## **Agenda**

**Meeting: Audit Committee** 

Venue: Grand Meeting Room, County Hall,

**Northallerton** 

Date: Thursday 25 September 2014 at 1.30pm

Note: Members are invited to attend a

seminar concerning Governance and the Statement of Accounts at 1.00 pm

in the Grand Meeting Room.

Recording is allowed at County Council, committee and sub-committee meetings which are open to the public, subject to:- (i) the recording being conducted under the direction of the Chairman of the meeting; and (ii) compliance with the Council's protocol on audio/visual recording and photography at meetings, a copy of which is available to download below. Anyone wishing to record must contact, prior to the start of the meeting, the Officer whose details are at the foot of the first page of the Agenda. Any recording must be clearly visible to anyone at the meeting and be non-disruptive. <a href="http://democracy.northyorks.gov.uk/">http://democracy.northyorks.gov.uk/</a>

#### **Business**

1. Minutes of the meeting held on 17 July 2014.

(Pages 1 to 10)

2. Public Questions or Statements.

Members of the public may ask questions or make statements at this meeting if they have given notice to Ruth Gladstone of Democratic Services *(contact details below)* by midday on Monday 22 September 2014. Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-

- at this point in the meeting if their questions/statements relate to matters which are not otherwise on the Agenda (subject to an overall time limit of 30 minutes);
- when the relevant Agenda item is being considered if they wish to speak on a

matter which is on the Agenda for this meeting.

If you are exercising your right to speak at this meeting, but do not wish to be recorded, please inform the Chairman who will instruct those taking a recording to cease while you speak.

Progress on Issues Raised by the Committee – Joint report of the Corporate Director –
Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services).
(Pages 11 to 14)

- 4. Report to Members on the 2013/14 Audit by the External Auditor:-
  - (a) **North Yorkshire Pension Fund** The report of the External Auditor.

(Pages 15 to 43)

(b) **North Yorkshire County Council** - The report of the External Auditor.

(Pages 44 to 71)

**5. North Yorkshire Pension Fund Annual Report 2013/14** – Report of the Corporate Director – Strategic Resources and Treasurer to the Pension Fund.

(Pages 72 to 162)

6. Review of Statement of Final Accounts (incorporating Annual Governance Statement)
- Report from Audit Committee Members' Working Group.

(Pages 163 to 166)

7. Statement of Final Accounts for 2013/14 including Letter of Representation - Report of the Corporate Director – Strategic Resources.

(Pages 167 to 178)

(Statement of Final Accounts booklet collated separately)

- 8. Annual Report of the Audit Committee Report of the Chairman of the Audit Committee.
  (Pages 179 to 186)
- 9. Internal Audit Work and Related Internal Control Matters for the Health and Adult Services Directorate
  - (a) Report of the Head of Internal Audit.

(Pages 187 to 197)

(b) Report of the Corporate Director – Health and Adult Services.

(Pages 198 to 219)

10. Internal Audit Report on Information Technology, Corporate Themes and Contracts - Report of the Head of Internal Audit.

(Pages 220 to 243)

**11. Programme of Work** – Report of the Corporate Director – Strategic Resources.

(Page 244)

12. Other business which the Chairman agrees should be considered as a matter of urgency because of special circumstances.

Barry Khan

Assistant Chief Executive (Legal and Democratic Services)

#### 17 September 2014

#### Notes:

(a) Members are reminded of the need to consider whether they have any interests to declare on any of the items on this agenda and, if so, of the need to explain the reason(s) why they have any interest when making a declaration.

The relevant Democratic Support Officer or Monitoring Officer will be pleased to advise on interest issues. Ideally their views should be sought as soon as possible and preferably prior to the day of the meeting, so that time is available to explore adequately any issues that might arise.

#### (b) Emergency Procedures for Meetings

#### **Fire**

The fire evacuation alarm is a continuous Klaxon. On hearing this you should leave the building by the nearest safe fire exit. From the **Grand Meeting Room** this is the main entrance stairway. If the main stairway is unsafe use either of the staircases at the end of the corridor. Once outside the building please proceed to the fire assembly point outside the main entrance

Persons should not re-enter the building until authorised to do so by the Fire and Rescue Service or the Emergency Co-ordinator.

An intermittent alarm indicates an emergency in nearby building. It is not necessary to evacuate the building but you should be ready for instructions from the Fire Warden.

#### **Accident or Illness**

First Aid treatment can be obtained by telephoning Extension 7575.

# **AUDIT COMMITTEE**

### 1. Membership

		-		·					
Co	County Councillors (8)								
	Councillors Names					Politica	al Party		
1	ATKIN	SON, Marga	aret		(Vice-Chai	rman)	Conservative		
2	BACK	HOUSE, And	drew		(Chairman	)	Conservative		
3		DBENT, Eric					Labour		
4	CHAN	CE, David					Conservati	ive	
5	CLAR						Conservati	ive	
6	GRAN'	GRANT, Helen NY Independent							
7	HOUL	HOULT, Bill Liberal Democrat							
8	JORDAN, Mike Conservative								
Ме	Members other than County Councillors (3)								
1	Vacancy								
2	Vacancy								
3	Vacancy								
Tot	Total Membership – (11) Quorum – (3 ) County Councillors								
	Con	Lib Dem	NY Ind	Labour	Liberal	UKIP	Ind	Total	
	5	1	1	1	0	0	0		

#### 2. Substitute Members

Conservative		Lib	Liberal Democrat		
	Councillors Names		Councillors Names		
1	FORT, John BEM	1	De COURCEY-BAYLEY, Margaret-Ann		
2	HARRISON-TOPHAM, Roger	2			
3	SANDERSON, Janet	3			
4	METCALFE, Chris	4			
5		5			
NY	Independent Independent	Lab	Labour		
	Councillors Names		Councillors Names		
1	BLACKIE, John	1	SHAW-WRIGHT, Steve		
2	JEFFERSON, Janet	2			
3		3			
4		4			
5		5			

### **North Yorkshire County Council**

#### **Audit Committee**

Minutes of the meeting held on Thursday 17 July 2014 2014 at 1.30 pm at County Hall, Northallerton.

#### Present:-

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

County Councillors Andrew Backhouse (Chairman), Margaret Atkinson, Eric Broadbent, David Chance, Jim Clark, Bill Hoult 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 Chris Powell.

Veritau Ltd Officers: Stuart Cutts and Ian Marton.

County Council Officers: Trevor Clilverd (Assistant Director - Strategic Resources), Roger Fairholm (Corporate Asset Manager), Gary Fielding (Corporate Director - Strategic Resources), Steve Loach (Principal Democratic Services Officer) and Peter Yates (Assistant Director - Corporate Accountancy).

#### **Copies of all documents considered are in the Minute Book**

#### 73. Minutes

#### Resolved -

That the Minutes of the meeting held on 26 June 2014, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

Arising from Minute No. 67 - External Audit 2014/15 Fee Letters – bullet point one, it was noted that Chris Powell had been provided with the one year extension for 2014/15, as the External Auditor to the County Council and North Yorkshire Pension Fund.

#### 74. Public Questions or Statements

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

#### 75. External Auditor - Audit Planning Reports

#### (a) North Yorkshire Planning Report for the 2013/14 Audit

Chris Powell (Deloittes) presented the report highlighting the following key points:-

- Changes to auditing processes from 2015/16 onwards.
- Key focus:-
  - valuation of current assets;
  - management controls of revenue;
  - value for money:
  - impact of Fund settlement;
  - capacity;
  - Waste PFI Project.
- Scope of work areas of responsibility.
- Approach test of controls liaison with Internal Audit/materiality and error reporting threshold.
- ♦ The approach and scope of the audit widening the range and considering smaller efficiencies.
- Assurance levels raising the barrier to provide greater assurance.
- Confirmation of independence and fees.

Further to the presentation of the report the following issues were discussed:-

- ◆ The capacity for the Finance and Internal Audit functions to maintain current functions in view of budgetary restraints would continue to be monitored closely. Whilst there were no particular concerns currently, any that subsequently arose would be fed back to the Committee.
- The Quality Audit promise guaranteed a consistent approach to the auditing function, in line with what would be expected of the auditing process.
- In relation to the withdrawal of the Waste PFI Credits it was asked whether there was to be a further report to Audit Committee. In response it was noted that reports were expected to be submitted to Executive and full County Council during the current calendar year. Discussions would take place with the external auditors as to how the matter would be progressed and issues would be channelled back into the Audit Committee where necessary. It was stated that, should it be necessary, an additional meeting of the Audit Committee would be called for the matter to be discussed. It was emphasised that, initially contact would be undertaken through the Chairman of the Committee to determine a timetable for reporting back. It was emphasised that the matter would be considered by the Committee in due course.
- It was noted that a small amount of General Fund expenditure had benefited from European funding and exact details would be provided to the Member who had raised the issue.

#### Resolved -

That the document be noted.

#### (b) North Yorkshire Pension Fund Planning Report for the 2013/14 Audit

Chris Powell (Deloittes) introduced the report highlighting the following:-

- ◆ There had been no significant changes to the auditing approach undertaken in respect of the North Yorkshire Pension Fund in recent years.
- The key areas of focus had been:-
  - contributions;
  - benefits paid;
  - valuation of investments;
  - key management controls;
  - details of significant risks and audit work planned to address those.

The following issues were raised in relation to the report:-

- ♦ It was noted that Celia Craig would be leading on the audit rather than Chris Powell, as stated within the report. This was purely an operational issue and would have no effect on the process.
- It was noted that the timetable for the process for the County Council's audit stated 2013 rather than 2014, which had been a typing error and would be corrected.

#### Resolved -

That the report be noted.

#### 76. Statement of Final Accounts 2013/14 - North Yorkshire Pension Fund

Considered -

The report of the Corporate Director - Strategic Resources inviting the Committee to consider the draft Statement of Final Accounts of the North Yorkshire Pension Fund for the financial year 2013/14.

It was noted that the Pension Fund Committee had considered the draft Statement of Final Accounts at its meeting held on 10 July 2014 and had not raised any significant issues in relation to those.

#### Resolved -

That the draft Statement of Final Accounts of the North Yorkshire Pension Fund for 2013/14 be noted.

#### 77. Statement of Final Accounts 2013/14 - North Yorkshire County Council

Considered -

The report of the Corporate Director - Strategic Resources inviting the Committee to consider a draft Statement of Final Accounts for 2013/14 for the County Council in advance of the accounts being audited by Deliotte during July and August 2014 and being re-submitted to the Committee for formal approval on 25 September 2014 after the external audit had been completed.

The Assistant Director - Corporate Accountancy presented the report, highlighting the following:-

- The Government were proposing to shorten the Statutory Final Accounts timetable so that the draft accounts were completed by 31 May rather than 30 June and the final accounts were approved and published by 31 July rather than 30 September. It was noted that the Government were proposing to make the change mandatory by 2017/18 but were encouraging Councils to adopt this position earlier. A response to the consultation on this had been undertaken by the Corporate Director Strategic Resources for submission on 18 July 2014 and would be circulated to Members for any comments following the meeting. A Member asked whether the imposition of these deadlines could lead to the audit of the accounts following due practice rather than good practice. The external auditors emphasised that every effort would be made to maintain good practice despite the shorter timescales.
- It was noted that the public had a right to challenge the draft Statement of Accounts and such a challenge had been received.
- Details of the challenge were provided for Members and related to two issues which could be summarised as follows:
  - (i) Waste Management Strategy and the AmeyCespa Allerton Waste Recovery Park contract it was requested that an explanation of the costs incurred so far, the current predicted costs of the contract, the County Council's financial justification for continuing and the cost of contingency plans should the project fail to reach financial completion, should be included within the accounts for completeness and transparency:
  - (ii) the Pending Issues Provision (PIP) a clear statement should be provided addressing the major change in the amount invested in the PIP, the implications of this for the delivery of the Waste Strategy and the current value of the PIP together with the amount within that attributed to the Waste Strategy.

Details of the response, from the Corporate Director - Strategic Resources, to the issues raised, were provided. In summary it suggested the following:-

The potential material contingent liability in relation to the AmeyCespa contract was clearly set out in the draft accounts.

Expanding the accounts further would make them less accessible to the reader.

The draft accounts fully comply with the appropriate framework.

The draft accounts presented the true and fair view of the financial position of the County Council and the particular issues raised were outside the scope of the accounts. In relation to the PIP details had been incorporated into the relevant statutory service income and expenditure headings and there was no requirement to include any further detail.

There was no major change to the approach undertaken through the PIP.

The PIP continued to be routinely monitored and reported to the Executive.

In summary it was not felt that the information being sought was relevant was inclusion in the Statement of Accounts for 2013/14.

Copies of both the objection to the draft accounts and the response to the objection were circulated and Members were provided with sufficient time to read through them.

It was noted that the objector had a right to reply to the response given, but nothing had been received at the time of the meeting.

It was also noted that the external auditors agreed in principle with the response provided by the Corporate Director - Strategic Resources.

The following issues were raised during discussion of the report:-

- The underspend on highways winter maintenance, due to the weather conditions during the 2013/14 winter, had been moved to the General Working Balance, but this would not affect the allocation or policy for winter maintenance in future years.
- ♦ Independent observer Mr Portlock indicated that he had a number of specific issues to raise with the Corporate Director Strategic Resources in relation to the draft accounts, which he would discuss with him outside the meeting.

#### Resolved -

That the draft Statement of Final Accounts for 2013/14 be noted in advance of the accounts being audited and re-submitted to the Audit Committee on 25 September 2014 for formal approval.

#### 78. Review of Assurance over Value for Money

Considered -

The report of the Corporate Director - Strategic Resources inviting Members to consider the arrangements made within the County Council in respect of achieving value for money and how assurance was obtained about those arrangements.

The Assistant Director - Strategic Resources presented the report providing details of the main focus in terms of delivering value for money, highlighting the following:-

- Emphasis within the 2020 Programme.
- Embedding the principles of the "One Council" initiative.
- Monitoring and feedback.
- Regular performance reviews and reporting.

Further to the presentation of the report the following issues were highlighted:-

- The Chairman noted that he had received an email challenging value for money and had responded to that issue, which was related mainly to the Waste Management Strategy. It was stated that Members of the Committee would be provided with a copy of the details, both of the challenge and of the response in relation to this matter.
- ◆ Details of the governance for moving forward with the 2020 Programme were outlined, indicating how this was being carried out throughout the Authority. It was noted that Member engagement was being undertaken and the aim was to ensure Members were fully briefed throughout the development of the programme through Members' Seminars, Overview and Scrutiny Committees and various initiatives. The aim was to ensure that all Members were kept up-to-date with how the programme was developing and were allowed to contribute into that. It was emphasised that Members would be focusing on delivering value for money from whichever process they were involved in to assist in delivering the 2020 Programme.
- It was asked how assurance could be provided that the County Council had delivered a good level of performance in 2013/14 as stated within the report. In response it was indicated that performance reports and inspections provided an evidential basis for determining that the County Council continued to provide a good level of performance and delivered value for money.
- ♦ It was asked how team performance data was validated and rated. The various comparators and inspection regimes in place were outlined emphasising how team performance was monitored. It was noted that independent inspections such as the OFSTED in relation to Children's Services corroborated the findings in respect of performance. Many reviews were taken on a semi-independent basis, involving other internal teams, to ensure that performance monitoring was undertaken objectively.
- It was noted that the report's recommendations referred to the Audit Committee's terms of reference having oversight of the arrangements across the County Council in securing value for money. Members noted that they had oversight of issues relating to the delivery of value for money but, in many instances, had no say on individual issues. It was unclear, therefore, whether they could definitively state that they were fulfilling the terms of reference as The Corporate Director - Strategic Resources emphasised that stated. Members were being included in delivering the value for money processes and that the Audit Committee was addressing the terms of reference in relation to that. He acknowledged the issues raised by Members and noted the need to expressly address value for money issues through Member involvement in the decision-making process. It was expected that the feedback from Members would continue to drive the quest to deliver value for money through the County Council's services and it would be ensured that Members had confidence that this was being delivered.

#### Resolved -

- (i) The arrangements currently in place for ensuring value for money be noted;
- (ii) That the areas for further development in the assurance arrangement, as detailed above, be noted,

(iii) That, subject to the continuance of Members being involved in the delivery of the value for money process, it was agreed that the report adequately contributed to the requirements of fulfilling the terms of reference of the Audit Committee, as highlighted in the report.

#### 79. Review of Contract, Property and Financial Procedure Rules

#### Considered -

The report of the Corporate Director - Strategic Resources inviting Members to consider, for recommendation to the Executive, various proposed changes to Contract, Property and Financial Procedure Rules.

Details were provided of the proposed changes to the listed Procedure Rules which were being undertaken in an attempt to clarify, simplify and update them to best fit legislation, reflect sound internal control and to assist the County Council to achieve value for money.

#### **Property Procedure Rules**

Details of the amendments were set out in Appendix A to the report and a further list of proposed amendments had been supplied prior to the meeting in relation to paragraphs 6.1.5, 9.2 and 9.5. The Corporate Director - Strategic Resources, noted that these were amendments to procedures rather than policy changes, therefore, they would be taken to Executive for adoption.

The following issues were raised:-

- ♦ It was asked, should property be passed on to a community group for example, how that was determined alongside value for money. In response it was explained how assets were identified within the Property Procedure Rules. In terms of transfer to a community group the disposal of asset would be offset by the reduction operating costs and the revenue budget. Simply, therefore, the reduction of costs and the increase in outputs delivered value for money.
- It was noted that procedure 7.2.2, 8.1.3.1(c) and 9.4(c) appeared to compel the Executive to undertake that recommendation, in view of the wording provided. The Corporate Director - Strategic Resources acknowledged this issue and stated that the wording would be amended accordingly.

#### **Contract Procedure Rules**

The Corporate Director - Strategic Resources highlighted the amendments to the Rules as set out in Appendix B to the report. The main amendments related to increased financial limits, allowing Directorates to deal more directly with issues at an appropriate level, enabling value for money to be pursued.

It was asked how the changes would be communicated and embedded into the County Council's procedures. In response the Corporate Director - Strategic Resources highlighted that the Corporate Procurement Group would disseminate the information to Directorates, ensuring everyone was aware of the altered procedures in place, to ensure that they were delivered correctly.

It was noted that a number of systems and procedures had been developed in recent times and it was asked that the Audit Committee be kept informed, on a regular basis, of those developments. The Corporate Director - Strategic Resources stated that he would ensure regular update reports were provided to keep Audit Committee abreast of altered procedures and processes within the County Council.

#### Financial Procedure Rules

The Assistant Director - Strategic Resources outlined the alterations to the Financial Procedure Rules as set out in Appendix C to the report. He explained how the alterations had been developed, who had been involved and the reasons behind those. He emphasised that communication was the key to the Financial Procedure Rules ensuring that Directorates were aware of these and that they were delivered consistently. A review was being undertaken internally in relation to the implementation of the Financial Procedure Rules with a view to providing better access across the board.

It was noted that there had been some alterations to financial limits, to provide more control for the Directorates and deliver value for money. It was explained that appropriate controls were still in place, through the Corporate Director - Strategic Resources, to ensure appropriate records were kept of issues addressed in this way. This enabled the relaxing of some of the rules in terms of virement and debt write-off but ensured that safety controls were still in place in terms of the process.

The following issues were discussed:-

- Clarification was provided as to when the next major revisions of the Financial Procedure Rules would be undertaken and it was noted that this would be following the County Council elections in 2017. It was noted that the rules stated that this would be carried over a four year cycle of reviews, and that the next review, therefore, would not fit into that cycle. The Corporate Director Strategic Resources noted that a major review had not taken place following the previous County Council elections and, therefore, the rules was being altered to bring that into line.
- A Member noted that there had been a whole scale change in the Financial Procedure Rules, with many amendments undertaken, and asked whether there was confidence that everything contained was appropriate. It was suggested, that in future, it would be more beneficial to the Committee to have a report highlighting the changes that had been undertaken. The Corporate Director Strategic Resources stated that should the Committee be minded then the report could be brought back with clarification of where alterations had taken place. It was emphasised that Members would accept the alterations on this occasion, but would like to see a report with details of where the revisions had taken place, put before the Committee in future.
- It was stated that should Members wish to have issues clarified prior to the reviews being submitted to Executive for adoption, then they could contact the Corporate Director directly.

#### Resolved -

That it be recommended to the Executive that:-

- (a) the changes to the Property Procedure Rules as set out in Appendix A;
- (b) the changes to the Financial Procedure Rules as set out in Appendix C to the report;

(c) the changes to the Contract Procedure Rules as set out in Appendix E to the report;

be adopted and the Constitution be changed accordingly.

#### 80. Annual Report on Partnership Governance 2013/14

Considered -

The joint report of the Chief Executive and the Corporate Director - Strategic Resources providing Members with an Annual Report on the Governance of Partnerships involving the County Council for the financial year 2013/14.

It was noted that the report had also been presented to the Executive on 8 July 2014 and had been accepted at that meeting.

The following issues were discussed:-

- Members highlighted a difficulty that they had in reading the appendix to the report. The Corporate Director - Strategic Resources stated that he would endeavour to find a solution to this matter.
- ♦ It was noted that a review of the key principles guiding partnerships had not been undertaken since 2010. The Corporate Director Strategic Resources stated that he would ensure this was factored in appropriately.
- ♦ A Member raised issues relating to the "95 Alive" Highway Safety Partnership.
- County Councillor Les, commented on behalf of the Executive in relation to the report. He noted that there was likely to be more partnership working as the Authority worked towards the 2020 initiative and that the principles of partnership working would continue to be reinforced in relation to that. It was acknowledged that the overarching policy in relation to partnership governance may be altered, in view of the development of the 2020 initiative, in due course.
- It was noted that data from some partnership working was included in a range of more general updates and it was asked how the effectiveness of these partnerships could be tested if the detail was not provided to the Committee. In response the Corporate Director Strategic Resources emphasised that the worthiness of partnerships and their work was tested and the processes carried out by the County Council. He emphasised that care was taken not to duplicate the reporting of these details so as to remain as cost effective as possible. Details of alternative reporting arrangements, so as not to miss any significant issues relating to the performance of partnership, was set out in the report.
- The Corporate Director Strategic Resources noted that everyone involved in a partnership should undertake a review to determine what was being gained from the arrangement. The County Council undertook monitoring to determine whether the partnership was delivering what was intended, and if this was deemed not to be the case, then consideration should be given to whether to continue to be involved within the partnership. He considered that this course of action was appropriate to be embedded within the principles outlined.

