

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 25 September 2014 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillor Andrew Backhouse (in the Chair); County Councillors Margaret Atkinson, Eric Broadbent, David Chance, Helen Grant, Bill Houlton and Mike Jordan.

Independent Observer:-

Mr David Portlock.

In Attendance:-

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

Deloitte LLP Officers: Celia Craig and Alistair Lince.

Audit North Officers: Angela Mulroy and Stuart Fallowfield.

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

County Council Officers: Paul Cresswell (Assistant Director - Strategic Resources), Ruth Gladstone (Principal Democratic Services Officer), Gary Fielding (Corporate Director – Strategic Resources) and Peter Yates (Assistant Director - Corporate Accountancy).

Apology for Absence:-

An apology for absence was received from County Councillor Jim Clark.

Copies of all documents considered are in the Minute Book

82. Minutes

Resolved –

That the Minutes of the meeting held on 17 July 2014, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

83. Public Questions or Statements

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

84. 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 provided an update concerning Treasury Management.

The Corporate Director – Strategic Resources confirmed that the topic of contract management would be brought before Audit Committee Members in the near future, either formally or informally.

In relation to Treasury Management, the Assistant Director - Corporate Accountancy confirmed that debt repayment was always an option for the County Council, although there were significant penalty payments to the Public Works Loan Board of premature repayment.

Resolved -

That the report be noted.

85. Report to Members on the 2013/14 Audit by the External Auditor

(a) North Yorkshire Pension Fund

Considered -

The report of the External Auditor (Deloitte) which advised of the principal matters that had arisen from the audit of the North Yorkshire Pension Fund for the year ended 31 March 2014.

Alistair Lince (Deloitte), in introducing the report, highlighted that Deloitte had identified no material statements or significant deficiencies in internal controls at the North Yorkshire Pension Fund.

There were two minor uncorrected misstatements which were described on page 33 of the papers for this meeting. It was clarified that, whilst auditors were required to use the term “misstatement”, these were not necessarily errors. The two minor misstatements had arisen due to timing differences on investment valuations. Members advised that they were not asking Management to correct these two minor misstatements.

Alistair Lince advised that the only outstanding matter for Deloitte was receipt of the signed Letter of Representation following this meeting.

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 which had arisen from the audit of North Yorkshire County Council for

the year ended 31 March 2014. A revised version of Appendix 1 to the report was circulated at the meeting which advised of an uncorrected misstatement relating to a Pension asset overstatement. This misstatement had arisen due to timing differences. (A copy of the revised Appendix 1 is in the Minute Book.)

Celia Craig (Deloitte), in introducing the report, highlighted that all outstanding matters had 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 no significant deficiencies in internal control. Deloitte had completed work locally on the Whole of Government Accounts.

In respect of the withdrawal of Waste PFI credits, Celia Craig confirmed that the approach adopted by management was considered, by Deloitte, to be reasonable. She reported that the arrangements in relation to the County Council's Waste Project had not impacted on Deloitte's value for money conclusion. Deloitte intended to issue a close-down version of its report which would reflect that position.

Celia Craig advised that Deloitte was grateful to the Corporate Director – Strategic Resources and his team for their assistance and co-operation during the course of the audit. She also advised that the audit had gone smoothly, had been very constructive, and that Deloitte's report was very positive.

Resolved -

That the report be noted.

86. North Yorkshire Pension Fund Annual Report 2013/14

Considered -

The report of the Corporate Director - Strategic Resources and Treasurer to the Pension Fund. The report appended the North Yorkshire Pension Fund Annual Report for the financial year 2013/14.

Resolved -

That the report be noted.

87. Review of Statement of Final Accounts (incorporating Annual Governance Statement) – Report from the Audit Committee Members' Working Group

Considered -

The report from the Audit Committee Members' Working Group which:- advised of issues identified by the Working Group in reviewing the draft Statements of Final Accounts (SoFA) and the draft Annual Governance Statement (AGS); advised of actions taken as a result of issues being identified; and offered an opinion on the draft SoFA and draft AGS for 2013/14 in advance of the Audit Committee being asked to approve them. The Working Group had comprised the Chairman, Vice-Chairman, County Councillor David Chance and Mr David Portlock.

