

AUDIT COMMITTEE

29 SEPTEMBER 2011

ANNUAL REPORT OF THE AUDIT COMMITTEE

Report of the Chair of the Audit Committee

1.0 **PURPOSE OF THE REPORT**

- 1.1 To enable Members to consider the draft annual report of the Audit Committee for the year ended 30 September 2011, prior to its submission to County Council.

2.0 **ANNUAL REPORT**

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that audit committees operate effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities. A copy of the draft annual report of this Audit Committee is attached at **Appendix 1**. A copy of the Audit Committee's Terms of Reference is attached to the report as **Appendix A**, for information.

3.0 **RECOMMENDATIONS**

- 3.1 It is recommended that Members:

- (i) note this report; and
- (ii) consider and approve the draft annual report of the Audit Committee prior to its submission to the County Council.

CHAIRMAN OF THE AUDIT COMMITTEE

BACKGROUND DOCUMENTS

Relevant public reports presented to the Audit Committee and minutes of the meetings of the Audit Committee

Report prepared by Max Thomas, Head of Internal Audit and presented by Roger Harrison-Topham, Chair of the Audit Committee

County Hall
Northallerton

8 September 2011

PURPOSE OF THE REPORT

To provide Members of the County Council with details of the work of the Audit Committee covering the year to 30 September 2011. The report also details how the Audit Committee has fulfilled its Terms of Reference during this period.

BACKGROUND

The Audit Committee is responsible for overseeing the County Council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The Committee's specific powers and duties are set out in Schedule 1 of the Constitution under the Terms of Reference of the Audit Committee. A copy of the Terms of Reference is attached at **Appendix A** for information.

Audit Committees are a key component of corporate governance and provide an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that Audit Committees are operating effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.

WORK UNDERTAKEN AND OPINION

The Audit Committee has met on five occasions in the year to 30 September 2011, in accordance with its Programme of Work. During this period, the Committee has assessed the adequacy and effectiveness of the County Council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, internal audit and the external auditors, Deloitte. The Committee has sought assurance that action has been taken, or is otherwise planned, by management to address any risk related issues that have been identified by the auditors during this period. The Committee has also sought to ensure that effective relationships continue to be maintained between the internal and external auditors, and between the auditors and management.

The Audit Committee is satisfied that the County Council has maintained an adequate and effective control framework through the period covered by this report.

The specific work undertaken by the Committee is set out below. The Committee has:

- 1 Received and considered the Annual Audit Letter for 2009/10 produced by the external auditor, Deloitte which detailed the outcome of the audit of the accounts and their value for money conclusion. The Committee was pleased to note that the external auditors had issued an unqualified audit opinion and had not identified any material weaknesses in the financial reporting systems or any significant control issues;

- 2 Received and considered Deloitte's planning reports for the audit of the County Council and the North Yorkshire Pension Fund's 2010/11 financial statements;
- 3 Received and considered the external auditor's report on the 2011 Audit. The report highlighted the key findings of the audit, made recommendations for improvements in control and identified other matters requiring communication to those charged with governance;
- 4 Received and considered Deloitte's proposed fee for the audit of the County Council's 2011/12 financial statements and value for money conclusion. The Committee also considered the proposed fees for the audit of the North Yorkshire Pension Fund's financial statements for 2011/12;
- 5 Received and considered the results of internal audit work performed in respect of each Directorate and across specific themed areas, including contract matters and IT. Monitored the progress made by management to address identified control weaknesses, particularly those in respect of corporate themes where an additional follow up report was requested;
- 6 Received and approved the Internal Audit Plan for 2011/12;
- 7 Monitored the delivery of the 2010/11 and 2011/12 Internal Audit Plans through regular update reports presented by the Head of Internal Audit. Reviewed variations to the Audit Plan which were considered necessary to reflect new or changed Council priorities;
- 8 Received and considered the outcome of the annual 2010/11 Fraud and Loss Risk Assessment. Reviewed the work of Internal Audit in respect of possible fraud and corruption including the results of investigations into matters reported via the County Council's whistleblowing facilities or directly by management. The Committee approved changes to the Counter Fraud Strategy and also considered a revised Anti-Money Laundering Policy prior to its approval by the Executive;
- 9 Received and considered the Annual Report of the Head of Internal Audit which provided an overall opinion on the County Council's control environment. The Committee also considered breaches of the Council's Finance, Contract and Property Procedure Rules identified during audit work. The Head of Internal Audit confirmed that the Council's internal controls provided moderate assurance. In forming this opinion, the Head of Internal Audit had considered the progress made by management during the year to address identified control weaknesses and the significant amount of change affecting the County Council's services. The work of internal audit is focused on those areas which represent the highest risk for the County Council. Whilst the changes taking place had not resulted in any specific control weaknesses they were likely to have given rise to an increase in inherent risks, for example those risks associated with business continuity, segregation of duties and partnership working. In giving his opinion, the Head of Internal Audit also drew the Committee's attention to a number of **significant** control weaknesses identified through audit work including non-compliance with HR policies and procedures and issues with the need to safeguard data and information.

