that a review of the Contract Procedure Rules would be submitted to a future meeting of the Committee.

Resolved -

- (a) That the report be noted.
- (b) That the draft Annual Report of the Audit Committee, as appended to the report of the Committee's Chairman, be approved for submission to the County Council.

27. Progress on 2013/14 Internal Audit Plan

Considered –

The report of the Head of Internal Audit advising of the progress made to date in delivering the 2013/14 Internal Audit Plan and developments likely to impact on the Plan throughout the remainder of the financial year.

Roman Pronyszyn (Client Relationship Manager, Veritau Limited) introduced the report, highlighting that only three audit reports had been finished and that this situation was not where Veritau would wish to be. A further 24 reports had been issued and were in draft. He also referred to other work in which Veritau had been involved, including a significant increase in the numbers of cases of suspected fraud or malpractice and a 30% increase in the number of requests made under the Freedom of Information Act.

During discussion, the Corporate Director - Strategic Resources advised that, if management were being tardy in responding to draft audit reports from Veritau, Veritau needed to pursue that so that it did not reflect detrimentally on the view of Veritau's performance. Members indicated that they would be monitoring the situation.

Resolved -

That the report be noted.

28. Annual Report on Partnership Governance 2012/13

Considered –

The joint report of the Chief Executive and Corporate Director - Strategic Resources providing details to enable the Audit Committee to review the annual report on the governance of partnerships involving the County Council for the financial year 2012/13.

Neil Irving (Assistant Director (Policy and Partnerships)) introduced the report, highlighting that the number of partnerships had reduced during the previous three years. This review had already been considered by the County Council's Executive which had looked at whether the County Council had the correct types of partnership. Audit Committee's role was to review whether partnerships were adequately governed and details of how assurance was sought and determined. Veritau had undertaken an internal audit in early 2013 to provide assurance that there were sound governance arrangements in place for partnerships. The overall audit opinion was that the controls in place provided Substantial Assurance. All resulting actions scheduled to be completed by mid-August 2013 had been completed and it was anticipated that actions would be completed by March 2014 as envisaged in the Action Plan.

During debate, officers confirmed that questions were asked, on an ongoing basis, as well as part of the annual review, about whether each partnership was worthwhile. When necessary, new partnerships were created, eg in response to new initiatives from Government, eg LEPs. It was also noted that Legal Services were involved in reviewing partnership governance.

Resolved -

That the report be noted.

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

Considered –

- (a) The report of the Head of Internal Audit advising of the internal audit work performed during the year ended 31 August 2013 for the Health and Adult Services (HAS) Directorate and giving an opinion on the systems of internal control in respect of that area.
- (b) The report of the Corporate Director - Health and Adult Services providing an update of progress against the areas for improvement identified in the HAS Directorate's Statement of Assurance and details of the draft Risk Register for that Directorate.

Max Thomas (Head of Internal Audit), in introducing his report, highlighted that the HAS Directorate had taken appropriate action when issues had been raised. He also highlighted that he was satisfied, on the basis of the follow-up work undertaken during the year, with the progress that had been made by HAS management to implement previously agreed actions necessary to address identified control weaknesses and that his overall opinion on the controls operated within the HAS Directorate was that they provided moderate assurance.

Helen Taylor (Corporate Director - HAS) introduced her report, highlighting that her Directorate took seriously, and referred to the Directorate's Senior Management Team, issues identified by Internal Audit. Nick Morgan (HAS Directorate Finance Manager, Resources) highlighted the audit findings in respect of invoicing and explained that there had been a lack of ownership of the issues raised because invoicing had moved to an administrative function. However, the issue had now been addressed with specialist support within the administrative function and there was also a new Social Care Finance System.

Members questioned the officers in respect of the two reports, during which the following clarifications were provided:-

- The new Social Care Finance System would be going live in 2014 and the next stage would be to include Domiciliary Care.
- Max Thomas provided an explanation of how he had arrived at an overall opinion of Moderate Assurance when the opinions on the six audits undertaken during the year were three of Substantial, two of Moderate, and one of Limited.
- The view of the Corporate Director – HAS, concerning whether the County Council should be the accounting body for pooled budgets which funded health organisations, was that it depended on the agreements reached, on-going discussions over which were very sensitive. However, very clear written Risk Share Agreements should be absolutely fundamental to the County Council agreeing to taking on accountable body status.