The Chairman advised that he had immense respect for Mr David Portlock and the thoroughness of his work, which was very much appreciated.

Resolved -

That the report be noted.

88. Statement of Final Accounts for 2013/14 including Letter of Representation

Considered -

The report of the Corporate Director - Strategic Resources which sought the Committee's approval of the following:- a Letter of Representation for submission to the External Auditor; a Statement of Final Accounts (SoFA) for 2013/14 following completion of the external audit of those accounts; and the Annual Governance Statement for 2013/14. The Assistant Director - Corporate Accountancy advised of a number of largely technical updates to the Final SoFA and circulated a synopsis of the technical changes.

During debate, a Member asked about the loan-facility which the County Council provided to NYnet Ltd, as mentioned on page 64 of the Statement of Accounts 2013/14 booklet. The Assistant Director - Corporate Accountancy advised that this was a maximum loan of up to £10M, the balance of which was £7,930k. It was not a fixed loan. Instead it was a cash flow loan which varied over time. Members expressed the view that this should be made clearer within the Final SoFA by including additional text within the last paragraph concerning NYnet Ltd in the Statement of Accounts booklet.

The Corporate Director - Strategic Resources asked that his thanks be recorded to Peter Yates, Tom Morrison and their teams, particularly given workloads during the past year. He also thanked the Chairman and Members of the Committee for the huge amount of work they had put into considering the SoFA and for their input which was very welcome and the External Auditor for the way in which they had engaged with the Council.

Resolved -

- (a) That the Letter of Representation, as set out in Appendix A to the report, be approved and the Chairman be authorised to sign the Letter on behalf of the Committee.
- (b) That the changes to the Final SoFA 2013/14, as set out in paragraph 4 of the report and Appendix B to the report, be noted, that the Final SoFA for 2013/14 be approved subject to the inclusion of additional text within the last paragraph concerning NYnet Ltd on page 64 of the Statement of Accounts 2013/14 booklet to clarify that the County Council provides a loan-facility of up to £10M, and that the Chairman be authorised to sign the Balance Sheet as set out at Appendix B to the report.
- (c) That the Annual Governance Statement 2013/14 be approved and the Chairman be authorised to sign the Annual Governance Statement on the Committee's behalf.

89. Annual Report of the Audit Committee

Considered –

The report of the Chairman of the Audit Committee which invited 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 2014. The draft Annual Report was appended to the Chairman's report.

The Chairman thanked Max Thomas (Head of Internal Audit) for preparing the report and for his work during the previous year.

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.

90. 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 which advised of the internal audit work performed during the year ended 31 August 2014 for the Health and Adult Services Directorate and gave an opinion on the systems of internal control in respect of that area.
- (b) The report of the Corporate Director – Health and Adult Services which provided details of the draft Risk Register for the Health and Adult Services Directorate.

It was reported that Richard Webb (Corporate Director – Health and Adult Services) was unable to attend this meeting due to other commitments. However, he would be happy to meet Committee Members informally.

During debate, the following issues were highlighted:-

- The Head of Internal Audit was satisfied, on the basis of the follow-up work undertaken during the year, with the progress that had been made by management to implement previously agreed actions necessary to address identified control weaknesses. In addition, his overall opinion on the controls operated within the Health and Adult Services Directorate was that they provided Substantial Assurance.
- Two new risks had been added to the Directorate's Risk Register since the last progress report to the Committee. The new risks were "Deprivation of Liberty Supreme Court Ruling" and "Managing Effective Outcomes for Individuals". In addition, four risks had been deleted from the Risk Register and three had been changed.
- The County Council had made payments for Residential Care despite some bed return forms not being returned by private providers within the required timescales. If a client at that home had left, the County Council could still

offset that payment against other payments because there was usually an on-going relationship between the two organisations. The Head of Internal Audit felt that it was highly likely that any fraud, arising from bed return forms not being returned by private providers within the required timescale, would be detected, in particular because the National Fraud Initiative data matching exercise included Adult Social Care.