- 10 Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2010/11, and considered the performance targets for 2011/12. The Committee also considered the outcome of the review of the effectiveness of the County Council's system of internal audit which had been undertaken jointly with the City of York Council through the Shared Service Contract Board. The Committee was pleased to note that continued reliance could be placed on the internal audit arrangements operating within the County Council;
- 11 Assessed the adequacy and effectiveness of the each Directorate's risk management arrangements through consideration of the progress made to address issues identified in the annual Statements of Assurance prepared by the Chief Executive and each Corporate Director, together with the latest Directorate Risk Registers;
- 12 Reviewed the progress made by the County Council to identify and address corporate risks and considered the results of the update of the Corporate Risk Register. The Committee also considered the ongoing work of the Corporate Risk Management Group which is responsible for identifying new or emerging risks, sharing best practice, raising awareness of risk issues and monitoring the delivery of individual risk action plans. The Committee was pleased to note the continuing strong risk management arrangements in place across the County Council;
- 13 Monitored the progress made by management to address the control issues identified in the 2009/10 Annual Governance Statement, in particular the need to establish effective IT disaster recovery systems;
- 14 Considered and approved the Statement of Accounts for 2010/11 of the County Council and the North Yorkshire Pension Fund;
- 15 Considered and approved the Annual Governance Statement for 2010/11 of the County Council;
- 16 Considered the effectiveness of the governance arrangements for the North Yorkshire Pension Fund (NYPF) for 2010/11. The Committee noted that an independent review of the Fund's governance arrangements had been undertaken by the Independent Professional Observer appointed by the Pension Fund in 2008. The Independent Observer's report indicated that the Pension Fund Committee had continued its proactive approach to maintaining and improving governance arrangements for the NYPF and in responding to current developments relating to the future of the local government pension scheme (LGPS);
- 17 Monitored the effectiveness of partnership governance arrangements through regular update reports;
- 18 Received regular reports on the effectiveness of the County Council's governance arrangements and the work being undertaken, where necessary, to develop policies and procedures, particularly in respect of information governance to reflect latest guidance and best practice. The Committee was pleased to note the good progress which had been achieved in this area. The Committee also noted the work being carried out to protect information and to establish improved procedures to identify and report potential information security breaches. The need for this was recognised as being particularly important given the new powers granted to the Information Commissioner's Office (ICO) in April 2010 to fine organisations for serious data

breaches or losses. The Committee congratulated ICT Services for their achievement in being one of only ten local authorities in the UK to have received certification to ISO IEC 27001;

- 19 Considered and reviewed the work of the Corporate Governance Officer Group and the updated Corporate Governance Self Assessment Checklist. The Committee also noted the arrangements which had been put in place to improve transparency, including making available details of senior officer salaries, all expenditure items over £500 and all contracts with a value over £10,000 (excluding care contracts);
- 20 Considered and agreed changes to the Local Code of Corporate Governance with a recommendation that the revised Code be submitted to the County Council for approval;
- 21 Considered the report of the Assistant Chief Executive (Legal and Democratic Services) on the role and protocol of the Management Board prior to the incorporation of this document into the Constitution;
- 22 Monitored progress to establish a comprehensive service continuity planning process across the County Council. The Committee recognises that this is an area requiring further work and will therefore be receiving further reports as development and implementation of the current proposals takes place;
- 23 Undertaken scrutiny of the County Council's treasury management strategy and policies. The Committee has also received and considered regular reports on treasury management performance and updates on national and economic developments. The Committee has also monitored investment and borrowing activities against the County Council's approved Prudential Indicators, together with revisions to the list of Indicators;
- 24 Received and considered proposed changes to the Finance, Contract and Property Procedure Rules prior to referral to the Executive and approval by the County Council. The changes to the Finance Procedure Rules included the addition of new clauses to deal with financial instruments, a full review of the section on income, and updates to the sections on treasury management, voluntary funds and internal audit. A number of changes were also proposed to the Contract Procedure Rules. These included clarification of the treatment of financial instruments, the need to ensure larger scale contracts are properly recorded as Key Decisions and the setting of a new threshold of £10k for items in the Forward Procurement Plan. A minor change was also proposed to the Property Procedure Rules to reflect the Academies Act 2010 and the requirement to transfer property to any new academy at nil value. The proposed changes to the Finance, Contract and Property Procedure Rules were agreed subject to a minor change in respect of petty cash purchases;
- 25 Received and considered proposed changes to the County Council's Accounting Policies. The main changes during the year have been necessary as a result of the need for the Statement of Accounts to comply with International Financial Reporting Standards (IFRS) from 2010/11 onwards. The various changes to policies were prescribed by CIPFA in a new Code of Practice on Local Authority Accounting which explained the accounting treatment and disclosures required to comply with IFRS. The changes were approved;