#### Resolved -

- (i) That the Annual Report on Partnership Governance be received.
- (ii) That the arrangements in place to ensure governance, and reporting of the partnership activity, be noted.
- (iii) That the contents of the schedule of partnerships that were within the scope of the report as at 31 March 2014 be noted.

#### 81. Programme of Work

Considered -

The Committee's programme of work for 2014/15.

Members asked whether it would be appropriate to have a session on the 2020 programme at the next meeting of the Committee. In response the Corporate Director - Strategic Resources noted that the matter would be discussed at forthcoming Members' Seminars and that it would be more beneficial for a report to be submitted to the December meeting of the Committee in respect of this.

#### Resolved -

That the programme of work be approved subject to an amendment to include a session on the 2020 programme at the meeting to be held on 4 December 2014.

The meeting concluded at 3.40 pm.

SL/JR

#### NORTH YORKSHIRE COUNTY COUNCIL

#### **AUDIT COMMITTEE**

#### 26 June 2014

#### PROGRESS ON ISSUES RAISED BY THE COMMITTEE

Joint Report of the Corporate Director – Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services)

#### 1.0 PURPOSE OF THE REPORT

- 1.1 To advise Members of
  - (i) progress on issues which the Committee has raised at previous meetings
  - (ii) other matters that have arisen since the last meeting and that relate to the work of the Committee

#### 2.0 BACKGROUND

2.1 This report is submitted to each meeting listing the Committee's previous Resolutions and / or when it requested further information be submitted to future meetings. The table below represents the list of issues which were identified at previous Audit Committee meetings and which have not yet been resolved. The table also indicates where the issues are regarded as completed and will therefore not be carried forward to this agenda item at the next Audit Committee meeting.

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
26/09/2013	24 – Statement of Final Accounts including Letter of Representation 2012/13	The question of whether the Police and Crime Panel should be regarded as a Related Party be considered during preparation of the Statement of Account for 2013/14.	Following review of the CIPFA Code and supporting guidance manual, there is no relevant related party relationship between the Police and Crime Panel and the County Council.	<b>✓</b>
05/12/13	45 – Information Governance	That an update version of the Information Governance Policy Map be circulated to Committee Members	Work is ongoing to update and refresh the Information Governance Policy Map. A copy of the map will be circulated to Members once it is finalised.	Х
06/03/14	52 – Progress on 2013/14 Internal Audit Plan	That an advance copy of the report on the outcome of the Payroll audit be circulated to Committee Members as soon as it becomes available and	Details of findings / recommendations and management response circulated at June meeting.	<b>√</b>

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
		prior to circulation of the Agenda for the Committee's next meeting on Central Services.		
06/03/14	55 – Internal Audit Work / Internal Control Matters for the Central Services Directorate	That the Chairman and the CD – SR discuss how future reports concerning Directorates' Risk Registers are presented given "% completion" issues	Issue currently being addressed and will be shared in future Directorate updates on agenda	х
06/03/14	57 – Programme of Work	That the Programme of Work should include the following  • 2020 North Yorkshire  • Information Governance – risks arising  • Health & Social Care Integration and challenges  • Any other issues to be suggested by Committee Members to the CD – SR	Programme of Work updated	<b>✓</b>
26/06/14	62 – Progress on Issues Raised by the Committee	That the Corporate Director, Strategic Resources arrange for future Treasury Management reports to the Executive to clarify that the liabilities of the former Police Authority are now the responsibility of the Police and Crime Commissioner.	Changed to reflect that the debt is with the Police force (not the PCC).	<b>√</b>
26/06/14	63 – Internal Audit work / internal control matters for the Children and Young People's Services Directorate	That the Corporate Director, Strategic Resources alter the alignment of Audit Committee meetings to which the various Directorates report in order that Directorate Risk Registers submitted to those meetings are as up- to-date as possible.	To be addressed for meetings post September	х

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
26/06/14	64 – Annual report of the Head of Internal Audit	That the Head of Internal Audit research whether there are any underlying weaknesses behind the cases identified of inadequate contract monitoring and inform Members of the outcome.	The cases were considered to be isolated in nature. However, additional audit testing will be undertaken this year to assess the overall adequacy and effectiveness of contract monitoring arrangements.	<b>√</b>
26/06/14	64 – Annual report of the Head of Internal Audit	That contract management be the subject of a future Audit Committee Members' Seminar	To be arranged following initial work carried out on behalf of the Corporate Procurement Group	х
26/06/14	65 – Corporate Governance	That in respect of the draft Annual Governance Statement 2013/14, Members' comments, as recorded in the preamble to this the minute, be taken on board and that an updated version of the Statement be submitted to Committee's meeting on 25 September 2014 for approval.	Included in revised AGS for consideration on this agenda	<b>√</b>
26/06/14	71 – Risk Management – Progress	That Directorate Risk Registers continue to be submitted to Audit Committee, although officers be asked to note that Committee Members wish Risk Register entries to be complete, risk reduction actions to be quantifiable, and Registers to be treated with importance within Directorates.	Issue noted and will be addressed where possible. In some cases there will inevitably be less detail as plans become more developed.	<b>√</b>
29/06/14	72 – Programme of Work	That dates and times for the Committee's meetings scheduled for the period 1 January 2015 to 30 April 2015 be emailed to Mr David Portlock.	Done	<b>√</b>
17/07/14	81 – Programme of Work	That the programme of work be approved subject to an amendment to include a session on the 2020 programme at the meeting to be held on 4	Programme of Work updated	<b>✓</b>

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
		December 2014.		

#### 3.0 TREASURY MANAGEMENT

- 3.1 Current Treasury Management developments include
  - i. The finalising of Selby District Council's cash balances being swept in to County Council's on a daily basis for investment pooling purposes and
  - ii. Retendering for the Treasury Management consultancy provide currently Capita Asset Services Treasury Solutions, although there are only two suitable providers in the market.

#### 4.0 RECOMMENDATION

4.1 That the Committee considers whether any further follow-up action is required on any of the matters referred to in this report.

GARY FIELDING Corporate Director – Strategic Resources BARRY KHAN
Assistant Chief Executive
(Legal and Democratic Services)

County Hall NORTHALLERTON

25 September 2014

#### **Background Documents:**

Report to, and Minutes of, Audit Committee meeting held on 26 June and 17 July 2014



### North Yorkshire Pension Fund

Final Report to the North Yorkshire County Council Audit Committee on the Local Government Pension Fund Audit

31 March 2014





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Audit Committee North Yorkshire County Council County Hall Northallerton Leeds DL7 8AD

15 September 2014

#### Dear Sirs,

We have pleasure in setting out in this document our report to the Governance and Audit Committee of North Yorkshire County Council with regard to the North Yorkshire Pension Fund for the year ended 31 March 2014. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2014.

#### In summary:

- Our work is substantially complete. We will be in attendance at the Audit Committee meeting on 25 September 2014 and will present an update to our report on our audit at that time.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

Chris Powell

Senior Statutory Auditor

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Chric Cowell

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### A reminder of our audit plan:

- We determined materiality as £20.8m and a reporting threshold of £417,000.
- We identified 4 significant risks in our Audit Plan and have not made any changes from the scope set out in the Audit Plan.
- A controls based audit approach has not been considered appropriate for the current year; instead we have taken a substantive approach to testing the financial statements.



The big picture

# The Big Picture

We anticipate issuing an unmodified audit opinion upon completion of our work.

#### **Audit work**

- We have discussed our initial comments on the draft financial statements with management.
- From our audit work on the financial statements we have not identified any material misstatements or significant deficiencies in internal controls at the North Yorkshire Pension Fund. A small number of comments on the annual report and accounts have been identified which we understand will be corrected by management.
- A draft representation letter has been included at Appendix 5.
- From our work undertaken so far we expect to issue an unmodified opinion in line with your specified deadlines. A draft opinion is included at Appendix 6

We have the following principal matters to complete:

- final review and close down procedures;
- subsequent events review; and
- receipt of signed letter of representation.

# Significant audit risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and/ or disclosure matters within the financial statements.

### 1. Contributions

### There are complexities around the calculation of contributions.

#### Nature of risk

Unlike the position in the private sector, we are not required to issue a separate statement on contributions for the Fund. Nevertheless, this remains a material income stream and in view of the complexity arising from the participation of different employers within the Fund, the fact that members pay a tiered contribution rate depending on their pensionable pay and that additional complexities were introduced to the employer contribution rates from 1 April 2011, we have included the calculation and payment of contributions as an area of significant risk.

#### The significant risk in relation to management override, its impact on the financial statements and our audit challenge

We note that the authority is not responsible for the calculation of contributions and that any tests to ensure the accuracy of contributions have been undertaken with the assistance of the other scheduled and admitted bodies. Given the material nature of contributions, incorrect calculation of employee/employer contributions by contributing bodies could lead to a material error.

#### Audit work completed to address the significant risk

We have performed the following testing to address the significant risks around contributions:

- reviewed the design and implementation of controls present at the Fund for ensuring contributions from the Administering Authority and all Scheduled and Admitted bodies are identified and calculated correctly;
- we selected a sample of members from the Administering, Scheduled and Admitted bodies and reviewed breakdowns by individual of
  pensionable pay, employee and employer contributions. On a sample basis we agreed this information to individual payslips and
  reviewed whether the contributions tested were calculated correctly in all material respects; and
- we developed an expectation based on changes in membership numbers and changes in contribution rates to analytically review the contributions received in the year.

#### **Conclusion on contributions risk**

All testing was completed with satisfactory results.

#### **Deloitte view**

From our testing set out below there are no matters to bring to the attention of those charged with governance.

### 2. Benefits

There are complexities surrounding the calculation of both benefits in retirement and ill health and death benefits.

#### Nature of risk

Changes were made to the Fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits. In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008. The calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. Also individuals enjoy greater flexibility in their choice of the mix of pensions and lump sum. In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. The Government has completed the process to amend the revaluation and index factors for statutory minimum uplift from the Retail Price Index to the Consumer Price Index. This change has further increased the complexity of benefit calculations. Furthermore, it is noted that some employers may not have retained the necessary records to enable these calculations to be undertaken by the Fund. The value of benefits paid is material to the financial statements and hence represents an area of significant risk in its own right.

#### The significant risk in relation to management override, its impact on the financial statements and our audit challenge

The significant number of Benefits paid each year means that incorrect calculations could yield a material error. Given that payments are made based on clearly defined rules, there is very limited scope for management judgement in this area.

#### Audit work completed to address the significant risk

The following tests were performed to address the significant risk around benefits:

- we reviewed the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and testing to controls were in force during the year under review;
- we performed tests of detail, on a sample of benefits paid, by agreement to supporting calculations and other documentation, to test whether benefits were in all material respects correctly calculated, by reference to their qualifying service, fund rules and benefit choices made:
- we developed an expectation based on changes in membership numbers and Pension Increases Act to analytically review the benefits paid in the year; and
- we considered on a sample basis whether any changes in benefit rates were applied on a timely basis and correctly calculated.

#### Conclusion on benefits risk

All testing was completed with satisfactory results.

#### **Deloitte view**

From our testing of benefits as set out below there are no matters to bring to the attention of those charged with governance.

### 3. Investments

### There are areas of judgement involved in the valuation of investments.

#### Nature of risk

The pension fund's investments include derivatives, absolute return vehicles and quoted property funds. The pension fund invests in derivative financial instruments. These investments are more complex to measure, account for and disclose. Accordingly we have treated the appropriateness of the accounting and disclosure of these investments as a specific risk for our audit. The valuation of absolute returns and property funds is normally undertaken by the fund managers.

#### The significant risk in relation to management override, its impact on the financial statements and our audit challenge

Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error.

#### Audit work completed to address the significant risk

The following tests were performed to address the significant risk around investments:

- we have reviewed the design and implementation of controls present at the Fund for ensuring investments are valued correctly;
- we have assessed the competence and independence of the valuers used by the Fund. We have obtained internal control reports, where available, for investment managers reviewed the controls in place around valuation to identify any weaknesses;
- we have reconciled the total value of the investments held by the Fund as reported in the custodian report from Bank of New York Mellon to the value of investments reported in the Net Assets Statement;
- we have compared the valuations provided by Northern Trust to the reports provided by the investment managers noting only clearly trivial differences:
- as the year end valuation of derivatives is not clearly trivial our work has been limited to the testing of sales and purchases which are material:
- we have performed a test of detail on a sample basis of the absolute return vehicle (ECM) and quoted property fund (Hermes) compared the value reported by the Bank of New York Mellon to the quoted price obtained from Bloomberg and other independent sources. Were the absolute return vehicle is not quoted (Standard Life and Newton) we have, where possible, reviewed post year-end sales and purchases to confirm that the year-end value is a fair market price. Were this has not been possible we have performed further analytical procedures using quoted information on returns and considered the issues identified in the AAF report; and
- we have reviewed the disclosure notes and agreed these to supporting documentation.

#### Conclusion on investment risk

We have reviewed the additional disclosure included within the draft accounts. A number of minor errors were identified, reported to management and subsequently corrected. Two immaterial differences were identified as part of our testing of investments (Appendix1).

#### **Deloitte view**

From our testing of investments as set out below there are two immaterial differences on the valuation of certain investment to bring to the attention of those charged with governance.

# 4. Management override of controls

We have focused on the testing of journals, significant accounting estimates, and any unusual transactions in the year.

#### Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

#### The significant risk in relation to management override, its impact on the financial statements and our audit challenge

Any significant judgements made by management could materially impact the financial statements. Items that are particularly of audit interest are estimates and provisions that have been put into the year-end accounts.

#### Audit work completed to address the significant risk

We have performed the following audit procedures:

- reviewed the processes and performed design and implementation work on the controls management have in place;
- used our 'Audit Analytics' software to test a risk focused sample of journals to ensure the appropriateness;
- · reviewed accounting estimates for evidence of bias; and
- reviewed the business rationale of any significant transactions that are outside the normal course of business for the Fund.

#### Conclusion on management override of controls risk

All testing was completed with satisfactory results.

#### **Deloitte view**

From our testing of a risk based sample of journals and review of Committee minutes, we do not consider management's estimates to be unreasonable and nor have we identified any evidence of bias. This section focuses on the annual report, as well as the sufficiency of other required disclosures. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the disclosures.

# Your annual report—our review and insights

# Our review of your annual report

# We highlight a number of observations from our audit procedures



#### **Financial reporting**

The Annual Report is required to be prepared in accordance with Code of Pratice on Local Autority Accounting 2013/14 and the additional requirements of regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 ("Regulation 34)

Management provided a copy of the draft accounts by 30 June 2014 which is in accordance with the statutory deadline. A first draft of the Annual Report which includes the additional information required by Regulation 34 was provided to audit on 21 August 2013.

We have reviewed the disclosures in the accounts against the current version of the Local Government Pension Accounts and Disclosure checklist. We have identified a number of minor points that have been corrected by management.

We have also considered the completeness of the additional information and noted that this is in accordance with the requirements of Regulation 34.

#### **Accounting policy 1**

The accounting policies have been prepared in accodance with the Code of Practice on Local Authority Accounting 2013/14

Management update the accounting policies on an annual basis and present these to the Audit Committee for their consideration.

There are no matters to bring to your attention from our review of the Fund's accounting policies.

#### Other disclosure matter

A statement on the IAS 19 position has been prepared by the Actuary

In accordance with the Code of Practice on Local Authority Accounting 2013/14 the Fund is required to include details of the actuarial present value of promised retirement benefits. In 2013/14 the Fund has continued to adopt a format C presentation, meaning that the report is appended to the accounts.

In accordance with the guidance issued by the Audit Commission when an authority adopt a format C presentation for the actuarial present value of promised retirement benefits then this information is not subject to audit. Our procedures have therefore been limited to considering the consistency of this information with knowledge gained during our audit.

In this section we set out our comments regarding your internal control and risk management processes. We communicate any significant deficiencies in the internal control environment to the Audit Committee.

# Insight - Internal control and risk management

# Internal control and risk management



## We highlight a number of observations from our audit procedures

We are required to provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to risks that may affect financial reporting; and other risks arising from the entity's business model and the effectiveness of related internal controls.

Significant Risk	Internal Controls	Current position
Contributions	<ul> <li>Quarterly reconciliations are performed of cash received against contributions recorded in orcale.</li> <li>Contributions are accounted for on a monthly basis when received from employers. Annual returns are received from employers which are checked against the monthly records.</li> <li>The pensions team verify a members eligability to join the scheme via confirmation from the employer.</li> <li>Changes to membership records such as hours need to be confirmed by the employer. An additional check is done at the end of the year to reconcile what was paid over by the employer to the Fund to the employers annual return to identify any errors caused by incorrect information in Axise.</li> </ul>	G
Benefits	<ul> <li>On retirement members are given a choice on the level of pension vs. lump sum. Members are required to sign the retirement option form stating what option they are choosing and this is then uploaded to Axise.</li> <li>The systems team uploaded the pensions increase and its application date on an annual basis.</li> <li>The pensions team send a file of all pensioners data to ATMOS, who match against their database and ensure the Fund is aware of the occurrence of all deaths of its members.</li> <li>On a monthly basis a three way reconciliation is performed of benefits paid between the bank account and Oracle, Oracle to the cash code allocations and cash code allocations to Axise.</li> </ul>	G
Investments	<ul> <li>Investment reports are received from the Custodian on a monthly basis and reconciled to the information received from the investment manager.</li> <li>Performance of investment are reported to the Pension Fund committee on a quarterly basis.</li> </ul>	G
Management override of controls	<ul> <li>Regular financial reporting to the Pension Fund committee including progress against budget.</li> <li>Electronic approval process for journals with journals posted by the pension team and reviewed by another member of team however there are no limits on the value of journals that individuals can post. For complex transactions the journal is reviewed by Tom Morrison.</li> </ul>	A
G No issues noted	A Acceptable but could be improved Requires significant improvement	

# Internal control and risk management (continued)



#### Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the work of internal audit and considered any impact upon our risk assessment. We did not place direct reliance on the work of internal audit.

#### Update on prior year control recomendations

Background	Recommendation	2013/14 update
Bank reconciliaitons:		
On review of the year end bank reconciliation, it was noted that a number of cancelled cheques appeared on the reconciliation when they should have been removed.	Management should review the bank reconciliation for cancelled cheques and ensure that these are appropriately dealt with.	All cancelled cheques were cleared from the reconciliation during the year. Our review of the year end bank reconciliation shows that there were no cancelled cheques included in the reconciliation.
		Status - Closed
Cash pooling with North Yorkshire County Council:		
In was identified as part of the 2010/11 audit that the arrangement for cash pooling by the Fund with North Yorkshire County Council would not be in compliance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations when these	In line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations the assets of the Fund should be clearly ring-fenced from other monies of the Local Authority.	In October 2013 the banking arrangement with Barclays Bank plc were amended to allow the bank balances of the Authority and the Fund to be held separately but will still be considered in aggregate for the purpose of applying a commercial interested rate.
came in to force on 1 April 2011.		Status - Closed

Responsibility Statement

# Purpose of our report and responsibility statement

# Our report is designed to help you meet your governance duties

#### What we report

Our report is designed to help the Audit Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- results of our work on key audit judgements;
- our views on the effectiveness of your system of internal control relevant to risks that may affect financial reporting; and
- Other insights we have identified from our audit.

#### What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Fund.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements.

#### The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated June 2014 and the supplementary "Briefing on audit matters" which was circulated as an appendix to the Audit Plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



#### **Deloitte LLP**

**Chartered Accountants** 

Leeds

15 September 2014

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

# Appendices

### Appendix 1: Audit adjustments

### Unadjusted misstatements detail

#### **Uncorrected misstatements**

The following uncorrected misstatements have been identified up to the date of this report which, as required by International Standards on Auditing (UK and Ireland), we request that you ask management to correct. Uncorrected misstatements decrease net increase in net assets by £5.3 million and decrease net assets by £5.3 million.

		Debit/(credit) income statement £000	Debit/(credit) in net assets £000	Debit/(credit) prior year retained earnings £000	Debit/(credit) in revenue £000
Misstatements identified in current year					
Factual differences identified during investment testing	[1]	3,613	(3,613)	-	-
Extrapolated differences identified during investment testing	[2]	1,709	(1,709)		
Total		5,322	(5,322)	-	-

<sup>[1]:</sup> Pricing differences identified in relation to the Newton and Baillie Gifford Life Investments arising from the time of day that independent pricing information was obtained by Bloomberg and other independent sources.

#### **Disclosure deficiencies**

From our work to date we have identified a small number of comments on the financial statements which have been discussed with management and we understand they are intending to correct these within the final version of the financial statements. We will confirm these have been corrected as part of our final review of the financial statements.

<sup>[2]:</sup> Extrapolated differences arising from sample testing on the M&G investments due to foreign exchange and prices differences from alternative independent sources.

### Appendix 2: Fraud: responsibilities and representations

Required representations



We have asked the Members to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

Concerns



No concerns have been identified from whistle blowing procedures from the work noted above and our audit procedures.

Audit work performed



In our planning we identified the risk of management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance. We have made direct enquiries in relation to any fraud risk factors and instances of fraud during the year. Our testing of journals provides comfort over the risk of management override of controls which was raised as a fraud risk.

In addition, we have reviewed management's own documented procedures regarding the fraud and error in the financial statements.

We have reviewed the paper prepared by management for Pension Fund Committee and the Audit Committee on the process for identifying, evaluating and managing the system of internal financial control.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

### Appendix 3: Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland) we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
Fees	We have not provided any non-audit services in the period from 1 April 2013 to 31 March 2014
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	There are no other relationships with North Yorkshire Pension Fund which would impact on our objectivity and independence.

The professional fees earned by Deloitte in the period from 1 April 2013 to 31 March 2014 are as follows:

	Current year £000	Prior year £000
Audit of North Yorkshire Pension Fund	24	24
Total	24	24

In March 2014 the Audit Commission agreed a rebate to be distributed across local audit bodies. The announcement came following a meeting of the Audit Commission's Board, who met to discuss the strategy for managing any retained earnings prior to its closure at the end of March 2015. The decision was made as part of the Board's role in setting the Commission's strategy and objectives and for determining its budget and the way it carries out its functions. The rebate was set at 13.7 per cent of the 2012/13 annual audit fee. The rebate sent to North Yorkshire County Council in respect of the North Yorkshire Pension Fund was £3,413.

### Appendix 4: Our approach to audit quality

### Recognition of and further impetus for our quality agenda

Audit quality is our number one priority. We pride ourselves on our commitment to quality and our quality control procedures. We have an unyielding pursuit of quality in order to deliver consistent, objective and insightful assurance.