- Officers acknowledged that some of the target dates which had been set had been overly audacious, bearing in mind that the County Council was in the middle of a restructuring to deliver Care change and that not all requirements of the new Care Bill were yet known.
- The process to recruit a new Corporate Director - HAS had already commenced as this was a critical time for negotiating with health organisations in respect of the Care Bill.
- Fraudulent/inappropriate use of personal budgets was rare but, where identified, it was dealt with.

In response to a question from Mr James Daghish, officers undertook to consider setting intermediate milestones for the Risk Reduction Actions on the next occasion when the HAS Directorate's Risk Register was reviewed.

Members wished Helen Taylor well for the future.

Resolved -

- (a) That, having considered the report of the Head of Internal Audit, it be noted that this Committee is satisfied that the internal control environment operating in the Health and Adult Services Directorate is both adequate and effective.
- (b) That the position on the Health and Adult Services Directorate's Statement of Assurance be noted.
- (c) That the draft Risk Register for the Health and Adult Services Directorate be noted.
- (d) That officers consider setting intermediate milestones for the Risk Reduction Actions on the next occasion when the Health and Adult Services Directorate's Risk Register is reviewed.

30. Internal Audit Work on Computer Audit

Considered –

The report of the Head of Internal Audit advising of the internal audit work performed during the year ended 31 August 2013 on computer related risks, providing an opinion on the systems of internal control in respect of that area, and informing Members of the new contract arrangements for IT audit work.

Max Thomas (Head of Internal Audit, Veritau Limited) introduced the report, highlighting that his opinion was based on the work of PriceWaterhouseCoopers (PwC) who, until 31 March 2013, were contracted to support the provision of internal computer audit services. His overall opinion on the County Council's computer related controls was that they provided Substantial Assurance. In addition, he was satisfied, based on the follow-up audit work undertaken by PwC, that management were taking steps to implement the agreed actions necessary to address identified control weaknesses. Max Thomas also highlighted that, following a tender exercise, Veritau had awarded a new contract to Audit North to support the provision of internal computer audit services. Audit North was an NHS audit consortium based in Durham. Representatives from Audit North were currently completing an IT audit risk assessment and preparing a strategic audit plan. Details of the risk assessment and strategic plan would be reported to the Audit Committee's meeting on 5 December 2013.

In response to a question, Max Thomas clarified that the issue relating to licensing related to small service related systems rather than corporate systems which were being used widely across the County Council.

Resolved -

- (a) That it be noted that the Committee is satisfied that the control environment operating in respect of IT systems is both adequate and effective.
- (b) That the new contract arrangements for IT audit work be noted.

31. Programme of Work

Considered –

The report of the Corporate Director - Strategic Resources inviting the Committee to review its programme of work for 2013/14.

Resolved –

- (a) That the Programme of Work for the remainder of 2013/14, as set out in Appendix A to the report, be noted.
- (b) That it be noted that the IT Audit Plan, together with a possible seminar on IT Strategy, might be added to the agenda for the Committee's 5 December 2013 meeting.
- (c) That it be noted that a seminar on the subject of Value For Money has been suggested for the future.
- (d) That it be noted that the Corporate Director - Strategic Resources is reviewing whether the Committee requires meetings on both 6 March 2014 and 17 April 2014.
- (e) That it be noted that a seminar relating to Governance and the draft Statement of Accounts has been suggested for immediately before the Committee's meeting during July 2014.
- (f) That Mr David Portlock and Mr James Daghish be informed of the dates for the Committee's meetings to be held after April 2014.
- (g) That, if Members have any further suggestions, they be requested to email the Chairman and the Corporate Director - Strategic Resources.

The meeting concluded at 4.20 pm.

RAG/JR