- No audit opinion had been given on some systems/areas looked at by Veritau, eg those mentioned on pages 191 and 192 of the papers for this meeting, because Veritau's work had not been for the purpose of looking at the control environment. Some work had, for example, been reviews or visits undertaken by auditors in response to management concerns.
- The officers undertook to research and provide a response by email to all Committee Members in reply to questions about whether or not, or in what circumstances, the County Council would attempt to take on a Deputy role if the client had already made provision and enacted an Enduring Power of Attorney through the Court of Protection.
- The Head of Internal Audit's overall opinion on the controls operated within the Directorate was a matter of professional judgement and was based on the results of audit work undertaken, draft reports in the course of preparation, comments received from the Directorate, and the speed at which management responded to issues raised by Veritau. His view was based on his knowledge of the Directorate as at today's date.
- Although the Directorate's draft Risk Register had not yet been signed off by the Directorate Management Board, the Corporate Director – Health and Adult Services had seen the papers and the signing-off was merely a formality.

Resolved –

- (a) That it be noted that this Committee, having considered the report of the Head of Internal Audit, is satisfied that the internal control environment operating in the Health and Adult Services Directorate is both adequate and effective.
- (b) That an email response be sent to all Committee Members in reply to questions about whether or not, or in what circumstances, the County Council would attempt to take on a Deputy role if the client had already made provision and enacted an Enduring Power of Attorney through the Court of Protection.
- (c) That the draft Risk Register for the Health and Adult Services Directorate be noted.

91. Internal Audit Report on Information Technology, Corporate Themes and Contracts

Considered -

Report of the Head of Internal Audit which advised of the internal audit work completed during the period to 31 August 2014 in respect of information technology, corporate themes and contracts and set out an opinion on the systems of internal control in respect of these areas.

During debate, the following issues were highlighted:-

- The Head of Internal Audit was satisfied, on the basis of the follow-up work undertaken during the year, with the progress that had been made by management to implement previously agreed actions necessary to address identified control weaknesses. In addition, his overall opinion on the controls across the three functional areas was that it provided Substantial Assurance. The Head of Internal Audit had commissioned specialist IT audit services from Audit North to support the delivery of this aspect of audit work.
- Audit North confirmed that the County Council's computer network security controls were extensive. It was also confirmed that the County Council's secure systems could not be accessed using the Guest WiFi.
- Confirmation was provided that the Schools ICT Service Desk would be moved to a different location. Other actions being taken included a staff restructure and creation of a Board.

Resolved -

That it be noted that this Committee, having considered the report of the Head of Internal Audit, is satisfied that the overall control environment operating in respect of information technology, corporate themes and contract arrangements is both adequate and effective.

92. Programme of Work

Considered –

The report of the Corporate Director - Strategic Resources which invited the Committee to review its programme of work for 2014/15.

The Corporate Director – Strategic Resources proposed various issues for possible inclusion within the Programme of Work. These proposals were supported by Members. The Corporate Director – Strategic Resources also invited Members to make further suggestions outside the meeting.

Members commented that routine reports which were merely for Members to note might be circulated outside formal meetings, thereby providing more meeting time for the Committee to add value. Members, however, emphasised the importance of adhering to the Committee's terms of reference and avoiding undertaking work which an Overview and Scrutiny Committee might perform.

Resolved -

That the Programme of Work be amended to include the following as either formal or informal sessions:-

- contract management;
- discussion with Richard Webb (Corporate Director – Health and Adult Services);
- procurement strategy.

The meeting concluded at 3.25 pm.

RAG/JR