The Financial Reporting Council ("FRC") issues an Annual Report on Audit Quality Inspections, providing an overview of the activities of its Audit Quality Review ("AQR") team for the year.

"The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures...

The firm took a number of steps in response to our prior year findings to achieve improvements in audit quality. This included enhanced guidance, technical communications and audit training on the recurring themes. However, issues continued to arise in some of these areas."

#### AQR Report on Deloitte for 2013/14

https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Report-May-2014-Deloitte.pdf

We will inform you if the AQR team selects your audit as part of their review for this year and will share its final report with you when it is complete.

#### **Deloitte response**

- Our strategic objective is to execute high quality, distinctive audits.
- We adopt an open and communicative approach with the regulator and their contribution to audit
  quality is respected and supported at all levels of our firm.
- We consider that the AQR's report provides a balanced view of the focus and results of its inspections and its recognition of the emphasis we place on our overall systems of quality control is welcome.
- We value the regulator's inspection and comments, and the review performed by the AQR forms an important part of our overall inspection process.
- As part of our agenda of continuous improvement we have given careful consideration to each of the FRC's comments and recommendations. This has included investigation of the root causes of each finding. This has enabled us to develop, in conjunction with findings arising from our own quality review procedures, an effective response to the themes arising.
- Following the AQR review, we have implemented improvements to our audit procedures and our system of quality control.
- Deloitte's Audit Transparency Report provides further information regarding our approach to delivering quality and is available on our website:

  http://www.deloitte.com/view/en GB/uk/about/annual-reports/index.htm

Twelve of the audits reviewed by the AQR were performed to a good standard with limited improvements required and four audits required improvements. We were disappointed that one audit was assessed as requiring significant improvements in relation to the testing of the collective and individual loan loss provisions although this did not cause the AQR to doubt the validity of our audit opinion. The overall analysis of the AQR file reviews by grade for the last five years evidences that, among the largest firms, Deloitte remains at the forefront of audit quality with 67% of audits achieving the top grade from the AQR, the highest proportion amongst our peers.

### Appendix 5: Letter of Representation

#### **Deloitte LLP**

One City Square

Leeds

LS1 2AL

Our Ref: CDP/AJL/NYPF2014 25 September 2014

Dear Sirs

North Yorkshire Pension Fund (the "Fund")

#### 2013/14 Audit – Representation Letter

This representation letter is provided in connection with your audit of the Fund's financial statements for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the period from 1 April 2013 to 31 March 2014 and of amount and disposition at the end of the Fund period of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the period, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We acknowledge as members of North Yorkshire County Council our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of active members of the Fund and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

#### Financial statements

- 1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which show a true and fair view.
- 2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

### Appendix 5: Letter of Representation (continued)

- 3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".
- 4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
- 5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.
- 6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the Fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

#### Information provided

- 7. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter and required by the Fund Administration Regulations.
- 8. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
- 9. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- 10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 11. We are not aware of any significant facts relating to any fraud or suspected fraud affecting the Fund involving:
  - (i). management;
  - (ii). employees who have significant roles in internal control; or
  - (iii). others where the fraud could have a material effect on the financial statements.
- 12. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.
- We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, including breaches of the Money Laundering Regulations, and contractual agreements whose effects should be considered when preparing financial statements

### Appendix 5: Letter of Representation (continued)

- Where required, the value at which assets and liabilities are recorded in the net asset statement is, in the opinion of the Authority, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Fund. Any significant changes in those values since the balance sheet date have been disclosed to you.
- 15. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
- 16. No claims in connection with litigation have been or are expected to be received.
- 17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
- 18. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the Fund should change.
- 19. No transactions have been made which are not in the interests of the members of the Fund during the Fund year or subsequent.
- 20. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements
- 21. You have been informed of all changes to the Fund rules during the year and up to the current date.
- The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- 23. The Fund has satisfactory title to all assets.
- 24. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
- All trades in complex financial instruments are in accordance with our risk management policies, have been conducted on an arm's length basis and have been appropriately recorded in the accounting records, including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments (including any embedded derivatives and written options) and other financial instruments has been withheld.
- 26. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Fund (Administration) Regulations 2008 and related guidance.
- 27. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2014 is complete, accurate and consistent with the information that is contained within the Accounts.

### Appendix 5: Letter of Representation (continued)

#### 28. We confirm that:

- all retirement benefits and funds, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the fund liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of North Yorkshire County Council

### Appendix 6: Draft opinion

### INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF NORTH YORKSHIRE COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26.

This report is made solely to the members of North Yorkshire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Corporate Director – Strategic Resources and the auditor

As explained more fully in the Statement of the Corporate Director – Strategic Resources Responsibilities, the Corporate Director – Strategic Resources is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of North Yorkshire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

### Appendix 6: Draft opinion (continued)

### **Opinion**

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of North Yorkshire County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### [Signature]

Christopher Powell FCA (Engagement Lead) For and on behalf of Deloitte LLP Appointed Auditor Leeds UK

25 September 2014

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North Yorkshire County Council
Final Report to the Audit Committee
For the year ending 31 March 2014





Deloitte LLP 1 City Square Leeds LS1 2AL United Kingdom

Audit Committee North Yorkshire County Council, County Hall, Northallerton, DL7 8AD

15 September 2014

**Dear Sirs** 

We have pleasure in setting out in this document our report to the Audit Committee of North Yorkshire County Council ("the Authority"). The report covers the principal matters that have arisen from our audit for the year ended 31 March 2014.

### In summary:

- The matters arising during our audit, which are summarised in this report, have now been largely addressed and our conclusions are set out in our report.
- Work is continuing on the annual report and some aspects of underlying audit work. A list of the outstanding
  testing still to be completed has been included in this report. We will be in attendance at the Audit Committee
  meeting on 25 September 2014 and will present an update to our final report on our audit at that time.
- In the absence of unforeseen difficulties, both we and management expect to meet the agreed audit and financial reporting timetable and we will then issue an unmodified audit report.

We would like to take this opportunity to thank Gary Fielding, Corporate Director- Strategic Resources, and his team for their assistance and co-operation during the course of our audit work.

**Chris Powell** 

**Engagement Lead** 

Chric Cowell

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### A reminder of our audit plan:

- Materiality £16.0m
- Significant risk areas:
  - · Revenue recognition;
  - Management override of controls;
  - Accounting for interests in group companies and the recoverability of interorganisational balances; and
  - Valuation of Non-Current Assets.
- VFM areas of focus:
  - Financial planning and efficiency plans;
  - Affordability and value for money of the Waste project; and
  - Reduction in resources.
- There have been no changes to the audit plan or scope since our planning report dated July 2014.



### The Big Picture

Subject to completion of the outstanding items of testing, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements, and an unqualified value for money (vfm) conclusion.

#### **Overall View**

- The audit is expected to be completed in line with the agreed timetable;
- We plan to sign the accounts on 25 September 2014 following the Audit Committee meeting;
- We anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements;
   and
- Our work to date supports the issue of an unqualified vfm conclusion.

#### **Audit work**

- We have discussed our initial comments on the draft financial statements with management.
- Audit adjustments identified have not impacted the General Working Balance or other usable reserves see Appendix 1.
- Disclosure deficiencies have been corrected by management see Appendix 1.
- We have identified no significant deficiencies in internal control.
- The Whole of Government (WGA) consolidation pack was submitted by the Council after the national deadline. We were required to report this delay to the Audit Commission but we do not anticipate this causing any problems in our being able to complete the audit submission in line with the deadline of 3 October 2014.

### **Outstanding Items**

- Review of final accounts, annual report and annual governance statement;
- Final review and closedown procedures;
- Checks of the final amendments to pension fund accounts to be reflected within the annual report;
- Receipt of assurances from the auditors of Group companies NYnet (Deloitte);
- Receipt of the letter of representation (draft attached in Appendix 6 final to be provided on 25 September 2014);
- Completion of WGA audit;
- Receipt of Legal letter;
- Completion of the review of the process to assess value for money of the waste project;
- Update of the subsequent events review to the date of signing the accounts.
- Receipt of a few outstanding audit information requests.

### Our Audit Quality Promise



#### Year round communication

- We have held regular meetings with Richard Flinton and Gary Fielding to discuss strategic developments of the Authority and in-year performance. We have held regular meetings with Peter Yates and officers to discuss accounts and audit related issues.
- Senior members of the audit team have attended the Audit Committee where updates on the audit process have been provided.
- We have made ourselves available through the year for ongoing discussions as necessary.

### Open feedback process

- We will hold a debrief meeting with Katy Riley and the Finance team to discuss how we have delivered against the commitments on both sides, as set out in this document, and any other aspects of our delivery.
- We will respond to this feedback with agreed actions and timescales.
- We have sought direct feedback throughout regular meetings during the year.

### During the main audit period

- We have held regular progress updates with Peter Yates and Katy Riley to discuss findings and any emerging issues on the financial statement audit.
- We held a close meeting with Gary Fielding and Peter Yates to discuss findings ahead of issuing our report to the Audit Committee.

### Responding to queries and requests

- We have responded to queries and requests on a timely basis;
- We have held meetings to discuss technical accounting and regulatory developments which have an impact on the Authority;
- We have made ourselves available to discuss issues as they arise.

### Significant Audit Risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and/ or disclosure matters within the financial statements.

### 1. Revenue Recognition

From work performed, no instances of improper grant income recognition were noted in the current year.

### Nature of risk

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

### The key judgement area(s), its impact on the financial statements and our audit challenge

For the Authority, based on our knowledge gained from previous audits, we consider that the specific revenue recognition risk relates to accounting for grant income.

The key judgment relating to grant income is the timing at which revenue is recognised with reference to the relevant standards, including IAS 20: "Accounting for Government Grants and Disclosure of Government Assistance". It can be complicated to determine the timing of the recognition of the grant income, and require management's judgment to determine that there is reasonable assurance that the entity will comply with the conditions attached to them and that the grants will be received.

#### Audit work completed to address the significant risk

- We have reviewed management's process for identifying and assessing the conditions attached to each grant;
- We have performed substantive testing over a sample of grants recognised as income, in order to assess the reasonableness of management's determination that any attached conditions for the receipt of the grant money have been satisfied; and we have also agreed the grants to third party source documentation; and
- We have also focused our testing on grant income deferred to future periods to ensure that the deferral
  is appropriate, based on whether the Authority has met the conditions of the grant, the grant is subject
  to claw back if the conditions are not met or the Authority is yet to incur the associated expenditure.

#### **Deloitte view**

No evidence has been identified that would indicate management bias in the revenue recognition policies adopted or the decisions made in relation to the recognition of grant income.

The revenue recognition policies are in line with other Local Government entities and the CIPFA Code.

### 2. Management override of controls

No indications of management override of controls have been noted during the course of our audit.

#### Nature of risk

International Standards on Auditing require auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The significant risk in relation to management override, its impact on the financial statements and our audit challenge

Management is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Management may override controls through:

- recording fictitious journal entries;
- applying inappropriate judgement;
- omitting, advancing, or delaying recognition of events and transactions;
- engaging in complex transactions that are structured to misrepresent the financial position or financial performance;
- · omitting disclosure of related parties and transactions; and
- altering records related to significant and unusual transactions.

### Audit work completed to address the significant risk

We have performed the following:

- Gained an understanding and evaluated the financial reporting process and the controls over journal
  entries and other adjustments made in the preparation of the financial statements, and tested the
  appropriateness of a sample of such entries and adjustments recorded through use of our Audit
  Analytics software to analyse the journal data as a basis for focusing our testing on higher risk journals;
- Reviewed accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management;
- Carried out a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements;
- Obtained an understanding of the business rationale of significant transactions that we are aware of that
  are outside the normal course of business or that otherwise appeared to be unusual given our
  understanding of the organisation and its environment;
- Reviewed related parties disclosures and considered completeness in light of prior year disclosures and our knowledge of the organisation. We also tested a sample of Member declarations against disclosures.

#### **Deloitte view**

No indication of management override of control as been noted during the course of our audit. We do not consider management's estimates to be unreasonable and nor have we identified any evidence of bias.

### 3. Group Companies

From work performed no issues were noted regarding the recoverability of inter-organisational balances.

#### Nature of risk

Accounting for interests in group companies and the recoverability of inter-organisational balances can require significant judgment from management to determine the appropriate accounting treatment for each group company.

The significant risk in relation to related party transactions, its impact on the financial statements and our audit challenge

There is a risk concerning the recoverability of inter-organisation balances between the Authority and its group companies. The Authority holds 100% shareholding in NYnet Limited and an indirect 100% shareholding in its subsidiary NYnet 100 Limited, a 78% shareholding in Yorwaste Limited, a 50% shareholding in Veritau Limited and an indirect 25% in Veritau's subsidiary Veritau North Yorkshire Limited, and a 30% shareholding in North Yorkshire Business and Education.

### Audit work completed to address the significant risk

We have performed the following:

- Reviewed the accounting treatment adopted for the 30% shareholding in North Yorkshire Business and Education. This has been excluded from the consolidated Group Accounts on the grounds of materiality which is consistent with our testing.
- Considered the recoverability of the current trading balances with all group companies by reviewing
  management's processes for agreeing the inter-organisational balances as well as reviewing post
  year-end cash receipts and payments. The recoverability of long term loans with all group companies
  was assessed through review current year trading profits and cash generation as a basis for assessing
  the future trading forecasts. In addition, the going concern work as part of the NYnet audit will include
  review of the budgets and forecasts to 2019/20.
- Obtained management's consolidation workings and reviewed the accounting treatments adopted and assessed whether they reflect management's ability to control the group entities.

#### **Deloitte view**

We are satisfied that management has appropriately accounted for its interests in other group companies. No issues have been noted regarding the recoverability of inter-organisational balances or management's decisions over accounting treatment.

### 4. Valuation of Non-Current Assets

### Overall the quality of valuation information has improved.

#### Nature of risk

There has been a clarification of the Code of Practice for 2013/14 and the Authority is required to revalue property, plant and equipment with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The Authority 's approach has been to value land and buildings on a 5 year rolling basis with a selection of categories being revalued each year, so that all categories are valued each cycle. To comply with the change in the requirement in the current year management have obtained a valuation of a sample of assets from each category that has not been revalued in full to ensure that they are not materially different to their fair value.

### The significant risk in relation to valuation of Non-Current Assets, its impact on the financial statements and our audit challenge

The number and value of the non-current assets held by the Authority is significant and due to the current economic climate the calculation of the valuation requires management to exercise a significant amount of judgement. The categories of assets that have been revalued in the year are special schools, outdoor education centres, education dwellings, youth centres, children's day centres, gypsy and traveller sites, administration offices, and children's centres. All other categories of land and buildings have been subject to the desktop valuation exercise.

### Audit work completed to address the significant risk

- We have reviewed the data extract supplied by the Authority to Bruton Knowles, as at 31 March 2013, to determine if the valuation has been prepared based on information from the Council that is both accurate and complete, and that this agreed to the fixed asset register audited as part of our prior year audit.
- Our internal property team have reviewed the assumptions and a sample of valuation work papers
  produced by Bruton Knowles as part of their revaluation of assets. Our review of the Bruton
  Knowles work papers indicated that the valuations produced are compliant with the requirements
  of the Code.
- We have reviewed the fixed assets register as at 31 March 2014 to ensure the results of the valuation have been appropriately reflected in the underlying accounting records.
- We have reviewed management's consideration of the Bruton Knowles report for impairments and assessed whether these will have an impact on other assets that have not been revalued in the current year but are controlled by the Authority.
- We have also considered the accuracy of the report produced by the Authority's property consultants, Jacobs which is used to assess the valuation of some of the additions.

#### **Deloitte view**

An error was noted on the Bruton Knowles report for the valuation of the County Hall. This was reported as £4.1m in the report but the value should be £5m based on the working papers. Bruton Knowles have, at our request, checked and confirmed that this was an isolated error. An adjustment has been raised in Appendix 1, however this has not been corrected as it is immaterial and, due to the technical accounting treatment of revaluations, does not impact usable reserves. The readers' interpretation of the accounts will not therefore be affected.

The results of all other testing were satisfactory with the valuation exercise being completed in line with the requirements of the Code.

### Value for Money (VFM) Conclusion

This section sets out our comments regarding our approach to local value for money (VFM) audit work at councils as specified by the Audit Commission. We explain the nature of the risk itself, how these risks have been addressed by our audit work.

### Work completed supports an unqualified VFM conclusion

### Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the Authority has put in place proper arrangements to secure financial resilience and economy, efficiency and effectiveness in its use of resources - this conclusion is known as "the VFM conclusion".

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2014
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

### Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the Authority's system of internal control as reported in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission of which there was none in 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

#### Risk assessment

We carried out a risk assessment, involving consideration of common risk factors for local authorities identified by the Audit Commission, our prior year audit findings, and our understanding of corporate management arrangements in place for risk, performance and project management, and concluding on whether they represent risks for the purpose of our VFM conclusion.

We undertook this preliminary work through review of relevant documentation, including Executive and Committee papers, the Authority's strategic risk register and financial and non-financial performance management information, and discussion with officers as necessary. We updated our detailed risk assessment from April to take account of the outturn financial and performance information for 2013/14, and through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities. No matters impacting our initial risk assessment were identified.

### Value for Money (vfm) Conclusion (continued)

#### Financial planning and efficiency plans

The Council continues to face severe financial pressures over the next few years. A medium term financial strategy (MTFS) with financial projections to 2018/19 is in place.

Savings of £19.3m have been agreed for 2014/15 and a further £73.4m will be required over the following four years. Proposals for £22.5m are in place for 2015/16 and high level proposals totalling £38.7m have been identified for the subsequent years, leaving a current gap of £12.2m to identify. The 2020 North Yorkshire programme will be critical to the achievement of the financial strategy and addressing the savings.

#### Our approach:

We selected a sample of budget reduction measures to assess the reasonableness of the quantification of the savings to be achieved, the risk assessment and the processes for identifying and addressing any costs of implementation.

We maintained a watching brief over the delivery of the savings plans and progress in the development of the savings plans to address the remaining balance to be addressed.

Given the Council's strong track record in delivering the One Council, we did not at the planning stage of our audit anticipate undertaking any detailed audit work in relation to 2020 North Yorkshire programme. We have, however, carried out a high level review of project management arrangements to develop our understanding and consider the implications for our VFM risk assessment.

### **Deloitte response:**

No major concerns have been identified in our testing of a sample of savings. Further work is required to address some of the schemes and there is some variation in the detailed delivery of the savings programme. One of our sample of 2014/15 schemes was found to be undeliverable: £0.7m savings to be achieved through providing financial product advice to self-funders (residential placements – assurance schemes) within Health and Adult Services is not being delivered as demand has been lower than expected. Alternative measures are in place to address the short term shortfall and work is ongoing to address the longer term impact. Focus continues to be maintained on the risks and potential impact of savings initiatives.

Within the savings programme overall, we would expect to see some variation in delivery but the Authority is continuing with the approach of achieving savings early where possible so the impact of any slippage and the overall position is managed. The monitoring arrangements for the delivery of the savings has been strengthened in the year with a regular schedule being included within 2020 North Yorkshire project management reporting. Our high level review of the 2020 project management arrangements did not identify any areas of concern that would impact our risk assessment or VFM conclusion.

At Quarter 1, the Authority is projecting a saving against operational budgets of £4.9m (after taking into account performance against savings plans) and £21.9m of non-recurring funding being available within the Pending Issues Provision (PIP) to fund investments.

Overall, the response of the Authority to the financial pressures is considered appropriate and any shortfalls and timing differences identified within our sample testing do not affect our value for money conclusion.

### Value for Money (vfm) Conclusion Continued

#### Withdrawal of Waste PFI credits

Following the withdrawal of the PFI credits for the Waste project, the Authority is still working with the appointed contractor, AmeyCespa to achieve financial close. At the time of our risk assessment, the Authority was waiting for AmeyCespa to pull together the funding package.

#### Our approach:

We have reviewed the progress of the re-evaluation of the scheme and our work to consider the affordability of the revised scheme and its impact on the Authority's financial position and MTFS is currently ongoing. We are also performing a review to assess management's approach to determining whether the project still demonstrably provides value for money. To inform our work we have reviewed reports from Ashfords LLP for legal implications in relation to the procurement process and independent financial advice on affordability and value for money obtained by management from Ernst & Young LLP (EY). We have not audited the financial model for the project.

#### **Deloitte response:**

EY concluded from their independent review that the estimated cost of the project was within the current total projected budget of both Councils (the Authority and its partner York City Council) and also less than Market Proxy comparator. Our work is still ongoing but based on work to date, the approach adopted by management is considered reasonable and there are no indications that the arrangements in relation to this project would impact our value for money conclusion.

#### **Reduction in capacity**

As part of the savings proposals within the MTFS, the Authority has undertaken restructuring within key corporate areas such as Finance and is continuing to reduce capacity across the organisation, including key functions such as Internal Audit. Although we did not identify any issues arising during our 2012/13 audit and have not identified any specific risks in 2013/14, the adequacy of capacity and capability in these functions continue to be critical during the current period of change and financial pressures.

Reduction in capacity also increases the risk of slippage in or non-compliance with the current control environment which has previously been assessed as strong.

### Our approach:

We maintained a "watching brief" over the adequacy of the capacity within the Finance and Internal Audit functions during the course of our audit. We have also considered the results and implications of Internal Audit work.

#### **Deloitte response:**

No matters of concern arising from reducing capacity as a result of reducing resources have been identified during the course of our audit work. Similarly, we noted no issues reported by Internal Audit which indicate deteriorating controls as a result of reducing capacity.



### Insight - Internal Control and Risk Management

# We highlight a number of observations from our audit procedures although none are considered significant issues.

Area	Observation/Finding	Recommendation	Management Comment
Cost of services	Invoices have historically been included within the wrong financial period. The expenditure figure for library software charges was recorded within the wrong financial period although as this has been done historically the in year cost is correct.	Invoices should be included within the financial year that they relate to through use of prepayments and accruals to recognise the expense in the correct year.	The library expenditure account has a full year charge going through each year therefore is consistent and the differences between the invoice values are immaterial. This will be corrected in the next year.