- 26 Received regular updates on the progress being made to prepare for the change in financial reporting from UK Generally Accepted Accounting Practice (UK GAAP) to International Financial Reporting Standards (IFRS);
- 27 Considered the potential impact of budget savings on the County Council's corporate governance arrangements, particularly in terms of the reductions within the Chief Executive's Group and Finance & Central Services;
- 28 Considered a number of emerging issues, including new fraud risks highlighted by the Audit Commission in their annual report *Protecting the Public Purse 2010* and through the experiences of other local authorities who have fallen victim to organised criminal activity;
- 29 Monitored the progress which had been made to address the recommendations arising from the self assessment review of the Audit Committee's effectiveness (previously reported to the Committee in April 2010);
- 30 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee. The Committee also considered a number of emerging issues, including the proposals for the future of public audit and the use of purchasing cards;
- 31 Met with both the External Auditor and the Head of Internal Audit on a one to one basis.

Chairman of the Audit Committee

AUDIT COMMITTEE

TERMS OF REFERENCE

1. In respect of **Internal Audit**
 - to approve the Internal Audit Strategy, Annual Audit Plan and performance criteria for the Internal Audit Service.
 - to review summary findings and the main issues arising from internal audit reports and seek assurance that management action has been taken where necessary.
 - to review the effectiveness of the anti-fraud and corruption arrangements throughout the County Council.
 - consider the annual report from the Head of Internal Audit Chief.
 - assist the County Council to achieve Value for Money.
 - to review the effectiveness of the system of Internal Audit and the Committee itself on an annual basis.
2. To review the workplan and performance of External Audit.
3. To review, and recommend to the Executive, changes to Contract, Finance and Property Procedure Rules.
4. In respect of **financial statements**

For both the County Council and the North Yorkshire Pension Fund

 - to approve the respective annual Statements of Final Accounts
 - to receive and review the Annual Audit Letters and associated documents issued by the External Auditor
 - to approve changes in accounting policy
5. In respect of **Corporate Governance**
 - to assess the effectiveness of the County Council's Corporate Governance arrangements
 - to review progress on the implementation of Corporate Governance arrangements throughout the County Council.
 - to approve Annual Governance Statements for both the County Council and the North Yorkshire Pension Fund.
 - to review the annual Statements of Assurance provided by the Chief Executive, Management Board and Corporate Directors.
 - to liaise, as necessary, with the Standards Committee on any matter(s) relating to the Codes of Conduct for both Members and Officers.
6. In respect of **Risk Management**
 - to assess the effectiveness of the County Council's Risk Management arrangements.
 - to review progress on the implementation of Risk Management throughout the County Council.
7. In respect of **Information Governance**
 - to review all corporate policies and procedures in relation to Information Governance.

- to oversee the implementation of Information Governance policies and procedures throughout the County Council.
8. In respect of **Treasury Management**
- to be responsible for ensuring effective scrutiny of the County Council's Treasury Management strategy and policies as required by the CIPFA Treasury Management Code of Practice.
 - To review these Treasury Management strategies, policies and arrangements and make appropriate recommendations to the Executive.
9. To meet not less than four times a year on normal business and review its Terms of Reference on an annual basis.
9. To consider any other relevant matter referred to it by the County Council, Executive or any other Committee. In addition any matter of concern can be raised by this Committee to the full County Council, Executive or any other Member body.