### Update on prior year observations

Area	Observation/Finding	Recommendation	Update
Authorisation of credit notes	The majority of credit notes under £30,000 are authorised by the credit control manager and not service line finance managers. There is a risk that inappropriate or fraudulent credit notes could be raised and then authorised by the credit control manager due to his limited knowledge of whether the credit notes are pertinent and appropriate as he is not directly involved in the services that are credited.	Directorate finance managers with a clear understanding of the circumstances resulting in the need for a credit note should authorise the credit notes produced.	Actioned. There is an updated process for authorisation of credit notes, the limit for the Credit Control Manager has now been reduced to £5,000 and any identified above this which he would previously sign off are now signed off by finance managers.
Disposal of infrastructure assets	Within the infrastructure asset category, disposals are not recognised when sections of the roads are replaced. This will lead to the overstatement of cost and historic depreciation brought forward. We recognise that it is in practice difficult to identify the historic cost of an infrastructure asset that has been replaced and that consequently some judgement will need to be applied in calculating an appropriately indexed depreciated historic cost. Management have provided an estimate of the cumulative net effect on the balance sheet carrying values arising from this for the three years since year ended 31 March 2011 – this was less than £2million.	From 2013/14, disposals and elimination should be recognised for replacement of infrastructure assets. The value of disposal should be based on replacement value as adjusted for inflation and depreciation already charged. We recognise that some Local Authorities do not currently do this, however others do and so to be in line with best practice and to be consistent with how the Code of Practice on Local Council Accounting states that such disposals ought to be treated in accordance with this recommendation.	Actioned.  During 2013/14 changes have been made so that disposals and elimination are recognised for replacement of infrastructure assets.

### Update on Prior Year observations (continued)

Area	Observation/Finding	Recommendation	Management Comment
Review of Fixed Asset Register	Within the asset register around 50% of PPE land and buildings have a net book value of nil. This suggests that either the assets need to be disposed of as they are no longer used by the Authority or the depreciation policy is incorrect and the Authority is writing assets off faster than they are consuming them. The depreciation policy currently at the Authority is to charge a full year of depreciation in both the year of acquisition and disposal. This means that a large proportion of 'extra' depreciation could be charged on assets depending on the acquisition and disposal dates (since they might be acquired or disposed of at a midpoint in the year but for that year a full year's depreciation would be charged) causing incorrect carrying value of assets.	Review the asset register to see if any assets which are no longer in use can be sold which may generate a gain on assets, or revalue the useful life of the asset to ensure the correct depreciation policy is used and the appropriate rate of depreciation charged if the items are still in use.  Depreciation should either be charged in the year of acquisition or the year of disposal if a full year charge is to be used. This would mean the NBV accurately reflects the value of the item due to NYCC not pro-rating the depreciation charge	Actioned.  Land and Buildings which the Authority do not have control over such as voluntary controlled schools are included on the assets register at nil NBV as an internal management tool in the closure of the accounts process. These properties have not been fully depreciated, but are included to identify the correct accounting treatment of capital expenditure. A review of the asset register was undertaken in 2013/14 and those records held for management purposes are now clearly highlighted.  Depreciation is now charged in the year of acquisition but not in the year of disposal.
Schools Bank Reconciliation	An error was identified between the reconciled balance produced by the individual schools for CYPS and the balance input into the schools bank position file by the CYPS team. This was due to human error and there being no review conducted of the schools position file before it was included in the total cash position.	The schools bank position file produced by CYPS should be checked by another member of staff to ensure that there are no incorrect inputs from the schools bank reconciliations and that any errors are picked up in a timely manner. If the balances are entered correctly it will save time and reduce the time spent correcting manual errors in the next periods.	Actioned. The schools bank reconciliation file is completed by one member of staff and is then reviewed by a further 3 members of the CYPS team. This time with the error being small, it was not picked up but controls are in place to ensure any material errors would be found quickly.

### Other areas of responsibility

### The Annual Governance Statement

### Requirement

We are required to review the Annual Governance Statement (AGS) for compliance with the prescribed format and content and to report where the Statement is inconsistent with our understanding of the Authority.

### **Background**

The AGS covers all significant corporate systems, processes and controls, spanning the whole range of an Authority's activities, including in particular those designed to ensure that:

- the Authority's policies are implemented in practice;
- high quality services are delivered efficiently and effectively;
- the Authority's values and ethical standards are met;
- laws and regulations are complied with;
- · required processes are adhered to;
- financial statements and other published performance information are accurate and reliable; and human, financial, environmental and other resources are managed efficiently and effectively.

#### Audit work completed

We have performed the following work in relation to the AGS:

- ensured that it complies with the requirements as set out in Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; and
- reviewed the Governance Statement to confirm that it is consistent with internal audit reports, Board minutes, the Internal Audit Annual Report and Opinion and our work on the financial statements.

#### **Deloitte view**

We are satisfied that the Annual Governance statement is consistent with the prescribed format and our understanding of the Council.

### Other areas of responsibility (continued)

### Challenge work

#### Requirement

In accordance with the Audit Commission Act 1998 (the Act), we are required to give electors the opportunity to raise guestions on the accounts and to consider and decide upon objections received in relation to the accounts.

### **Background**

Questions and objections can only be raised in relation to the year under audit and up until the time the audit is certified as completed, at which point the accounts are closed for audit purposes.

Questions must relate to fact and not opinion or policy.

Objections must comply with the requirements of Section 16 of the Act and regulation 17 of the Accounts and Audit Regulations 2003, and must request the auditor to:

- issue a report in the public interest; and / or
- apply to the courts for a declaration that an item of account is contrary to law.

#### **Audit work completed**

We have responded to three matters raised by electors in relation to 2013/14:

- Whitby Park and Ride Scheme: concerns were raised by an elector that throughout the life of the project, and especially more recently as the commitment to the project increases there has not been a thorough consideration of financial risks associated with both the construction of the site (capital) and the longer term running costs of the site and service (revenue) and the timetable for delivery required by the grant payer funding the scheme which, if not achieved, exposed the Authority to the risk of losing grant funding.
  - We investigated the matter and concluded that, based on information provided by and our additional enquiries of the Authority, there was no information before us that would indicate any immediate concern over the delivery of the project within the timetable allowed by the Department for Transport funding.
- Waste project: an objection was lodged on the basis that the disclosures in the accounts were not sufficient to enable the reader to understand the financial risks in relation to the waste project.
   We rejected the objection as it did not meet the statutory requirements but we did consider the concerns raised by the elector and concluded that the accounting and disclosures were in accordance with the Accounting Code.
- Approach to achieving value for money: concerns were raised by the same elector on the waste project relating to the Authority's definition of Value for Money and the role of the Audit Committee in relation to VFM.

The letter was addressed to the Chairman of the Audit Committee and we considered the response from the Chairman addressed the matters raised so we undertook no further work.

#### **Deloitte view**

No matters have been brought to our attention that impact our opinion on the accounts, VFM conclusion or that require the exercise of our other statutory powers.

### Purpose of our report and Responsibility Statement

# Our report is designed to help you meet your governance duties

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our report has been prepared on the basis of, and our audit work carried out in accordance with the Code and the Statement of Responsibilities, copies of which have been provided to the Authority by the Audit Commission.

### What we report

Our report is designed to help the Audit Committee discharge its governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Financial Statements;
- Other insights we have identified from our audit; and
- Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors' report.

#### What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- While our reports may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Authority's system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice
- Finally, our views on internal controls and risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our Audit Quality Promise.

# Purpose of our report and Responsibility Statement (continued)

### The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated July 2014.

We welcome the opportunity to discuss our report with you and receive your feedback.

Delville LLP

#### **Deloitte LLP**

**Chartered Accountants** 

Leeds

15 September 2014

We view this report as part of our service to you for use as Members of North Yorkshire County Council or for Corporate Governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent

If you intend to publish or distribute financial information electronically, or in other documents, you are responsible for ensuring that any such publication properly presents the financial information and any report by us thereon and for controls over, and security of the website. You are also responsible for establishing and controlling the process for electronic distributing accounts and other information.

### Appendix 1: Identified Misstatements

### Disclosure misstatements

#### **Disclosure misstatements**

Auditing Standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. The table below highlights the disclosure deficiencies we have identified during the course of this year's audit which have been corrected by management in the final version of the accounts. A number of other more minor presentational items were also brought to the attention of management and corrected.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Long term bad debt provision misstated - Note 32	£937k of Health and Adult Service bad debt provision appears in long term debtors when it should appear in Note 34 Short term debtors. This has been corrected by management for the final version of the accounts.	Quantitative
Contingent Liabilities - Note 40 and Explanatory Foreword	Several immaterial disclosures were included within the accounts. Detail of the contingent liabilities was included within the Explanatory Foreword and not the accounts. These have been corrected by management for the final version of the accounts.	Qualitative
Pension Disclosures - Note 11	Various minor errors were noted in the Pensions Disclosure note. These have been corrected by management for the final version of the accounts.	Qualitative
Accounting Standards Issued not yet Adopted - Note 2	The disclosures in Note 2 included IAS 1 – Presentation of Financial Statements, which was not included within the Code. This has been corrected by management for the final version of the accounts.	Qualitative

### Appendix 1: Identified Misstatements (continued)

#### **Corrected misstatements**

No reportable corrected misstatements were identified. Minor audit adjustments were identified as part of our audit procedures and also through management processes, none of which were above the determined clearly trivial threshold of £320k.

#### **Uncorrected misstatements**

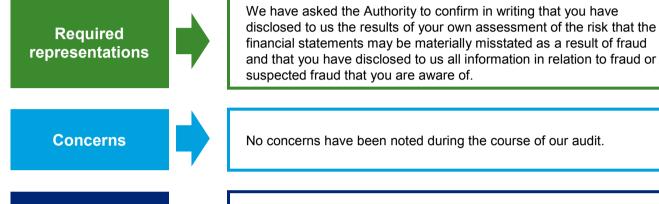
The following uncorrected misstatements have been identified up to the date of this report which, as required by International Standards on Auditing (UK & Ireland), we request that you ask management to correct.

We will obtain written representations from the Authority setting out management's reasons for not correcting misstatements brought to their attention and confirming that after considering all uncorrected items, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no further adjustments are required.

	(Credit)/ Charge to Income & Expenditure £m	(Increase)/ Decrease to General Fund £m	Increase/ (Decrease) in net assets £m	(Increase)/ Decrease in unusable reserves £m
County Hall Valuation (note 1) Dr Fixed Assets Cr Unusable reserves			0.9	(0.9)
Total			0.9	(0.9)

Note 1: numerous double entries would be required to process this adjustment but to assist in understanding the impact of the error, they have not been reproduced in full.

# Appendix 2: Fraud: responsibilities and representations



Audit work performed



In our planning we identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation and our findings are detailed within the Significant Audit Risks section of this report.

During the course of our audit, we have had discussions with management and internal audit.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

### Appendix 3: Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland), we are required to report to you on the matters listed below.

### Independence confirmation

We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

The fees charged by Deloitte for the period from 1 April 2013 to 31 March 2014 were: £125,987 (2012/13 £125,987) in relation to external audit services.

# In March 2014 the Audit Commission agreed a rebate to be distributed across local audit bodies. The announcement came following a meeting of the Audit Commission's Board, who met to discuss the strategy for managing any retained earnings prior to its closure at the end of March 2015. The decision was made as part of the Board's role in setting the Commission's strategy and objectives and for determining its budget and the way it carries out its functions. The rebate was set at 13.7 per cent of the 2012/13 annual audit fee. The rebate sent to the Authority was £17,241.

Our work on the certification of claims is still ongoing but the fees are anticipated to be in line with the fee set by the Audit Commission of £1,600 and will be reported in our annual report on this work to be issued in February 2015.

We have been asked to certify one grant claim that falls outside the Audit Commission regime but the grant payer has not yet clarified requirements so we cannot at this stage estimate the potential fee. We will report this information to the Committee when it is available.

### Non-audit services

**Fees** 

No non audit services have been provided.

### Appendix 4: Our approach to audit quality

### Recognition of and further impetus for our quality agenda

The Financial Reporting Council ("FRC") issues an Annual Report on Audit Quality Inspections, providing an overview of the activities of its Audit Quality Review ("AQR") team for the year.

"The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures...

The firm took a number of steps in response to our prior year findings to achieve improvements in audit quality. This included enhanced guidance, technical communications and audit training on the recurring themes. However, issues continued to arise in some of these areas."

#### AQR Report on Deloitte for 2013/14

https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Report-May-2014-Deloitte.pdf

## The Audit Commission monitors the performance of all the audit firms delivering work on its behalf covering:

- the quality of audits: an annual quality review programme assessing the firm's quality control procedures and reviewing a sample of the firm's quality monitoring reviews; and
- regulatory compliance: monitoring the firm's compliance with the Commission's regulatory requirements and performance against key performance indicators.

Quarterly compliance reports and an annual Regulatory Compliance and Quality Report are published on the Commission's website.

#### **Deloitte response**

- The report provides a balanced view of the focus and results of the AQR's inspection and its recognition of the emphasis we place on our overall systems of quality control is welcome.
- We are committed to audit quality and this is demonstrated by the AQR's assessment that, over the last 5 years, 67% of our audits were "good, with minor improvements required", the highest proportion amongst our peers.
- The external inspection process provides further impetus to our quality agenda and we give careful consideration to each of the FRC's comments and recommendations, as well as findings arising from our own regular quality review procedures. In many cases we have already taken concrete steps to respond to the themes arising.
- Deloitte's Audit Transparency Report provides further information regarding our approach to delivering quality and is available on our website:

http://www.deloitte.com/view/en GB/uk/about/annual-reports/index.htm

Twelve of the audits reviewed by the AQR were performed to a good standard with limited improvements required and four audits required improvements. We were disappointed that one audit was assessed as requiring significant improvements in relation to the testing of the collective and individual loan loss provisions although this did not cause the AQR to doubt the validity of our audit opinion. The overall analysis of the AQR file reviews by grade for the last five years evidences that, among the largest firms, Deloitte remains at the forefront of audit quality with 67% of audits achieving the top grade from the AQR, the highest proportion amongst our peers.

### Appendix 5: Additional resources available to you

### How we keep you up to date

### **UK Accounting Plus**

Deloitte has launched <u>ukaccountingplus.co.uk</u>, a UK-specific version of its acclaimed news and comment service, <u>iasplus.com</u>. For everyone from CEOs and CFOs to auditors and students it provides a free source of news, information and insight as well as a vast archive of background to provide context

### Our range of publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance; model annual report and financial statements; and our major text on financial instruments providing in depth support to preparers and auditors in this challenging area.

Our range also includes quarterly iGAAP newsletters providing a round up of recent developments. iGAAP and ukGAAP alerts are issued whenever a new exposure draft or standard is issued.

### Stay tuned online: Internet-based corporate reporting updates

The Deloitte UK Technical Team run a series of internet-based financial reporting updates, aimed at helping finance teams keep up to speed with IFRS, UK GAAP and other reporting issues.

Each update lasts no more than one hour, and sessions are held three times a year, at the end of March, July and November. Recordings of past sessions are available via <a href="https://www.deloitte.co.uk/audit">www.deloitte.co.uk/audit</a>.

### **Audit podcasts**

Our leading experts provide you with a short discussion of new IFRS standards and practical insights. These can be accessed via our website, <a href="https://www.deloitte.co.uk/audit">www.deloitte.co.uk/audit</a>. Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

# Appendix 6 : Draft Management Representation Letter

Deloitte LLP 1 City Square Leeds LS1 2AL

#### **Dear Sirs**

This representation letter is provided in connection with your audit of the financial statements of North Yorkshire County Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of North Yorkshire County Council as of 31 March 2014.

We confirm, to the best of our knowledge and belief, the following representations.

#### Financial statements

- 1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework which give a true and fair view.
- 2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- 3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures"*
- 4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
- 5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to the report to the Audit & Constitutional Committees.
- 6. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for any future actions.
- 7. We confirm that in our view the provision in relation to debt is adequate.

# Appendix 6 : Draft Management Representation Letter (continued)

#### Information provided

- 8. We have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters:
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- 9. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
- 10. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- 11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 12. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of that affects the entity and involves:
  - (i) management;
  - (ii) Members of the Council;
  - (iii) employees who have significant roles in internal control; or
  - (iv) others where the fraud could have a material effect on the financial statements
- 13. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- 14. We are not aware of any instances of non-compliance, or suspected non-compliance with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements.
- 15. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.
- 17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

# Appendix 6 : Draft Management Representation Letter (continued)

#### 18. Pension Scheme:

- all retirement benefits and schemes have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the value of scheme liabilities accord with the members' best estimates of the future events that will affect the cost of retirement benefits and are consistent with the members' knowledge of the business;
- the actuary's calculations have been based on complete and up-to-date member data (as far as is appropriate regarding the adopted methodology); and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.
- 19. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the Members, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council. Any significant changes in those values since the balance sheet date have been disclosed to you.
- The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets.
- 21. We are not aware of any potential claw back by grant payers of grants that have been released to income.
- 22. There have been no events since the balance sheet date which require adjustment of or a disclosure in the financial statements or notes thereto that have not been fully disclosed. Should further material events occur, which may necessitate revision of the figures included in the annual accounts or inclusion of a note thereto, we will advise you accordingly.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of North Yorkshire County Council

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Member of Deloitte Touche Tohmatsu Limited

#### NORTH YORKSHIRE COUNTY COUNCIL

#### **AUDIT COMMITTEE**

#### **25 SEPTEMBER 2014**

#### NORTH YORKSHIRE PENSION FUND ANNUAL REPORT 2013/14

Report of the Corporate Director – Strategic Resources and Treasurer to the Pension Fund

#### 1.0 PURPOSE OF REPORT

1.1 To receive the North Yorkshire Pension Fund Annual Report for the financial year 2013/14.

#### 2.0 ANNUAL REPORT

- 2.1 The County Council's Statement of Final Accounts (SOFA) for 2012/13 incorporates the Accounts of the North Yorkshire Pension Fund (NYPF) and is dealt with under Item 7, Statement of Final Accounts including Letter of Representation.
- 2.2 To comply with Section 34 of the Local Government Pension Scheme (Administration) Regulations 2008 an Annual Report must be prepared for the Pension Fund, which includes the NYPF Accounts as well as certain governance documents and other information. This documentation was approved by the Pension Fund Committee (PFC) on 10 July 2014. The PFC was later advised of a small number of minor (non-material) changes to the Accounts resulting from the audit process at its meeting on 18 September 2014. The Annual Report for 2013/14 including these amendments is attached as Appendix 1.

#### 3.0 RECOMMENDATIONS

3.1 Members are asked to note the North Yorkshire Pension Fund Annual Report for 2013/14.

GARY FIELDING
Corporate Director – Strategic Resources and Treasurer to the Pension Fund
Central Services
County Hall
Northallerton

11 September 2014

# North Yorkshire Pension Fund

Annual Report and Accounts 2013/14





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#### PART 1 – MANAGEMENT OF THE FUND

#### 1.1 Introduction

North Yorkshire County Council (NYCC, the Council) is the statutory administering authority for the North Yorkshire Pension Fund (NYPF, the Fund), which is part of the Local Government Pension Scheme (LGPS). All aspects of the Fund's management and administration, including investment matters, are overseen by the Pension Fund Committee (PFC), which is a committee of the Council.

The purpose of the Fund is to provide retirement benefits specified by the LGPS regulations for staff working for local authority employers, and other employers admitted by agreement, in the North Yorkshire area. The regulations also specify the member contribution rates as a percentage of pensionable pay, with employer contribution rates being set every three years by the Fund's Actuary. These contributions are supplemented by earnings on the Fund's investments in order to pay retirement benefits.

The day to day running of the Fund is delegated to the Treasurer who is the Corporate Director – Strategic Resources of the Council and is responsible for implementing the decisions made by the PFC. Supporting him is a team of staff split into two sections. The Pensions Administration team administers all aspects of member records, pension benefits etc and the Integrated Finance team looks after the accounting and management information requirements of the Fund. All aspects of the day to day management of investment funds are undertaken by external fund managers.

#### 1.2 Pension Fund Committee

PFC membership as at 31 March 2014 was as follows.

Members	Position	Voting Rights
John Weighell (Chairman)	Councillor, NYCC	Yes
Roger Harrison-Topham	Councillor, NYCC	Yes
(Vice-Chairman)		
Bernard Bateman MBE	Councillor, NYCC	Yes
John Blackie	Councillor, NYCC	Yes
Margaret-Ann deCourcey-Bayley	Councillor, NYCC	Yes
Patrick Mulligan	Councillor, NYCC	Yes
Helen Swiers	Councillor, NYCC	Yes
Jim Clark	Councillor, District Councils'	Yes
	representative of Local Government	
	North Yorkshire and York	
Dafydd Williams	Councillor, City of York Council	Yes
Sam Cross	Councillor, NYCC	Yes
Chairman of the NYPF Advisory	Councillor, NYPF Advisory Panel	No
Panel	representative	
3 Unison representatives	Union Officials	No

.

The powers delegated to the PFC are detailed in paragraph 2.1 of the Governance Compliance Statement (Appendix D).

During the year the PFC formally met on five occasions supported by its Independent Investment Adviser, Investment Consultant and the Independent Professional Observer, as well as the Treasurer. The Committee meetings provide a forum for discussion about economic and market trends, monitoring the performance of the investment managers and considering their individual investment strategies.

# 1.3 Fund Administrators, Advisers and Investment Managers

Treasurer Gary Fielding

Investment Consultant Aon Hewitt

Independent Investment Adviser Carolan Dobson (Investment Adviser &

Trustee Services)

Independent Professional Observer Peter Scales (AllenbridgeEpic)

Actuary Mercer

Legal Services Ward Hadaway

Head of Legal Services, NYCC

Auditor Deloitte

Banker Barclays Bank

Custodian Bank of New York Mellon

Custodian Monitoring Thomas Murray Shareholder Voting PIRC

Performance Measurement BNY Mellon Asset Servicing

Fund Managers Amundi Asset Management

Baillie Gifford Life

ECM Asset Management FIL Pensions Management

Hermes Investment Management

Legal & General Investment Management

M&G Investment Management Newton Investment Management Standard Life Pension Funds

Threadneedle Pensions YFM Venture Finance

AVC Provider Prudential

# **PART 2 – SCHEME ADMINISTRATION**

# 2.1 Administering Authority Arrangements

The Fund's administration is the responsibility of Gary Fielding, the Treasurer, who is supported by Tom Morrison, Principal Accountant Pensions & Projects and Nigel Dowey, Pensions Manager (Administration).

Staff within the Pension Administration section are responsible for administering the Scheme, including the calculation and administration of benefit payments and transfer values, recording employee and employer contributions, the maintenance of employees' pension records and communications with employers and employees.

Staff within the Integrated Finance section are responsible for maintaining the Fund's accounts and investment records, prepare quarterly reports to the PFC, produce the Annual Report and Accounts and act as a point of contact with the Fund's managers, advisers and auditors.

# 2.2 Public Sector Pensions – Finance Knowledge and Skills

The PFC recognises the importance of ensuring that all Members and officers charged with the financial management, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge their duties responsibilities. The PFC also seeks to ensure that those Members and officers are both capable and experienced by making available the training necessary for them to acquire and maintain the appropriate level of expertise, knowledge and skills.

Following the issue of CIPFA guidance "Pensions Finance Knowledge and Skills Frameworks" the PFC provides routes through which the recommended knowledge and skills set out in the guidance may be acquired, as described below.

# 2.3 Training for Pension Fund Committee Members and Officers

#### (i) Internal

Two Investment Strategy Workshops and four investment manager meetings were held throughout the year, all of which were well attended by PFC Members and officers of the Fund.

Members and officers also made use of the CIPFA Knowledge & Skills resource library and accessed the Trustee Needs Analysis (TNA) where appropriate, which is aimed at identifying gaps in knowledge and skills, as a complement to alternative training resources.

# (ii) Externally Provided

In addition to the training provided through Workshops as described above, Members and officers are encouraged to attend courses, conferences and other events supplied by organisations other than the Council. These events provide a useful source of knowledge and guidance from speakers who are experts in their field. Attendance at these events is recorded and reported to the PFC each quarter.

Events attended by PFC Members during 2013/14 were:

Event	Place	Date
NAPF Local Authority Conference	Gloucestershire	20 – 22 May 2013
LGC Investment Summit	Newport	05 – 06 September 2013
SPS Pension Trustees Circle	Harrogate	29 – 30 September 2013
Baillie Gifford Local Authority Seminar	Edinburgh	02 - 03 October 2013
NAPF Annual Conference	Manchester	16 – 18 October 2013
LAPFF Annual Conference	Bournemouth	04 – 06 December 2013
NAPF Investment Conference	Edinburgh	05 - 07 March 2014

## PART 3- INVESTMENT POLICY AND PERFORMANCE

# 3.1. Investment Policy

#### (a) Regulations

NYCC is required, as the administering authority, to invest any NYPF monies which are not immediately required to pay pensions and other benefits. The LGPS Management and Investment of Funds Regulations 2009 set out certain restrictions as to individual investments, the purpose of which is to limit the exposure risk of an LGSP fund. Full details of the investment policy are shown in the Statement of Investment Principles (Appendix C).

#### (b) Investment Management arrangements

As at 31 March 2014 the following investment management arrangements were in place.

- → Baillie Gifford managed two active global (ie including UK) equity portfolios, namely Global Alpha and Long Term Global Growth (LTGG). Each of these portfolios is in the form of a pooled vehicle, rather than being invested in segregated holdings. Both are managed without reference to a benchmark, however the FTSE All World index is for used performance measurement purposes
- → Fidelity managed an active overseas equities (ex UK) portfolio comprising segregated holdings in overseas companies against a composite MSCI World (ex UK) index
- → Standard Life managed an active UK equity portfolio comprising segregated holdings in UK companies against the FTSE 350 (excluding investment trusts) equally weighted index
- → Amundi managed an active global fixed income portfolio through a pooled fund, against the "least risk" benchmark of index linked and fixed interest gilts
- → ECM managed an active European corporate bond portfolio through a pooled fund on an absolute return basis, using 1-month LIBOR for performance measurement purposes
- → M&G managed an active Gilts portfolio comprising segregated fixed income and index linked holdings, against the "least risk" benchmark
- → Hermes managed an active UK Property portfolio through a pooled fund with the objective of outperforming the retail price index (RPI)
- → Threadneedle and Legal & General both commenced managing active UK Property portfolios during the year through pooled funds with the objective of outperforming RPI
- → Standard Life and Newton both commenced managing Diversified Growth Fund portfolios during the year through the Global Absolute Return Strategy (GARS) and Real Return (RR) pooled funds respectively, with the objectives of significantly outperforming the cash benchmark

The Fund also has a small investment in the Yorkshire & Humber Equity Fund. The current residual cost of this investment is £0.3m.

During the year, the Fund disinvested from the UK equity portfolio managed by R C Brown Investment Management Plc.

Finally, a currency hedging programme was operated through the Fund's global custodian, BNY Mellon Asset Servicing, in respect of 25% of the Fund's investments in overseas equities. At the PFC meeting on 21 November 2013 Members decided to end this arrangement and the last positions were settled on 19 February 2014.

The agreed asset class structure for the investment portfolio remained unchanged over the course of the year and as at 31 March 2014 was as follows:-

	Minimum Allocation to Bonds/Alternatives/Property %	Maximum Allocation to Bonds/Alternatives/Property %
Equities	75	50
Bonds	15	30
Alternatives (ex Property)	5	10
Property	5	10
Total	100	100

#### (c) Custody of Investments

BNY Mellon Asset Servicing is the custodian for the Fund's assets. There are two exceptions, being:-

- (i) Yorkshire and Humber Equity Fund, which uses the Royal Bank of Scotland plc
- (ii) Internally Managed Cash, which is held in the Fund's bank account held at Barclays Bank, Northallerton. Money in this account forms part of the balance of funds invested by the Council for treasury management purposes. A formal service agreement exists between the Council and the Fund so that the Fund receives an interest rate return equivalent to that achieved by the Council.

The main services provided by BNY Mellon are the custodianship of the Fund's assets, including settlement of trades and collection of income, investment accounting and performance measurement of the fund managers.

#### 3.2 Performance

#### (a) Fund and Manager Performance

Fund performance is measured and assessed on a quarterly basis primarily by Mellon Analytical Services (MAS), a division of BNY Mellon. A second tier of analysis is provided by the WM Company for the purpose of assessing comparisons with the WM Local Authority Universe which comprises performance data of the vast majority other local authority pension funds. Performance of the Fund and individual managers is assessed relative to the defined benchmarks specified by the PFC.

Pension Fund investment is a long term business, so as well as considering the annual performance of the Fund, performance over extended periods in comparison to peers is also considered; this principle is applied both to individual managers and the overall Investment Strategy of the Fund.

The return produced by the Fund is a contributory factor in setting the employer contribution rates. The mix of assets within the Fund has been established to generate the greatest possible return within sensible limits of risk.

Performance for the year was +12.0% compared to the benchmark return of +5.9% and the local authority average (as measured by WM Services) of +6.4%. NYPF was ranked 2<sup>nd</sup> of out 82 Local Authorities within the WM Local Authority Universe. For the 5 year period to 31 March 2014 NYPF was ranked 1<sup>st</sup>.

The performance of the Fund as a whole and of the individual fund managers for the year to 31 March 2014 compared with their defined benchmarks is shown in the following table:

Fund Manager	Share of Fund @ March 2014	Fund Performance	Customised Benchmark	+/-
	%	%	%	%
Baillie Gifford Life Ltd - Global Alpha	16.6	12.8	6.8	6.0
Baillie Gifford Life Ltd - LTGG	10.3	20.6	6.8	13.8
Fidelity International	19.3	8.2	6.8	1.4
Standard Life Investments - Equities	20.0	26.7	18.5	8.2
ECM Asset Management	6.0	4.6	0.5	4.1
Amundi Asset Management	11.0	-3.1	-3.4	0.3
M&G Investment Management Ltd	3.5	-1.6	-3.4	1.8
Hermes Investment Management Ltd	1.2	13.8	2.5	11.3
Legal & General	1.3	12.4	2.5	9.9
Threadneedle	2.2	17.2	2.5	14.7
Standard Life (GARS)	4.0	3.3	0.5	2.8
Newton Investments (RR)	3.9	1.6	0.5	1.1
Yorkshire & Humber Equity Fund		3.8	8.8	-5.0
Internally Managed Cash	0.7	-	-	-
Total Fund	100.0	12.0	5.9	6.1

#### (b) Accounting and Cash Flow

The Statement of Financial Accounts for the year 2013/14 is shown at Appendix A.

The value of the Fund's assets at 31 March 2013 was £1,841m, and this increased by £242m during the year to give a value of £2,083m at 31 March 2014.

Prior to the start of the 2013/14 financial year, a Budget was prepared for NYPF which expressed the expected levels of expenditure (ie pensions, lump sums, administrative expenses) and income (ie employees and employers' contributions, net transfer values in, early retirement costs recharged). The Budget was monitored at each subsequent quarterly PFC meeting, and revised as necessary to take into account the latest projections.

The revised Budget for 2013/14 forecast a net cash surplus of £10.3m. The actual surplus for the year was £15.5m, resulting in an overall cash flow of £5.2m above expectations.

	Budget 2013/14	Actual Income / Expenditure	Variance
	£m	£m	£m
Expenditure			
Benefits	92.0	87.8	-4.2
Administration	1.5	1.6	0.1
Investment Expenses	4.2	6.0	1.8
Total Expenditure	97.7	95.4	2.3
Income			
Employer and Employee contributions	106.0	109.4	3.4
Transfers	2.0	7.2	5.2
Total Income	108.0	116.6	8.6
Net Surplus	10.3	21.2	10.9

The budget assumed that the larger employers in the Fund would seek to reduce staffing levels in response to the Government cutting funding to public sector organisations. This has occurred, however the extent and timing of staff reductions is difficult to predict.

The value of transfers equates to the net of transfer values for staff moving in and out of the Fund in the year and cannot be reliably predicted.

Investment expenses includes performance related fees paid to the Fund's investment managers. At the total Fund level, performance exceeded the benchmark by 6.1% in the year and this has added to approximately £115m.

# **PART 4 – PENSION ADMINISTRATION ACTIVITY**

The number of staff (in FTE terms) at the Council involved in Pension Administration was 24.

#### (a) Key Performance Indicators

The Local Government Pensions Committee has defined a range of performance indicators through which Pension Funds can be compared. NYPF's performance in these areas for the year to 31 March 2014 is shown below.

Performance Indicator	LGPC Target	Achieved (%)
Letter detailing transfer in quote	10 days	100
Letter detailing transfer out quote	10 days	100
Process and pay refund	5 days	100
Letter notifying estimate of retirement benefits	10 days	100
Letter notifying actual retirement benefits	5 days	100
Process and pay lump sum retirement grant	5 days	98
Initial letter acknowledging death of active/deferred/pensioner member	5 days	100
Letter notifying amount of dependant's benefits	5 days	100
Calculate and notify deferred benefits	10 days	100

These figures compare extremely favourably with other LGPS Funds, where the average achievement ratings for these performance indicators fall between 75% and 92%.

#### (b) Benefit Calculation Activity

The number of cases processed during the year requiring benefit calculations was as follows.

Task	Number	
Retirements	904	
Transfers In	18	
Refunds	19	
Frozen Refunds	18	
Preserved Benefits	2,942	
AVCs/ARCs	231	
Divorce cases	4	
Deaths in Service	15	
Deaths of Pensioners	321	

#### (c) Administration Costs per scheme member

NYPF's average cost of administration per member in 2013/14 was £15. This compares with the average cost per member in the comparative group of local authority pension funds of £21.

The total numbers of joiners and leavers during 2013/14 were:

Joining	7044
Retiring	904
Deaths	336
Other Leavers	2,975

The performance, activity and cost effectiveness reflect the efforts the Pension Administration team goes to provide a first class service to the Fund membership. NYPF is one of the leaders across LGPS administering authorities in terms of communication initiatives and innovative use of technology. Examples of this over 2013/14 include:

- arranging for government experts to address employing authorities directly
  on the key issues facing them such as compliance and LGPS 2014. NYPF
  employers have been more promptly and more thoroughly informed and
  prepared for change than counterparts across the country
- notifying NYPF membership immediately of the legislation designed to end the '100% tax free cash' option offered by AVCs. This enabled hundreds of members to make arrangements before the rush clogged up the system
- upgrading and re-launching the self-service facilities for Fund members
- implementing a new Pensions Administration System in preparation for the increasing complexity of administering the LGPS 2014 regulations
- continuing to develop and improve the customer helpline that provides a onestop service for members without compromising the ability of Pensions Officers to take into account the specific circumstances of each individual joiner or leaver
- working collaboratively with employing authorities to get all the key LGPS2014 messages out to their employees / Fund members

Administration activity statistics are compiled for national benchmarking purposes and are based on tasks undertaken by the Pension Administration Team; therefore they will not reflect membership numbers reported elsewhere.

# PART 5 - MEMBERSHIP CONTRIBUTIONS AND SCHEME BENEFITS

# 5.1 Membership

NYCC operates the NYPF for its own employees (excluding Teachers) together with those of the other local authorities within the County area, and certain other bodies eligible to join the Fund, under the terms of the LGPS regulations. The Fund does not cover teachers, police and fire-fighters for whom separate statutory arrangements exist.

Membership of the LGPS is not compulsory, although employees over 16 years old are automatically admitted to the Fund unless they elect otherwise.

Employees therefore have various options:-

- to be a member of the NYPF
- to be part of the State Second Pension Scheme, or
- to purchase a personal pension plan or a stakeholder pension managed by a private sector company.

The following table summarises the membership of NYPF over the past 5 years.

Membership Type	31 March 2010	31 March 2011	31 March 2012	31 March 2013	31 March 2014
Current Contributors	28,623	29,295	27,770	29,036	31,501
Deferred Pensions	22,079	23,800	25,534	27,503	29,490
Pensioners receiving Benefits	14,119	14,888	15,839	16,755	17,668

#### 5.2 Contributions

The Fund is financed by contributions from both employees and employers, together with income earned from investments. The surplus of income received from these sources, net of benefits and other expenses payable, is invested as described in the Statement of Investment Principles (Appendix C).

For employee contributions a banded structure has been in place from April 2008 linked to the rate of pensionable pay a member receives. The band ranges were updated in April 2013 as follows:-

Band	Range	Contribution rate
1	£0 to £13,700	5.5%
2	£13,701 to £16,100	5.8%
3	£16,101 to £20,800	5.9%
4	£20,801 to £34,700	6.5%
5	£34,701 to £46,500	6.8%
6	£46,501 to £87,100	7.2%
7	More than £87,101	7.5%

The employer has the discretion to decide how often the contribution rate is changed if the pensionable pay of the employee increases or decreases. This will usually be once a year, or where there are contractual changes to an employee's post(s).

Employers' contributions are determined in a cycle every three years by a Triennial Valuation. The Valuation assesses the contributions required to meet the cost of pension benefits payable as they are earned, as well as additional contributions employers may be required to pay to address any deficit relating to previous years. Further details, including a list of each employer's minimum contributions following the 2010 Valuation for the financial years 2011/12, 2012/13 and 2013/14 are shown at <a href="https://www.nypf.org.uk/Documents/2010ActuarialValuationReport.pdf">https://www.nypf.org.uk/Documents/2010ActuarialValuationReport.pdf</a>

Any new entrants to the scheme will be included on the 2013 Triennial Valuation report and is shown at:

https://www.nypf.org.uk/Documents/Triennial Valuation Report March 2013.pdf

#### 5.3 Scheme Benefits

The LGPS is a comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information, including the Scheme booklet *A Guide to the Local Government Pension Scheme for Employees in England and Wales*, can be obtained by contacting the Pensions Administration section at County Hall, Northallerton, (telephone 01609 536335). Further information is available from the website <a href="https://www.nypf.org.uk">www.nypf.org.uk</a>

#### **Normal Pension Age**

The Normal Pension Age is a member's State Pension Age for both men and women (earlier voluntary retirement allowed from age 55 but benefits are reduced if minimum service conditions are not met). However, some members have a protected Normal Pension Age of age 65.

On retirement, both a pension and a lump sum retirement grant are payable for service up to 31 March 2008. For service from 1 April 2008 only a pension is payable, with no automatic lump sum. A member has the option to convert an amount of pension to a lump sum. Pension and lump sum are related to length of service and pay.

#### **Pension (Normal)**

The calculation of pension benefits depends on the dates of membership involved. From 1 April 2014 the LGPS changed to a Career Average Revalued Earnings (CARE) scheme. The pension for membership from 1 April 2014 is worked out as 1/49<sup>th</sup> of pensionable pay.

For membership up to 31 March 2014 benefits are worked out on a 'final salary' basis. A normal pension is based on the average pensionable pay for the last year of service, or the better of the two previous years, if this gives a higher figure. Also, applicable from 1 April 2008 members who experience a reduction in their pensionable pay in the last 10 years can base benefits on the average of any 3 consecutive years in the last 13 years. Pensions are calculated on a fraction of <sup>1</sup>/<sub>80</sub><sup>th</sup> for each year of membership of the scheme for service up to 31 March 2008 and on  $^{1}/_{60}^{th}$  for service after 1 April 2008.

#### **Pension (III Health)**

An ill health pension is based on average pensionable pay for the last year of service and a split of the  $80^{ths}$  and  $60^{ths}$  accrual for membership up to 31 March 2014 as above. A pension of 1/49<sup>th</sup> of pensionable pay applies for membership from 1 April 2014 onwards. There are three tiers of ill health benefits depending on whether a member can carry out any employment up to age 65.

First Tier:

If there is no reasonable prospect of being capable of gainful employment before Normal Pension Age the employee's LGPS pension is enhanced by 100% of the remaining potential pension to Normal Pension Age based on 1/49<sup>th</sup> of an 'Assumed Pensionable Pay' figure which is a calculation of the pensionable pay on a prescribed basis for the period between the date of retirement and Normal Pension Age.

Second Tier: If it is likely that the employee will be capable of undertaking any gainful employment before Normal Pension Age the employee's LGPS service is enhanced by 25% of the remaining potential pension to Normal Pension Age.

Third Tier:

If it is likely that the employee will be capable of undertaking any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date of leaving with no enhancement but the benefits are only payable for a maximum period of 3 years (though reviewed at 18 months to assess

any improvement in the member's health).

#### **Lump Sum Retirement Grant**

For service prior to 31 March 2008, the lump sum retirement grant is calculated as <sup>3</sup>/<sub>80</sub><sup>ths</sup> for each year of service, with an appropriate enhancement in respect of ill health. For service after this date there is no automatic lump sum however pension entitlement can be converted to a lump sum at the rate of £1 of pension for £12 of lump sum retirement grant. A maximum lump sum of 25% of the capital value of the benefits accrued in the scheme can be taken.

#### **Death Grant**

#### (i) Death in Service

A lump sum death grant usually equal to three times pensionable pay, worked out on a prescribed basis known as 'Assumed Pensionable Pay', would be payable to the member's spouse, or nominee.

#### (ii) Death after Retirement

A death grant is payable in certain circumstances where death occurs after retirement. Retirement pensions are guaranteed for ten years and where death occurs within that period, and the pensioner dies before age 75, a death grant is payable. This provision only applies to a pensioner member who has a period of active membership in the Scheme on or after 1 April 2008. For pensioners who retired prior to this date the guarantee is limited to five years.

#### (iii) Death of a member with Preserved Benefits

A lump sum death grant of three times the preserved annual pension for leavers prior to 1 April 2008, or five times for leavers on or after this date is payable to the member's spouse, or nominee.

#### Spouses, civil partners and nominated cohabiting partner's pension

Any surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on \$^1/\_{160}\$ of the member's final pay, for each year of service up to 31 March 2014. For membership from 1 April 2014 the surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on 1/160<sup>th</sup> of career average pensionable pay.

Only members of the scheme, who were active after 31 March 2008, are able to name a cohabiting partner to receive their pension benefits.

The pension available to a cohabiting partner is based on post April 1988 membership only.

#### Children's Pension

Each child under age 18, or still in full-time education and under age 23, will receive a proportion of the spouse's or civil partner's pension depending on the number of eligible children and whether or not a spouse's or civil partner's pension is payable.

#### Partner with one child:

Child's pension is  $^{1}/_{320}$ <sup>th</sup> of member's service, multiplied by the pensionable pay plus a pension equal to  $^{1}/_{160}$ <sup>th</sup> of the Assumed Pensionable Pay for each year of membership the member would have built up from the date of death to Normal Pension Age.

Partner with more than one child:

Child's pension is  $^{1}/_{160}^{th}$  of the member's service, multiplied by the pensionable pay plus a pension equal to  $^{1}/_{160}^{th}$  of the Assumed

Pensionable Pay for each year of

membership the member would have built up from the date of death to Normal Pension Age. The total children's pension payable is divided by the number of children who are

entitled to equal shares.

No partner and one child: Child's pension is  $^{1}/_{240}$ <sup>th</sup> of the member's

service, multiplied by the pensionable pay plus a pension equal to  $^{1}/_{160}$ <sup>th</sup> of the member's Assumed Pensionable Pay for each year of membership the member would

have built up from the date of death to

Normal Pension Age.

No partner & more than one child: Child's pension is  $^{1}/_{120}$ <sup>th</sup> of the member's

service, multiplied by the pensionable pay

plus a pension equal to  $^{1}/_{160}$ <sup>th</sup> of the

Assumed Pensionable Pay for each year of membership the member would have built up from the date of death to Normal Pension Age. The total children's pension payable is divided by the number of children who are

entitled to equal shares.

#### **Pension Increases**

Pensions are increased in accordance with the Pensions (Increase) Act 1971. All pensions paid from the scheme are protected against inflation, rising in line with the Consumer Price Index.

#### Contracting Out Status (with effect from 1 April 2002)

The LGPS is contracted-out of the State Second Pension Scheme (S2P). This means that members pay reduced National Insurance contributions and that they do not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension (GMP) is calculated by Her Majesty's Revenue & Customs (HMRC) which is the minimum pension which must be paid from NYPF to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will, in general, be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

## **AVCs**

A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee (PFC) has appointed the Prudential as the nominated provider for this purpose. Further details are available from the Prudential on 0800 012 1378.

# **PART 6 – GOVERNANCE DOCUMENTATION**

The main governance documentation is as follows:

- Statement of Investment Principles
- Governance Compliance Statement
- Funding Strategy Statement
- Communications Policy Statement

A short summary of each Statement is given below, and each full Statement is shown in the Appendices to this report.

#### (a) Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare a statement recording the investment policy of the Fund. The full statement is available as Appendix C. The main areas covered by the statement are:

- Investment decision making process
- Types of investments to be held
- Balance between different types of investments
- Risk
- Expected return on assets
- · Realisation of investments
- Socially responsible investments
- Shareholder governance
- Stock lending
- Compliance with guidance from the Secretary of State

#### (b) Governance Compliance Statement

Under the Statement under the LGPS (Administration) Regulations 2008 and its predecessor Regulation 73A(c) of the LGPS Regulations 1997 (as amended), NYPF as an administering authority is required to publish a document describing how the Fund must assess its governance arrangements and compliance with any principles listed in the guidance. This statement is available at Appendix D. The main areas covered by this are:

- Governance arrangements
- Representation and meetings
- Operational procedures
- Key policy / strategy documents
- Assessment of compliance with best practice principles

#### (c) Funding Strategy Statement

The Funding Strategy Statement (FSS) has been prepared by in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA). The full statement is available at Appendix E, and the main purpose is to:

- establish a clear and transparent Fund-specific Strategy which will identify how employers' pension liabilities are best met going forward
- support the regulatory requirement to maintain as nearly constant employers contribution rates as possible, and
- take a prudent longer-term view of funding those liabilities

In addition to this, the Funding Strategy Statement covers:

- responsibilities of the key parties
- solvency issues and target funding levels
- link to Investment Strategy set out in the Statement of Investment Principles
- identification of risks and counter measures
- method and assumptions and results of the 2010 Actuarial Valuation

## (d) Communications Policy Statement

This statement sets out the communication strategy for communication with members, members' representatives, prospective members and employing authorities; and for the promotion of the Scheme to prospective members and their employing authorities. The latest Communications Policy Statement is shown at Appendix F.

# NORTH YORKSHIRE PENSION FUND FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2014

2012/13		201	3/14
£000		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions		
78,123	Employers - Normal	80,924	
0 3 404	- Special	0 4.053	
3,404 23,756	<ul> <li>Early Retirement Costs Recharged</li> <li>Employees - Normal</li> </ul>	4,052 24,125	
353	- Additional Voluntary	303	
105,636	Total Contributions Receivable (Note 7)		109,404
6,772	Transfers In (Note 8)		11,339
	Less		
	Benefits		
(62,211)	Pensions	(66,505)	
(20,181)	Commutation and Lump Sum Retirement Benefits	(19,945)	
(2,201)	Lump Sums Death Benefits	(1,329)	
(84,593)	Total Benefits Payable (Note 9)		(87,779)
	Laguara		
(17)	Leavers Refunds to Members Leaving Service	(9)	
(17)	Payments for Members Joining State Scheme	(8) 0	
(6,241)	Transfers Out	(4,106)	
(6,258)	Total Payments on Account of Leavers (Note 10)		(4,114)
(1,664)	Administrative Expenses (Note 11)		(1,625)
19,893	Net Additions From Dealings With Members		27,225
	_		
	RETURNS ON INVESTMENTS		
21,774	Investment Income (Note 12)		22,895
(379)	Taxation (Note 13)		(397)
(3,324)	Investment Expenses (Note 14)		(5,999)
237,204	Change in market value of investments (Note 15)		198,759
255,275	Net Returns On Investments		215,258
275,168	Net Increase in the Fund During the Year		242,483
1,565,565	Opening Net Assets of the Fund		1,840,733
1,840,733	Closing Net Assets of the Fund		2,083,216

## NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31 March 2013		31 March 2014
£000		£000
	INVESTMENT ASSETS (Notes 15 & 16)	
72,005	Fixed Interest Securities	71,424
622,265	Equities	742,593
1,059,513	Pooled Investments	1,141,317
66,982	Pooled Property Investments	98,592
478	Private Equity	258
1,821,243		2,054,184
8,427	Cash Deposits	12,185
6,178	Investment Debtors	14,966
1,835,848	TOTAL INVESTMENT ASSETS	2,081,335
	INVESTMENT LIABILITIES (Notes 15 & 16)	
(2,863)	Derivative Contracts - Forward Currency Contracts	(23)
(3,857)	Investment Creditors	(11,785)
(6,720)	TOTAL INVESTMENT LIABILITIES	(11,808)
1,829,128	NET INVESTMENT ASSETS	2,069,527
	CURRENT ASSETS	
7,625	Contributions due from employers	9,233
67	Other Non-Investment Debtors	802
6,187	Cash	4,888
13,879	TOTAL CURRENT ASSETS	14,923
	CURRENT LIABILITIES	
(2,274)	Non-investment creditors	(1,234)
(2,274)	TOTAL CURRENT LIABILITIES	(1,234)
1,840,733	TOTAL NET ASSETS (Note 16)	2,083,216

The accounts summarise the transactions of the Fund and deal with the net assets. They do not take account of the obligations to pay pensions and benefits which fall after the end of the Fund year.

# NOTES TO THE NORTH YORKSHIRE PENSION FUND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2014

#### 1. Description of the Fund

The North Yorkshire Pension Fund (NYPF) is part of the Local Government Pension Scheme (LGPS) and is administered by North Yorkshire County Council (NYCC). The County Council is the reporting entity for the Fund.

The following description of the Fund is a summary only. For more detail, refer to the NYPF Annual Report 2013/14 and the statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

#### a) General

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

It is a defined benefit pension scheme administered by NYCC to provide pensions and other benefits for pensionable employees of NYCC, other local authorities in North Yorkshire and a range of other scheduled and admitted bodies within the county. Teachers, police officers and fire fighters are included within other national pension schemes.

The Fund is overseen by the Pension Fund Committee, which is a committee of NYCC.

#### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in NYPF include:

- scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- admitted bodies, which are other organisations that participate in the fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector

At 31 March 2014 there were 93 contributing employer organisations within NYPF including the County Council itself, as detailed below:

#### 59 Scheduled Bodies

City of York Council Skipton Girls High School Craven District Council South Craven School

Hambleton District Council St Aidan's Church of England High School

Harrogate Borough Council The Woodlands Academy

North Yorkshire County Council Thomas Hinderwell Primary Academy

Richmondshire District Council Easingwold Town Council

Ryedale District Council Filey Town Council

Scarborough Borough Council Foss Internal Drainage Board Selby District Council Fulford Parish Council

North Yorkshire Police & Crime Commissioner Glusburn Parish Council North Yorkshire Police Force Great Ayton Parish Council

North Yorkshire Fire & Rescue Authority Haxby Town Council
North York Moors National Park Hunmanby Parish Council

York & North Yorkshire Probation Trust

KnaresboroughTown Council

Yorkshire Dales National Park Malton Town Council

Askham Bryan College Marston Moor Drainage Board

Craven College Northallerton Town Council
Scarborough Sixth Form College Norton on Derwent Town Council

Selby College Northallerton / Romanby Burial Board York College Pickering Town Council

Archbishop Holgate's School Riccall Parish Council
Great Smeaton Academy Primary School Richmond Town Council
The Grove Academy Ripon City Council

Harrogate Grammar School
Harrogate High School
Skipton Town Council
Skipton Town Council

Manor Church of England Academy Sutton in Craven Parish Council

Norton College Tadcaster Town Council

Outwood Academy Thornton Internal Drainage Board

Robert Wilkinson Academy Whitby Town Council

#### 34 Admission Bodies

Rossett School

Catering Academy Ltd Premier Support Services
Chartwells Compass Ringway

Churchill Security Richmondshire Leisure
Community Leisure Scarborough Museums Trust
Craven Housing Sheffield International Venues

Elite Springfield Home Care

Enterprise Superclean
Future Cleaning University of Hull
Grosvenor Facilities Management Veritau Ltd

Human Support Group Veritau North Yorkshire Ltd

ISS Mediclean Ltd Welcome to Yorkshire
Interserve Wigan Leisure & Culture Trust
Jacobs UK Ltd York Archaeological Trust

Jacobs UK Ltd York Archaeological Trust

Joseph Rowntree Trust York Museums & Gallery Trust

MellorsYorkshire Coast HomesNorthern CareYorkshire Housing LtdNYBEPYork St John University

Active, pensioner and deferred pensioner numbers, split between NYCC as the Administering Authority and all other employers were as follows:

	31 March 2014 No	31 March 2013 No
Employees in the Fund		
NYCC	18,960	17,336
Other employers	12,541	11,700
Total	31,501	29,036
Pensioners	0.400	0.070
NYCC	9,463	8,979
Other employers	8,205	7,776
Total	17,668	16,755
Deferred pensioners		
NYCC	18,204	16,830
Other employers	11,286	10,673
Total	29,490	27,503

#### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended) and range from 5.5% to 7.5% of pensionable pay for the financial year ended 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013 and details of the rates for individual employers are available on the Fund's website.

#### d) Benefits

Pension benefits under the LGPS up to 31 March 2014 are based on final pensionable pay and length of pensionable service. For service up to 31 March 2008 each year worked is worth 1/80<sup>th</sup> of final pensionable salary, an automatic lump sum of three times salary is payable, and part of the annual pension can be exchanged for a one-off tax free cash payment at the rate of £12 lump sum for each £1 pension given up. For service from 1 April 2008 each year worked is worth 1/60<sup>th</sup> of final pensionable salary, there is no automatic lump sum, and part of the annual pension can be exchanged at the same rate as for service up to 31 March 2008.

Under the CARE (Career Average Revalued Earnings) scheme which came into effect from April 2014 benefits will accrue at a rate of 1/49<sup>th</sup> of pensionable pay earned each year, indexed in line with CPI.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details please refer to the Publications section of the Fund's website.

#### 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its year end position as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at **Note 19** of these accounts.

#### 3. Summary of Significant Accounting Policies

Fund Account - Revenue Recognition

#### a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the rate recommended by the Fund's Actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current asset. Amounts due in future years are classed as long term assets.

#### b) Transfers To and From Other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with LGPS Regulations.

Individual Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions or other defined contribution arrangements to purchase scheme benefits are accounted for on a receipts basis.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### c) Investment Income

Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial cost of the instrument and its value at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Asset Statement as a current asset.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

**Fund Account – Expense Items** 

#### d) Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at the financial year end. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

#### e) Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

#### f) Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pensions Administration Team are charged to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with NYCC policy.

#### g) Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the Fund has negotiated with the following managers that an element of their fee will be performance related:

- Baillie Gifford & Co Global Equities
- FIL Pensions Management (Fidelity) Global (ex-UK) Equities
- Standard Life Investments UK Equities

Performance related fees were £2,275k in 2013/14 (£217k in 2012/13) and were based on cumulative out-performance since inception.

**Net Assets Statement** 

#### h) Assets

Assets are included in the Net Asset Statement on a fair value basis as at the reporting date. An asset is recognised in the Net Asset Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- the value of investments for which there are readily available market prices are determined by the bid market prices
- fixed interest securities are recorded at net market value based on prevailing yields
- interests in limited partnerships are based on the net asset value ascertained from periodic valuations provided by those controlling the partnership
- pooled investment vehicles are valued at closing bid price if both bid and offer prices are
  published, otherwise at the closing single price. In the case of pooled investment vehicles that
  are accumulation funds, the change in market value also includes income which is reinvested in
  the Fund, net of applicable withholding tax

#### i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investment and purchases and sales outstanding at the end of the reporting period.

#### j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

The value of forward currency contracts is based on market forward exchange rates at the year end and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

#### k) Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and that are subject to minimal risk of change in value.

#### I) Liabilities

The Fund recognises liabilities at fair value as at the reporting date. A liability is recognised in the Net Asset Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

#### m) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund's Actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an **Appendix** to these statements.

#### n) Additional Voluntary Contributions

NYPF provides an Additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Accounts in accordance with Section 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (**Note 22**).

#### 4. Critical Judgement in Applying Accounting Policies

#### **Unquoted Private Equity Investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment manager using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2014 was £258k (31 March 2013, £478k).

#### **Pension Fund Liability**

The Fund's liability is calculated every three years by the Actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in **Note 18**. This estimate is subject to significant variances based on changes to the underlying assumptions.

#### 5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

These Accounts contain estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as these figures cannot be determined with certainty, actual results could be materially different using different assumptions.

The item in the Net Assets Statement as at 31 March 2014 for which there is a significant risk of material adjustment being required is the actuarial present value of promised retirement benefits, which is based on assumptions on the discount rate, salary increases, retirement ages, mortality rates and the return on investments.

The effects of changing individual assumptions on the value of pension liabilities can be measured. A 0.1% increase in the discount rate would reduce liabilities by £46m, a 0.1% increase in inflation would increase liabilities by £44m, and an increase in life expectancy of one year would increase liabilities by £52m.

#### 6. Events After the Balance Sheet Date

Since 31 March 2014 there have been significant movements in global financial markets which would impact upon the market value of the Fund's investments were they to be valued as at the date these Accounts were authorised. This change is deemed to be a non-adjusting post balance sheet event.

There have been no events since 31 March 2014, and up to the date when these accounts were authorised that require any adjustments to these Accounts.

#### 7. Contributions Receivable

	2013/14	2012/13
	£000	£000
Contributions Receivable		
North Yorkshire County Council	47,466	45,284
Other Scheduled Bodies	55,557	53,647
Admitted Bodies	6,381	6,705
	109,404	105,636

#### 8. Transfers In from Other Pension Funds

During the year there was one group transfer from the Cumbria Pension Fund to Askham Bryan College of £2.4m. All other Transfers In were individual transfers.

# 9. Benefits Payable

	2013/14	2012/13
	£000	£000
Benefits Payable		
North Yorkshire County Council	37,126	36,751
Other scheduled bodies	46,008	42,928
Admitted bodies	4,645	4,914
	87,779	84,593

# 10. Payments To and On Account of Leavers

All Transfers Out were individual transfers. There were no group transfers during the year.

# 11. Administrative Expenses

	2013/14	2012/13
	£000	£000
Administration and Processing	1,444	1,554
Actuarial Fees	137	58
Legal and Audit Fees	44	52
	1,625	1,664

#### 12. Investment Income

	2013/14	2012/13
	£000	£000
Fixed Interest and Index Linked Securities	1,928	1,790
Dividends from Equities	19,485	19,304
Pooled Property Investments	1,067	472
Interest on Cash Deposits	22	13
Other	393	195
	22,895	21,774

#### 13. Taxes on Income

	2013/14	2012/13
	£000	£000
Withholding Tax on Dividends	397	379

# 14. Investment Expenses

	2013/14	2012/13
	£000	£000
Administration, Management and Custody	5,806	3,010
Performance Monitoring Services	30	22
Other Advisory Fees	163	292
	5,999	3,324

#### 15. Investments

#### a) Reconciliation of Movements in Investments and Derivatives

	Value at 31 March 2014	Change in market value at 31 March 2014	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2013
	£000	£000	£000	£000	£000
Fixed Interest	71,424	(3,128)	(264,627)	267,174	72,005
Equities	742,593	98,555	(442,929)	464,702	622,265
Pooled Funds	1,141,317	72,708	0	9,096	1,059,513
Pooled Property	98,592	10,010	0	21,600	66,982
Private Equity	258	(59)	(180)	19	478
Derivative Contracts	(23)	16,055	(788,658)	775,443	(2,863)
Total Invested	2,054,161	194,141	(1,496,394)	1,538,034	1,818,380
Cash Deposits	12,185	3,758			8,427
Net Investment Debtors	3,181	860			2,321
Net Investment Assets	2,069,527	198,759			1,829,128
	Value at 31 March 2013	Change in market value at 31 March 2013	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2012
	31 March	market value at 31 March	and derivative	at cost and derivative	1 April
Fixed Interest	31 March 2013	market value at 31 March 2013	and derivative receipts	at cost and derivative payments	1 April 2012
Fixed Interest Equities	31 March 2013 £000	market value at 31 March 2013 £000	and derivative receipts	at cost and derivative payments £000	1 April 2012 £000
	31 March 2013 £000 72,005	market value at 31 March 2013 £000 5,695	and derivative receipts £000 (316,823)	at cost and derivative payments £000	1 April 2012 £000 65,122
Equities	31 March 2013 £000 72,005 622,265	market value at 31 March 2013 £000 5,695 127,613	£000 (316,823) (593,881)	at cost and derivative payments £000 318,011 426,885	1 April 2012 £000 65,122 661,648
Equities Pooled Funds	31 March 2013 £000 72,005 622,265 1,059,513	market value at 31 March 2013 £000 5,695 127,613 109,111	£000 (316,823) (593,881) (2,651)	at cost and derivative payments £000 318,011 426,885 162,821	1 April 2012 £000 65,122 661,648 790,232
Equities Pooled Funds Pooled Property	31 March 2013 £000 72,005 622,265 1,059,513 66,982	market value at 31 March 2013 £000 5,695 127,613 109,111 1,405	and derivative receipts £000 (316,823) (593,881) (2,651) (783)	at cost and derivative payments £000 318,011 426,885 162,821 42,592	1 April 2012 £000 65,122 661,648 790,232 23,768
Equities Pooled Funds Pooled Property Private Equity	31 March 2013 £000 72,005 622,265 1,059,513 66,982 478	market value at 31 March 2013 £000 5,695 127,613 109,111 1,405 (294)	and derivative receipts £000 (316,823) (593,881) (2,651) (783) (300)	at cost and derivative payments £000 318,011 426,885 162,821 42,592	1 April 2012 £000 65,122 661,648 790,232 23,768 1,072
Equities Pooled Funds Pooled Property Private Equity Derivative Contracts	31 March 2013 £000 72,005 622,265 1,059,513 66,982 478 (2,863)	market value at 31 March 2013 £000 5,695 127,613 109,111 1,405 (294) (6,938)	and derivative receipts £000 (316,823) (593,881) (2,651) (783) (300) (911,217)	at cost and derivative payments £000 318,011 426,885 162,821 42,592 0 913,219	1 April 2012 £000 65,122 661,648 790,232 23,768 1,072 2,073
Equities Pooled Funds Pooled Property Private Equity Derivative Contracts Total Invested	31 March 2013 £000 72,005 622,265 1,059,513 66,982 478 (2,863) 1,818,380	market value at 31 March 2013 £000 5,695 127,613 109,111 1,405 (294) (6,938) 236,592	and derivative receipts £000 (316,823) (593,881) (2,651) (783) (300) (911,217)	at cost and derivative payments £000 318,011 426,885 162,821 42,592 0 913,219	1 April 2012 £000 65,122 661,648 790,232 23,768 1,072 2,073

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the Fund, such as fees, commissions and stamp duty. Transaction costs incurred during the year amounted to £871k (2012/13 £959k). In addition indirect costs are incurred through the bid–offer spread on investments within pooled investment vehicles. These investment vehicles are managed by Investment Managers registered in the UK. The amount of indirect costs is not separately provided to the Pension Fund. A £3,319k investment with Standard Life has been reclassified as Pooled Funds in 2013/14 after previously being identified as an Equity investment during 2012/13.

#### b) Analysis of Investments (excluding derivative contracts)

	2013/14	2012/13
	£000	£000
Fixed Interest Securities		
UK Public Sector Quoted	71,424	72,005
Equities		
UK Quoted	408,273	314,260
Overseas Quoted	334,320_	308,005
	742,593	622,265
Pooled Investments		
UK Equity	51,942	41,262
UK Property	98,592	66,982
UK Fixed Income	186,419	142,721
Overseas Equity	570,674	501,679
Overseas Fixed Income	168,030_	213,543
	1,075,657	966,187
Diversified Growth Funds - UK	164,252	160,308
Private Equity - UK	258	478
Total Investments (excl Derivatives)	2,054,184	1,821,243

#### **Objectives and Policies for Holding Forward Foreign Currency Derivatives**

Up until February 2014 the Fund hedged a proportion (25%) of the US Dollar, Euro, Japanese Yen, Swiss Franc and Swedish Krona exposure in relation to overseas equity investments. Contracts outstanding at the year-end relate to positions taken by the Fund's investment managers for efficient trading purposes, were valued at £23k and settled within one month. Forward currency contracts as at 31 March 2013 were valued at £(2,863k).

	£000	%	£000	%
Baillie Gifford & Co Global Alpha	345,185	16.6	306,092	16.7
Baillie Gifford & Co LTGG	214,838	10.3	178,193	9.7
Fidelity International	402,771	19.3	372,221	20.3
Standard Life Investments - Equities	416,766	20.0	315,193	17.1
Standard Life Investments - DGF	82,993	4.0	80,308	4.4
ECM Asset Management	125,783	6.0	120,243	6.5
Amundi Asset Management	228,667	11.0	236,024	12.8
RC Brown Investment Management	0	0.0	2,709	0.1
Hermes Property Unit Trust	25,799	1.2	23,640	1.3
Legal & General	27,984	1.3	24,891	1.4
Threadneedle	45,279	2.2	18,654	1.0
M&G Investments	71,922	3.5	73,344	4.0
Newton Investments	81,259	3.9	80,000	4.3
Currency Hedging	23	0.0	(2,863)	-0.2
Yorks & Humber Equity Fund	258	0.0	478	0.0
Internally Managed (cash and net debtors)	13,689	0.7	11,606	0.6
•	2,083,216	100.00	1,840,733	100.0

The investments with Baillie Gifford, European Credit Management and Amundi each represent more than 5% of net assets. These investments are in pooled funds. All other investments are either below 5% or constitute a portfolio of segregated assets.

#### c) Stock Lending

The Fund has not released stock to a third party under a stock lending arrangement within a regulated market at this period end or in any previous years.

#### 16. Financial Instruments

#### a) Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table summarises the carrying amounts of financial assets and liabilities by category.

3	1 March 20	13		31 N	March 2014	
Designated	Loans &	Financial		Designated as fair	Loans &	Financial
as fair value	Receivables	liabilities		value through	Receivables	liabilities
through profit		amortised at		profit & loss		amortised
& loss		cost				at cost
£000	£000	£000		£000	£000	£000
			Assets			
72,005			Fixed Interest Securities	71,424		
622,265			Equities	742,593		
899,205			Pooled Investments	977,065		
66,982			Pooled Property Investments	98,592		
160,308			Diversified Growth Funds	164,252		
478			Private Equity	258		
			Derivative contracts			
	14,615		Cash		17,073	
6,178			Investment Debtors	14,966		
	7,692		Non Investment Debtors		9,975	
1,827,421	22,307	-	•	2,069,150	27,048	-
			Liabilities			
2,864			Derivative Contracts	23		
3,857			Investment Creditors	11,785		
		2,274	Non Investment Creditors			1,234
6,721	-	2,274		11,808	-	1,234
1,820,700	22,307	(2,274)		2,057,342	27,048	(1,234)

# b) Net Gains and Losses on Financial Instruments

	2013/14	2012/13
	£000	£000
Fair Value Through Profit & Loss	194,141	236,592
Loans and Receivables	4,618	612
	198,759	237,204

#### c) Fair Value of Financial Instruments and Liabilities

The following table summarises the cost of the assets and liabilities by class of instrument compared with their fair values in the Accounts.

31 Marc	h 2013		31 March	2014
Cost	Fair Value		Cost	Fair Value
£000	£000		£000	£000
		Assets		
1,525,128	1,827,421	Fair Value through Profit & Loss	1,518,466	2,069,150
22,307	22,307	Loans and Receivables	27,048	27,048
1,547,435	1,849,728	_	1,545,514	2,096,198
		Liabilities		
6,721	6,721	Fair Value through Profit & Loss	11,808	11,808
2,274	2,274	Liabilities at Amortised Cost	1,234	1,234
8,995	8,995	- -	13,042	13,042

NYCC has not entered into any financial guarantees that are required to be accounted for as financial instruments.

#### d) Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

#### Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

#### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

#### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect in the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The value of the investment in private equity is based on a valuation provided by the manager of the fund in which NYPF has invested. This valuation has been prepared in accordance with the British Venture Capital Association guidelines. Formal valuations are undertaken annually as at the end of December.

The following table provides an analysis of the assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2014	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Access	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets Fair Value through Profit & Loss Loans and Receivables	2,068,892 27,108 2,096,000	<u> </u>	258	2,069,150 27,108 2,096,258
Liabilities				
Fair Value through Profit & Loss Liabilities at Amortised Cost	11,785 1,234 13,019	23		11,808 1,234 13,042
Net Assets	2,082,981	- 23	258	2,083,216
Values at 31 March 2013	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2013	Price Level 1	Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Values at 31 March 2013 Assets	Price	Observable Inputs	Significant Unobservable Inputs	Total £000
	Price Level 1	Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Assets Fair Value through Profit & Loss	Price  Level 1 £000  1,826,943 22,307	Observable Inputs Level 2	Significant Unobservable Inputs Level 3 £000	£000 1,827,421 22,307
Assets Fair Value through Profit & Loss Loans and Receivables	Price  Level 1 £000  1,826,943 22,307 1,849,250  3,858 2,274	Observable Inputs  Level 2 £000	Significant Unobservable Inputs Level 3 £000	£000 1,827,421 22,307 1,849,728 6,721 2,274
Assets Fair Value through Profit & Loss Loans and Receivables  Liabilities Fair Value through Profit & Loss	Price  Level 1 £000  1,826,943 22,307 1,849,250  3,858	Observable Inputs  Level 2 £000	Significant Unobservable Inputs Level 3 £000	£000 1,827,421 22,307 1,849,728 6,721

#### 17. Nature and Extent of Risks Arising from Financial Instruments

#### **Risk and Risk Management**

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. NYCC manages these investment risks as part of its overall approach to Pension Fund risk.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. A Risk Register has been established to identify and analyse the risks faced by NYCC's pensions operations. This document is periodically reviewed regularly to reflect changes in activity and in market conditions.

#### a) Market Risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's Risk Register includes identifying, managing and controlling market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the PFC and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through advice from the investment advisers to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk weighted maximum exposures to individual investments through Investment Management Agreements

#### Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the Fund's investment strategy.

Following analysis of historical data and expected investment return movement during the financial year, the following table shows movements in market price risk that are reasonably possible for the 2014/15 reporting period, assuming other variables such as foreign currency rates and interest rates remain unchanged. The changes disclosed are broadly consistent with a one standard deviation movement in the value of assets. A prior year comparator is also shown below.

Asset Type	Value as at 31 March 2014	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash Equivalents	12,185	0.0	12,185	12,185
UK Bonds	71,424	5.5	75,352	67,496
UK Equities	408,273	12.3	458,491	358,055
Overseas Equities	334,320	11.2	371,764	296,876
UK Pooled Equity	51,942	12.3	58,331	45,553
Overseas Pooled Equity	570,674	11.2	634,589	506,759
UK Pooled Bonds	186,419	5.5	196,672	176,166
Overseas Pooled Bonds	168,031	5.5	177,273	158,789
Pooled Property Investments	98,592	2.7	101,254	95,930
Diversified Growth Funds	164,251	4.9	172,299	156,203
Private Equity	258	12.3	290	226
Derivatives	(23)	0.0	(23)	(23)
Non Investment Debtors/Creditors	3,181	0.0	3,181	3,181
Total Assets	2,069,527		2,261,658	1,877,396

Asset Type	Value as at 31 March 2013	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash Equivalents	8,427	0.0	8,427	8,427
UK Bonds	72,005	5.5	75,965	68,045
UK Equities	314,260	13.0	355,114	273,406
Overseas Equities	308,005	12.1	345,274	270,736
UK Pooled Equity	41,262	13.0	46,626	35,898
Overseas Pooled Equity	501,679	12.1	562,382	440,976
UK Pooled Bonds	142,721	5.5	150,571	134,871
Overseas Pooled Bonds	213,543	5.5	225,288	201,798
Pooled Property Investments	66,982	1.8	68,188	65,776
Diversified Growth Funds	160,308	9.3	175,217	145,399
Private Equity	478	13.0	540	416
Derivatives	(2,863)	0.0	(2,863)	(2,863)
Non Investment Debtors/Creditors	2,321	0.0	2,321	2,321
Total Assets	1,829,128	•	2,013,049	1,645,207

#### **Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is monitored by the Fund and its investment advisers through the risk management strategy including monitoring the exposure to interest rates and assessment of actual interest rates against the strategic benchmark.

The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2013/14	2012/13
	£000	£000
Cash and Cash Equivalents	12,185	8,427
Fixed Interest Securities	71,424	72,005
	83,609	80,432

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. Advice suggests that it is reasonable to expect a change in the long term average rate of approximately 1%. For illustrative purposes if it were to change by +/- 100 bps the values in the table above would change by £836k and for 2012/13 asset values, £804k.

#### **Currency Risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is monitored in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

After receiving advice it is considered that the likely volatility associated with foreign exchange movements to be +/-5.2%. A fluctuation of this size is considered reasonable based on the analysis of long term historical movements in the month end exchange rates.

Assuming all other variables, in particular, interest rates remain constant, a 5.2% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to bay benefits as follows:

Asset Type	Value as at 31 March 2014	Value on 5.2% Increase	Value on 5.2% Decrease
Output Families	£000	£000	£000
Overseas Equities	904,994	952,054	857,934
Overseas Bonds	168,031	176,769	159,293
Total Assets	1,073,025	1,128,822	1,017,228
Asset Type	Value as at 31 March 2013	Value on 5.5% Increase	Value on 5.5% Decrease
Asset Type		_	
Asset Type  Overseas Equities	March 2013	Increase	Decrease
	March 2013 £000	£000 854,217	Decrease £000

## b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive

derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over the counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by recognised rating agencies.

Deposits are not made with banks and financial institutions unless they are rated independently and meet NYCC's credit criteria. NYCC has also set limits as to the maximum amount of deposits placed with any one financial institution. Money market funds chosen all have at least the minimum credit rating as described in NYCC's Treasury Management Strategy.

NYCC believes it has managed its exposure to credit risk and has had no experience of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements with NYCC at 31 March 2014 was £4.9m (31 March 2013, £6.2m) and was held with the following institutions:

	<b>31 March 2014</b> £000	<b>31 March 2013</b> £000
Cash and Cash Equivalents	2000	2000
Part Nationalised Banks with Fitch Rating Long Term A and Short Term F1	117	477
Institutions with Fitch Rating Long Term A and Short Term F1	1,640	1,434
Institutions with Fitch Rating Long Term AA- and Short Term F1+	938	-
Deposits with banks and financial institutions for less than 1 Y	r	
Part Nationalised Banks with Fitch Rating Long Term A and Short Term F1	-	3,338
Institutions with Fitch Rating Long Term AA- and Short Term F1+	-	318
Institutions with Fitch Rating Long Term A+ and Short Term F1	-	636
Institutions with Fitch Rating Long Term A and Short Term F1	2,193	-
	4,888	6,203

#### c) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings, subject to the fixed periods determined when deposits are placed. These deposits are scheduled to ensure cash is available when required.

The Fund also has access to an overdraft facility for short term (up to three months) cash needs. This facility is only used to address changes in the strategic benchmark and is met by either surplus cash from contributions received exceeding pensions paid or if necessary, disinvesting.

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31 March 2014 the value of illiquid assets was £258k, which represented less than 0.1% of total Fund assets (31 March 2013, £478k, which represented less than 0.1% of total Fund assets).

All liabilities at 31 March 2014 are due within one year.

The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

#### 18. Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008 the Fund's Actuary, Mercer, undertakes a funding Valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such Valuation took place as at 31 March 2013. The next Valuation will take place as at 31 March 2016.

The key elements of NYPF's funding policy are:

- to ensure the long term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as the fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

The aim is to achieve 100% solvency over a period of 27 years from April 2014 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2013 Triennial Valuation the Fund was assessed as 73% funded (67% at the 2010 Valuation). This reflected a deficit of £668m (£659m at the 2010 Valuation).

The common rate of employers' contributions is the average rate required from all employers calculated as being sufficient, together with contributions paid by employees, to meet all liabilities arising in respect of service after the Valuation date. For 2013/14 the common rate (determined at the 2010 Valuation) is 12.2% of pensionable pay and for the three years from 2014/15 it is 13.8%.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 Triennial Valuation Report and the Funding Strategy Statement on the Fund's website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

For future service

	liabilities
Investment Return	5.60% per annum
Inflation	2.60% per annum
Salary Increases	4.10% per annum
Pension Increases	2.60% per annum

Future life expectancy based on the Actuary's Fund specific mortality review was:

	Male	Female
Current pensioners	22.9 years	25.4 years
Future pensioners (assumed current age 45)	25.1 years	27.7 years

Life expectancy for the year to 31 March 2014 is based on 2012 CMI projections subject to a long-term improvement trend of 1.5% per annum.

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 and for post-April 2008 service.

#### 19. Actuarial Present Value of Promised Retirement Benefits

In addition to the Triennial Funding Valuation, the Actuary also undertakes a valuation of pension fund liabilities on an IAS19 basis every year using the same base data as the Valuation, rolled forward to the current financial year, taking account of changes in membership numbers and using updated assumptions. A statement prepared by the Actuary is attached as an **Appendix**.

#### 20. Current Assets

	<b>2013/14</b> £000	<b>2012/13</b> £000
Debtors		
Investment Debtors		
Investment Transactions	11,405	3,533
Accrued Dividends	2,359	1,785
Withholding Taxes Recoverable	1,202	860
	14,966	6,178
Other Debtors		
Contributions due from Scheduled (Government) Bodies	8,769	7,106
Contributions due from Admitted Bodies	449	494
Pensions Rechargeable	13	25
Interest on Deposits	2	0
Other	802	67
	10,035	7,692
Total Debtors	25,001	13,870

#### 21. Current Liabilities

	2013/14	2012/13
	£000	£000
Creditors		
Investment Creditors	11,808	6,720
Sundry Other Creditors	1,234	2,274
	13,042	8,994

All creditors are non government entities and individuals.

# 22. Additional Voluntary Contributions (AVCs)

Members may make Additional Voluntary Contributions (AVCs) which are invested in insurance policies with the Prudential Assurance Company Limited on behalf of the individual members concerned.

The AVCs are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

AVC contributions of £2,390k were paid directly to Prudential during the year (£2,226k in 2012/13). The total value of the AVC Fund serviced by these contributions as at 31 March was:

	31 March 2014	31 March 2013
	£000	£000
Prudential	21,320	17,309

#### 23. Related Party Transactions

**North Yorkshire County Council** 

The North Yorkshire Pension Fund is administered by North Yorkshire County Council. Consequently there is a strong relationship between the Council and the Fund.

The Council incurred costs of £1,078k (£1,064k in 2012/13) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £47.5m to the Fund in 2013/14 (£45.3m in 2012/13). All monies owing to and due from the Fund were paid in the year.

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2013 the Fund had an average investment balance of £1.8m (£(2.2m) during 2012/13) receiving interest of £15.6k (£26k paid in 2012/13) on these funds.

#### Governance

As at 31 March 2014 there were five Pension Fund Committee Members who were also active members of the Fund, each of whom was required to declare their interests at each meeting. The Corporate Director – Strategic Resources, who was also the Treasurer of the Fund was also an active member. Benefits for PFC Members and the Treasurer were accrued on exactly the same basis as for all other members of the Fund.

#### 24. Contingent Liabilities and Contractual Commitments

The Fund had no material contingent liabilities or contractual commitments at the year end (£nil in 2012/13).

#### 25. Contingent Assets

Five admitted body employers hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of an employer default.

#### 26. Impairment Losses

The Fund had no material impairment losses at the year end (£nil in 2012/13).



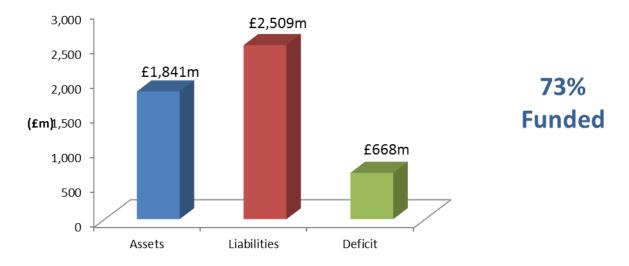
# NORTH YORKSHIRE PENSION FUND

# Accounts for the year ended 31 March 2014 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the North Yorkshire Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £1,841 million represented 73% of the Fund's past service liabilities of £2,509 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £668 million.



The valuation also showed that a common rate of contribution of 13.8% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 80% with a resulting deficit of £480 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £21m per annum increasing at 4.1% per annum (equivalent to approximately 5.5% of projected Pensionable Pay at the valuation date) for 27 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

<sup>\*</sup> allowance was also made for short-term public sector pay restraint over a 5 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

#### Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	4.15% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

<sup>\*</sup> includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £3,078 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£237 million. Adding interest over the year increases the liabilities by c£130 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further c£31 million. Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of £263 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £2,739 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
July 2014

AUDITOR'S STATEMENT TO A PENSION FUND IN RESPECT OF THE FINANCIAL STATEMENTS PUBLISHED WITH THE PENSION FUND ANNUAL REPORT WHEN AN OPINION HAS ALREADY BEEN ISSUED ON THE PENSION FUND FINANCIAL STATEMENTS IN THE STATEMENT OF ACCOUNTS OF THE ADMINISTERING AUTHORITY

# INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF NORTH YORKSHIRE COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26.

This report is made solely to the members of North Yorkshire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

# Respective responsibilities of the Corporate Director – Strategic Resources and the auditor

As explained more fully in the Statement of the Corporate Director – Strategic Resources Responsibilities, the Corporate Director – Strategic Resources is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of North Yorkshire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

# **Opinion**

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of North Yorkshire County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Christopher Powell FCA (Engagement Lead) For and on behalf of Deloitte LLP Appointed Auditor Leeds UK

25 September 2014

# NORTH YORKSHIRE PENSION FUND NORTH YORKSHIRE PENSION FUND

# STATEMENT OF INVESTMENT PRINCIPLES

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#### 1.0 INTRODUCTION

1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare, publish and maintain a Statement of Investment Principles (SIP). This document is the SIP of the North Yorkshire Pension Fund (NYPF) for which North Yorkshire County Council (NYCC) is the administering authority. In preparing this Statement consideration has been given to the professional advice received from the various advisers and investment managers of the Fund.

#### 2.0 INVESTMENT DECISION MAKING PROCESS

- 2.1 The Council has delegated all its functions as the administering authority of NYPF to the Pension Fund Committee (PFC). The Corporate Director Strategic Resources, who reports to the Chief Executive, has day to day control of the management of all aspects of the Fund's activities.
- 2.2 The PFC determines the investment policy of the Fund and has ultimate responsibility for the investment strategy. The committee undertakes its responsibilities through taking appropriate advice from external advisers. Scheduled meetings take place each quarter with additional meetings convened as required.

#### 3.0 TYPES OF INVESTMENTS TO BE HELD

3.1 The following categories of investment have been approved as suitable for the NYPF.

#### **UK Equities**

provide a share in the assets and profitability of public companies floated on UK stock exchanges. Capital gains and losses arise as share prices change to reflect investor expectations at the market, sector and stock levels. Income is derived from dividends.

#### **Overseas Equities**

are similar to UK Equities but allow greater diversification amongst markets, sectors and stocks. Valuations are affected by exposure to movements in the relative value of the foreign currencies in which investments are made against sterling. Exchange rates are likely to reflect differentials in inflation so should not affect returns materially over the long term, but over the short term currency movements may significantly add to or subtract from returns. Equities are expected to provide high returns compared to other asset classes (the "equity-risk premium"); to address the NYPF deficit position a high proportion of assets will be held in equities.

#### **UK Bonds**

are debt instruments issues by the UK Government and other borrowers. Bonds provide a fixed rate of interest and are usually redeemed at a fixed price on a known future date. Valuations primarily reflect the fixed level of interest, the period to redemption and the overall return demanded by investors. They are vulnerable to rising inflation and correspondingly benefit from falling inflation.

#### **Overseas Bonds**

are similar to UK Bonds but have exposure to currency exchange rate fluctuations. As with UK bonds they are influenced by local inflation rates.

**Index Linked Bonds** 

are bonds that provide interest and a redemption value directly linked to a measure of inflation, usually the Retail Price Index or a similar index. The returns from this asset class act as a useful proxy for movements in liability values.

**Diversified Growth Funds** 

are an alternative way of investing in shares, bonds, property and other asset classes. These funds are managed by specialist multi-asset managers and target returns slightly below that of equities but with significantly reduced volatility due to the diversification of their constituent parts.

**UK Property** 

is an investment in buildings, indirectly through pooled vehicles. Capital gains and losses occur as prices fluctuate in line with rental levels and investor demand. Income is generated from rents collected from tenants. The nature of rental agreements gives property some of the characteristics of bonds, whilst growth and inflation provide some of the characteristics of equities. It is, therefore, a useful diversifying asset class.

**Derivative Instruments** 

such as options and futures are mechanisms through which the Fund can be protected from sudden changes in share prices or exchange rates. Although not income producing they can result in capital gains and losses. They may be used to hedge the Fund's exposure to particular markets.

Cash

is invested in authorised institutions in accordance with the treasury management policy of the Council under the terms of a Service Level Agreement and attracts interest at market rates.

#### 4.0 BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

- 4.1 The LGPS regulations require that administering authorities should "have regard to the need for diversification of investments" in order to reduce the risk of over concentration in one or more asset classes where performance may be highly correlated. The aim of diversification is to reduce short term volatility, particularly to mitigate the negative effects of one asset class or market performing badly. Property (2012) and Diversified Growth Funds (2013) are the most recent additions to further address this issue.
- 4.2 The Investment Strategy Review, carried out periodically, establishes a benchmark asset mix against which actual Fund performance can be measured. The last Review took place in 2013. This provides a framework designed to produce the returns the Fund requires over the long term to meet its future liabilities. Each asset class is allocated a range and rebalancing takes place when values stray beyond them due to market conditions. Further rebalancing may take place based on strategic views of the Fund's advisers.
- 4.3 The largest proportion of the Fund's investments are in equities which is aimed at growing the value of assets over the long term. Other return seeking asset classes complement this goal, with the allocation to liability matching assets providing a measure of protection against rising liability valuations.
- 4.4 The range of permitted investment in each asset class, expressed as a percentage of the Fund is as follows:

	Minimum %	Maximum %
Equities	50	75
Diversified Growth Funds	5	10
Property	5	10
Fixed Income	15	30

4.5 Each asset class is sub-divided into two or more mandates with different investment managers and operating to different benchmarks, further increasing the diversification of the Fund's investments.

#### 5.0 RISK

- 5.1 The Fund's custodian, BNY Mellon, holds the assets of the Fund that are invested on a segregated basis. Assets invested through pooled funds are held by the Funds investment managers. Agreements are in place protecting the Fund against fraudulent loss and in addition regular checks are undertaken by independent auditors of the custodian's and investment managers' systems. These organisations have internal compliance teams which also monitor and report on risk. Cash balances belonging to the Fund are held and invested in accordance with a Service Level Agreement with NYCC. Risk is further controlled through continuous monitoring and periodic reviews of the custodial and investment management arrangements.
- 5.2 The LGPS Management and Investment of Funds Regulations 2009 set out certain restrictions as to individual investments, which are intended to limit the risk exposure of an LGPS Fund. The Fund's asset risk is reduced through diversifying investments within these limits, across asset classes, geographical areas, market sectors and at the stock specific level. Investment Management Agreements include further restrictions on the investment processes managers are required to follow.
- 5.3 The Investment Strategy aims to ensure that the Fund has enough Assets to pay the benefits earned by scheme members. An Asset Liability Modelling study undertaken by the Fund's Investment Consultant looked at the risk and reward of the current (and possible alternative) asset allocations compared with the actual liabilities of the Fund arising from the 2013 Triennial Valuation. The associated workshops explored the risk/reward relationship and the most appropriate asset allocation strategy. The results of this exercise form the basis of the investment benchmark.
- 5.4 Ongoing monitoring of the Fund's risk profile takes place including reassessing its appropriateness when the Investment Strategy is reviewed at the quarterly PFC meetings or as appropriate. Close regard is paid to the ongoing risks which may arise through a developing mismatch, over time, between the assets of the Fund and its liabilities, together with the risks which may arise from any lack of balance/ diversification of the investment of those assets.

#### 6.0 EXPECTED RETURN ON ASSETS

- 6.1 The long-term objective of the Investment Strategy is to have sufficient money available to meet the cost of future pension payments. The Asset Liability Modelling study described in paragraph 5.3 establishes an expected level of return and is incorporated into each Triennial Valuation and the associated Funding Strategy Statement (FSS).
- 6.2 The expected return on assets at the Fund level is a blend of the benchmarks for the individual investment managers and their mandates. All of the Fund's assets are actively managed by external investment managers, each with their own performance target. This equates to an outperformance target over liabilities (calculated on a gilts basis) of 2.4%, equivalent to CPI plus 3%; this return expectation is one of the key assumptions used in determining employer contributions at the Triennial Valuation.

#### 7.0 REALISATION OF INVESTMENTS

7.1 The majority of the Fund's investments are in fixed interest securities, equities and other investments that are quoted on recognised stock markets and may quickly be realised if required. Less than 1% of investments are in illiquid asset classes.

#### 8.0 SOCIALLY RESPONSIBLE INVESTMENTS

- 8.1 The PFC takes the view that its overriding obligation is to act in the best financial interests of the Scheme and its beneficiaries.
- 8.2 However, as a responsible investor, NYPF wishes to promote corporate social responsibility, good practice and improved performance amongst all companies in which it invests. The Fund therefore monitors investee companies to ensure they meet standards of best practice in relation to their key stakeholders.
- 8.3 The Fund considers that the pursuit of such standards fully aligns the interests of Fund members and beneficiaries with those of stakeholders and society as a whole over the long term. In furtherance of this policy, the Fund supports standards of best practice on disclosure and management of corporate social responsibility issues by companies and pursues constructive shareholder engagement with companies on these issues consistent with the Fund's fiduciary responsibilities.
- 8.4 In accordance with this policy, the Fund will seek where necessary to use its own efforts, those of its investment managers, and alliances with other investors, to pursue these goals. To this end the Fund is a member of the Local Authority Pension Fund Forum (LAPFF).
- 8.5 In addition, the Fund continues to pursue an active corporate governance policy, including using its voting rights, in accordance with its own policies, as determined from time to time (see paragraph 9 below).

#### 9.0 SHAREHOLDER GOVERNANCE

- 9.1 The policy on corporate governance is that NYPF has instructed Pension Investment Research Consultants Limited (PIRC) to execute voting rights for all segregated UK Equities held by the Fund, and non UK where practicable. Votes are executed by PIRC according to predetermined Shareholder Voting Guidelines agreed by the PFC, available on <a href="https://www.nypf.org.uk">www.nypf.org.uk</a>.
- 9.2 The scope of the policy described in **paragraph 9.1** above is periodically reviewed with the intention of extending the geographical range where NYPF's interest can be voted.

#### 10.0 STOCK LENDING

10.1 The Fund has not released stock to a third party under a stock lending arrangement within a regulated market during the financial year 2013/14 or in any previous years.

#### 11.0 COMPLIANCE WITH GUIDANCE FROM THE SECRETARY OF STATE

- 11.1 The original Myners Review in 2001 established 10 principles of investment for defined benefit schemes. In October 2008, the Government published their response to consultation on updating the Myners Review and restructured the original principles into 6 new high level principles, provided guidance to pension funds on recommended best practice for applying the principles, and identified tools to provide practical help and support to trustees and their advisers.
- 11.2 NYPF carried out a self-assessment of its position, supported by a review by an independent professional observer, and implemented arrangements in order to address the principles. The extent to which NYPF has adopted the investment principles is described in the following paragraphs.

#### Effective decision making - full compliance

11.3 Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation, and those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

#### Clear objectives - full compliance

11.4 An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

#### Risks and liabilities - full compliance

11.5 In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

#### Performance assessment - full compliance

11.6 Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

#### Responsible ownership - full compliance

11.7 Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, include a statement of their policy on responsible ownership in the Statement of Investment Principles, and report periodically to scheme members on the discharge of such responsibilities.

## Transparency and reporting - full compliance

11.8 Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives, and provide regular communication to scheme members in the form they consider most appropriate.

June 2014

# **NORTH YORKSHIRE PENSION FUND**

# **GOVERNANCE COMPLIANCE STATEMENT**

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#### 1.0 INTRODUCTION

- 1.1 This Statement has been prepared by North Yorkshire County Council (NYCC, or "the Council") as administering authority of the North Yorkshire Pension Fund (NYPF, or "the Fund") in accordance with the requirements of the provisions of the Local Government Pension Scheme (Amendment) (No.3) Regulations 2007.
- 1.2 These Regulations describe the governance arrangements of the Fund and assess them against a set of best practice principles, either confirming compliance or providing an explanation of the reasons for non-compliance as appropriate.

#### 2.0 GOVERNANCE ARRANGEMENTS

#### **Pension Fund Committee**

- 2.1 Overall responsibility for the governance of the LGPS, as it is organised and operated in North Yorkshire resides with the Pension Fund Committee (PFC), a committee of the Council, which has been delegated the following powers:
  - 2.1.1 To exercise the powers of the Council to invest monies forming part of the Pension Fund, including:
    - to determine and periodically review the Investment Strategy of the Fund
    - to appoint managers to manage and invest Fund monies on the Council's behalf
    - to receive reports from the appointed managers, at least once every three months, setting out the action they have taken under their appointment
    - to receive reports, at least once every three months from the Investment Adviser, Investment Consultant and the Performance Measurer, regarding the investment performance of the appointed investment managers and the Fund overall
    - from time to time to consider the desirability of continuing or terminating the appointments of any organisations involved in the investment of the monies of the Fund and / or advising / reporting thereon
    - to approve a Statement of Final Accounts and associated governance statements for submission to the Audit Committee
    - from time to time reporting to the Executive
  - 2.1.2 To exercise all the Council's powers as administering authority for the North Yorkshire Pension Fund, subject to any specific instructions that might be given from time to time by the Council.
  - 2.1.3 To carry out the Council's functions relating to local government pensions scheme (LGPS) under the regulations.

#### **Advisory Panel**

- 2.2 NYPF has established an Advisory Panel with its own terms of reference which widens representation amongst the Fund's stakeholders. The Panel's terms of reference as follows:
  - to represent all stakeholders of the North Yorkshire Pension Fund, in particular the contributing Employing Bodies to the Fund
  - to express the views of stakeholders to the PFC on matters of policy
  - to liaise with the North Yorkshire Pension Fund Officers Group (NYPFOG)

# **Independent Professional Observer**

2.3 In order to provide an independent assessment of the Fund's governance arrangements the PFC has appointed an Independent Professional Observer (IPO). The IPO reports annually to the PFC on the level of compliance of the Fund against the CLG's best practice principles, and also offer advice on governance related matters.

## **Functions Delegated to Officers**

- 2.4 The Council's constitution sets out the duties of the Corporate Director Strategic Resources in relation to the Fund. Essentially, the Corporate Director acts as the Treasurer of the Fund (and is referred to as such in the remainder of this Statement) providing information and advice to the Committee whilst also managing the day to day affairs of the Fund.
- 2.5 In particular the Treasurer is required to manage from day to day the Fund, including:
  - the exercise of the Council's function as administering authority, where such
    exercise does not involve use of discretion
  - the power to seek professional advice and to devolve day to day handling of the Fund to professional advisers within the scope of LGPS regulations
  - to change the mandate of a fund manager, in consultation with the Chairman and at least one other Member of the PFC, in circumstances when not to do so would lead to a real, or potential, loss in value of the Fund's investments. Any such action to be reported to the PFC as soon as practicable
- 2.8 In undertaking these duties detailed above, the Treasurer is not empowered to change the fund manager structure of the Fund without the approval of the PFC.

#### **NYPFOG**

2.7 The North Yorkshire Pension Fund Officer Group (NYPFOG) meets periodically to provide an opportunity for officer representatives of all employers to meet NYPF officers and address any issues related to the administrative arrangements of the Fund.

#### 3.0 REPRESENTATION AND MEETINGS

#### Representation

- 3.1 The current membership of the PFC is as follows (as at June 2014)
  - (a) seven elected Members representing the administering authority who each hold one vote on the Committee.
  - (b) two further elected Members representing the Fund's other largest employing bodies each holding one vote. One Member represents the City of York Council, the other is the District Councils' representative of Local Government North Yorkshire and York
  - (c) in addition, a number of substitute Members have been nominated to attend in the absence of each of the main Committee Members
  - (d) an invitation is also extended to allow three union representatives to attend every Committee Meeting. No voting rights are allocated to these positions
  - (e) the Chairman of the Advisory Panel is invited to attend all PFC meetings, in a non-voting capacity
  - (f) the quorum required for Committee Meetings is three.
- 3.2 Advisory Panel membership consists of representatives of each employer group, pensioner members, and union representatives on behalf of active members.

## Meetings

- 3.3 The PFC is governed by the decision making procedures defined in the Constitution of the Council, being a full Committee of the Council. These are fully compliant with the terms of the Local Government Act 2000. In addition, the PFC complies with the procedural requirements defined in LGPS regulations.
- 3.4 Papers for all meetings of the PFC are provided to all the Members identified in paragraph 3.1 above, including substitute members, union representatives and Advisory Panel Members. In addition, the Investment Adviser and Investment Consultant (who also attend every meeting), Fund Managers and the Fund Actuary are given the opportunity to view all items on the public agenda of each meeting.
- 3.5 PFC papers are also publicly available on the Council's website. The Communication Policy Statement explains in more detail the arrangements for engagement with all stakeholders.
- 3.6 The PFC convenes once each quarter, at County Hall in Northallerton. The Fund's investment managers are scheduled to attend additional meetings where the PFC specifically considers fund manager performance and related matters. Six supplementary meetings a year are normally held for this purpose. In attendance at each meeting are the Investment Adviser, the Investment Consultant, the Treasurer and representative members of his staff involved with the NYPF (eg Operations Manager, Fund Accountant), an observer from City of York Council and a Committee Clerk (NYCC).

- 3.7 The PFC has also included a specific meeting in July in its programme. This is in order to consider the draft Statement of Final Accounts and the set of updated governance documents, in addition to any other business requiring attention at that time.
- 3.8 Advisory Panel meetings are synchronised with PFC meetings and consider the same quarterly agenda plus any other relevant information. There is no formal voting procedure, rather each member of the Panel is entitled to express their view. The Chairman of the Panel attends PFC meetings to pass on these views and then reports back to the Panel resulting comments and actions, as appropriate.

#### 4.0 OPERATIONAL PROCEDURES

#### **Training**

- 4.1 Myners first principle recommends that "decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively". There are also legal requirements set out in the LGPS regulations and other relevant legislation, as well as best practice guidance published by CIPFA and other professional and regulatory bodies.
- 4.2 The Fund arranges a programme of internal and external training events and access to other resources such as the on-line CIPFA Knowledge and Skills Toolkit designed to meet these requirements, recommendations and best practice guidance principles for Members of the PFC. A register of all training events is maintained and reported at each PFC meeting.
- 4.3 The costs incurred by Members of the PFC in attending training sessions are met by the Fund in accordance with the policies of the administering authority.
- 4.4 Advisory Panel members are afforded the same training opportunities as are members of the PFC. Costs and expenses are met in accordance with the policy described in the County Council's "Guidance and Toolkit for Managers and Headteachers on Recruiting and Working with Volunteers".

#### **Reporting and Monitoring**

- 4.5 The PFC has a clearly defined Work Plan that is agreed at the start of each financial year which is reviewed regularly and is included in the Agenda papers for each meeting.
- 4.6 In relation to investment matters, the Investment Adviser, Investment Consultant and each Investment Manager for the Fund is require to submit a quarterly report to the PFC summarising the investment activities within the Fund's portfolios during the preceding quarter and reporting the value and performance of the investments at the end of each such quarter. In addition, the Fund Custodian presents an independent report on the overall investment performance of the Fund, together with details relating to individual managers and different classes of asset.
- 4.7 In addition, the Treasurer will present reports to every PFC meeting detailing performance in relation to the administration activities of the Fund and other significant matters for Members' attention as determined by the Work Plan; topics

will include reports on the budget position, updates on the Regulations, communication with stakeholders, training events and Admission Agreements, etc.

- 4.8 Outside of this periodic reporting to the PFC
  - (a) the activities of the Benefits Administration Team are regularly monitored by the Treasurer as part of the ongoing performance monitoring arrangements operated with the Central Services directorate of the Council. In addition, the Fund participates in benchmarking and related value for money exercises with other Funds
  - (b) the performance of the investment managers is monitored on an ongoing basis by the Investment Consultant, Investment Adviser and the Treasurer. Meetings are held with the investment managers on a routine basis and/or when particular issues arise (eg staff changes) that may affect the performance of that manager on behalf of the Fund.

#### 5.0 KEY POLICY / STRATEGY DOCUMENTS

- 5.1 In addition to the range of documents produced by the Fund explaining the benefits of the LGPS for scheme members and employers, the Fund publishes on <a href="www.nypf.org.uk">www.nypf.org.uk</a> a number of other key documents relating to the administration and governance of the Fund. In addition to this Governance Compliance Statement, these additional documents are as follows:
  - Funding Strategy Statement (FSS)
  - Statement of Investment Principles (SIP)
  - Communications Policy Statement
  - Annual Communication Strategy + related Action Plan
  - Pensions Administration Strategy
  - Risk Register
  - Treasury Management SLA
  - Annual Report

# 6.0 COMPLIANCE WITH BEST PRACTICE PINCIPLES

# 6.1 **Structure**

а	The Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council	Fully compliant
b	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Fully compliant
С	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Fully compliant
d	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel	Fully compliant

# 6.2 **Representation**

а	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, eg admitted bodies ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers iv) expert advisers	Fully compliant
b	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights	Fully compliant

# 6.3 Selection and Role of Lay Members

а	That committee or panel members are made fully aware of the	Fully
	status, role and function they are required to perform on either	compliant
	a main or secondary committee	-
	·	

# 6.4 **Voting**

а	The policy of individual administering authorities on voting	Fully
	rights is clear and transparent, including the justification for not	compliant
	extending voting rights to each body or group represented on	

main LGPS committees	

Voting rights on the PFC are limited to representatives of the administering authority which is answerable for the effective and prudent management of the Scheme, and to representatives of the Fund's major employers. This arrangement provides an optimal number in terms of decision making effectiveness, therefore voting rights have not been extended to other stakeholders.

# 6.5 **Training / Facility Time / Expenses**

а	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process	Fully compliant
b	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum	Fully compliant

# 6.6 Meetings (Frequency/Quorum)

á	а	That an administering authority's main committee or committees meet at least quarterly	Fully compliant
k	0	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits	Fully compliant
(		That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Fully compliant

#### 6.7 Access

а	That subject to any rules in the Council's constitution, all	Fully
	members of main and secondary committees or panels have	compliant
	equal access to committee papers, documents and advice that	
	falls to be considered at meetings of the main committee	
	-	

# 6.8 **Scope**

ć	а	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance	Fully compliant
		arrangements	

# 6.9 **Publicity**

а	That administering authorities have published details of their	Fully
	governance arrangements in such a way that stakeholders with	compliant
	an interest in the way in which the scheme is governed can	
	express an interest in wanting to be part of those arrangements	

# **NORTH YORKSHIRE PENSION FUND (NYPF)**

# **2013 Funding Strategy Statement (FSS)**

This Statement has been prepared by North Yorkshire County Council (the Administering Authority) to set out the funding strategy for the North Yorkshire Pension Fund (the NYPF), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

#### 1. INTRODUCTION

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Administration Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund, the Administering Authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to :
  - the guidance issued by CIPFA for this purpose; and
  - the Statement of Investment Principles (SIP) for the NYPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the NYPF are guaranteed by statute (s.29 LGPS (Administration) Regulations, as amended) and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also the introduction of a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the NYPF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations") and the Administration Regulations referred to above. New legislation contained in the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") governs the NYPF from 1 April 2014. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

Employer contributions are determined in accordance with the Administration Regulations which require that an actuarial valuation is completed every three years by the actuary,

including a rates and adjustments certificate. Contributions to the NYPF should be set so as to "secure its solvency", whilst the actuary must also have regard to maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

#### 2. PURPOSE OF THE FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the NYPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

#### 3. AIMS AND PURPOSE OF THE NYPF

#### The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

#### The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income,
- and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

#### 4. RESPONSIBILITIES OF THE KEY PARTIES

## The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the NYPF's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the NYPF's performance and funding and amend FSS/SIP.

## The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

## The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters,
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

## 5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

## **Funding Objective**

To meet the requirements of the Administration Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Rate.

#### **Determination of the Funding Target and Recovery Period**

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for changes in market conditions that have occurred since the valuation date;
- some further allowance for interest rates and bond yields to revert to higher levels over the medium to long term.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Scheme.

In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole (except where an employer adopts a bespoke investment strategy – see below).

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- A default recovery period of 21 years will apply.
- In addition, at the discretion of the Administering authority, a maximum deficit recovery period of 27 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- In the current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply compared to the 2010 funding plan where substantial deficits remain. Contribution reductions may only apply if an employer's deficit recovery period is at most 15 years.
- For any open employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a 15 year period (if surpluses are sufficiently large, contribution requirements will

be set to a minimum nil total amount). The current level of contributions will be phased down as appropriate.

The employer contributions will be expressed and certified as two separate elements:

- a percentage of pensionable payroll in respect of the future accrual of benefit
- a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to the review from April 2017 based on the results of the 2016 actuarial valuation.

On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

However, the Administering Authority has ultimate discretion where the particular circumstances of any given Employer warrant a variation from these objectives.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

#### **Deficit Recovery Plan**

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period to apply for any particular employer to employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer; and the security of future income streams
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund.

The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore, after specific agreement has been obtained by Fund Officers from the North Yorkshire Pension Fund Committee, would be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2014/17. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence.

## The Normal Cost of the Scheme (Future Service Contribution Rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in Appendix 1.

# 6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

The results of the 2013 valuation show the liabilities at 31 March 2013 to be 73% covered by the current assets, with the funding deficit of 27% being covered by future deficit contributions.

In assessing the value of the NYPF's liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the NYPF, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the NYPF's assets in line with the least risk portfolio would minimise fluctuations in the NYPF's ongoing funding level between successive actuarial valuations.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

Asset Class (Summary)	%
Equities	50-75
Liability matching	15-30
Alternatives(excluding property)	5-10
Property	5-10
TOTAL	100

The funding strategy adopted for the 2013 valuation is based on an assumed asset outperformance of 1.6% per annum.

#### **Bespoke Investment Strategy**

The Investment Strategy adopted by NYPF is determined for the Fund as a whole. This Strategy takes into account the characteristics of NYPF as a whole, and therefore those of the constituent employers as an aggregated entity - it does not seek to distinguish between the individual liability profiles of different employers. The Strategy adopted to date, as reflected in the current SIP, is to invest a significant proportion of the assets in equities. Such investments offer a higher expected return, but also carry a higher level of risk.

NYPF is prepared to offer any employer the opportunity to adopt a Bespoke Investment Strategy (eg 100% bonds). However, to the extent that any Bespoke Investment Strategy will necessitate different investment return assumptions to those used by the Actuary for NYPF overall, there may be a consequential impact on the contribution rate calculated for that employer.

In addition, if an employer opts for a Bespoke Investment Strategy, NYPF reserves the right to determine the most appropriate way of arranging for the investment of the relevant share of the assets according to that Bespoke Strategy.

#### 6. IDENTIFICATION OF RISKS AND COUNTER MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the NYPF is based on both financial and demographic assumptions. These assumptions are specified in the Appendices and the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the NYPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

#### What are the Risks?

#### **Financial**

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

#### **Demographic**

Longevity horizon continues to expand

 Deteriorating pattern of early retirements (including those granted on the grounds of ill health)

#### Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

#### Regulatory

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

#### Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes in Committee membership.

#### 8. MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employing organisations.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the NYPF membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants
- if there have been any significant special contributions paid into the NYPF

North Yorkshire County Council as administering authority for the North Yorkshire Pension Fund

#### **ACTUARIAL VALUATION AS AT 31 MARCH 2013**

#### Method and assumptions used in calculating the funding target

#### Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

#### **Financial assumptions**

#### Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.6% per annum .

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

#### Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, The overall reduction to RPI inflation implied by the market at the valuation date is 1.0% per annum.

#### Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) in the long term will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for all employers in the fund. This results in a total salary increase of 1% per annum for 2 years and in line with assumed CPI Inflation of 2.6% per annum for 3 years.

#### Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

#### **Demographic assumptions**

#### Mortality

The mortality in retirement assumptions will be based on up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting NYPF specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

#### Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

#### Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in normal health and in ill health and the proportions married/civil partnership assumption have been modified from the last valuation. Other assumptions are as per the last valuation.

#### **Expenses**

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

#### **Discretionary Benefits**

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

#### Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which
  are unknown at the effective date of the valuation, and which are not directly linked
  to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset outperformance assumptions used for the funding target is fully taken into account in assessing the funding position.

# Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2013 actuarial valuation

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.8% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

#### Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	97% / 96%	CMI_2012	1.5%
	III health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1 <mark>D</mark> FA	156% / 109%	CMI_2012	1.5%
	Future dependants	S1PMA/S1 <mark>D</mark> FA	109% / 99%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	97% / <mark>96%</mark>	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	97% / <mark>96%</mark>	CMI_2012	1.5%
	Future dependants	S1PMA/S1 <mark>D</mark> FA	109% / 99%	CMI_2012	1.5%

#### Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to the 2014/15 levels that would have been payable under the previous funding plan), an allowance may be made as part of the recovery plan for interest rates and bond yields to revert to higher levels over a period of 10 years.

In isolation, the effect of this increase in yields is to reduce the funding deficit by primarily lowering the value of the fund's liabilities over time, thus reducing the level of deficit contributions required by the employer during the recovery period.

#### Increases in yields on fixed and index linked gilts

A maximum increase in fixed and index linked gilt yields of 0.4% p.a. reflecting expected increases in gilt yields over a 10 year period.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of increased gilt yields over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the impact of the anticipated increases in gilt yields will be limited so that the total employer contributions emerging from the valuation will be no less the 2014/15 levels that would have been payable under the previous funding plan.

# North Yorkshire Pension Fund Admissions and Terminations Funding Policy

#### 1. Introduction

- 1.1 This document details the North Yorkshire Pension Fund's (NYPF) policy on admissions into the Fund, the methodology for assessment of a termination payment on the cessation of an admission body's participation in the NYPF, and considerations for current admission bodies. It supplements the general funding policy of the Fund as set out in the Funding Strategy Statement (FSS).
- 1.2 Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- 1.3 A standard data base of all current admission bodies participating in the NYPF, recording relevant details of the admission agreement and funding arrangements for each body, is maintained by the Fund. This data base is a live document and will be updated as new bodies are admitted to the NYPF.
- 1.4 This document is reviewed periodically and updated where changes are required, either in line with statutory requirements or where pragmatic solutions have been identified to deal with new scenarios or approaches.

#### 2. Principles

#### Termination of an admission agreement

- 2.1 When an admission agreement comes to its end, or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.
- 2.2 In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members
- 2.3 In the event that unfunded liabilities arise that cannot be recovered from the admission body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.
- 2.4 The NYPF's policy is that a termination assessment will be made based on a least risk (i.e. "matched") funding basis, unless the admission body has a guarantor within the Fund or a successor body exists to take over the admission body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the admitted body's liabilities will become "orphan liabilities" within the Fund, and there will be no recourse to the admission body if a shortfall emerges in the future (after the admission has terminated).

- 2.5 If, instead, the admission body has a guarantor within the Fund or a successor body exists to take over the admission body's liabilities, the NYPF's policy is that the Triennial Valuation funding basis will be used for the termination assessment. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the admission body within the Fund (sometimes known as the "novation" of the admission agreement). This may, if agreed by the successor body, include the novation to the successor of any funding deficit on closure, in place of a termination payment being required of the admission body itself.
- 2.6 The LGPS (Miscellaneous) Regulations 2012 allow for Scheme Employers to be subject to a deficit payment on termination. The Administering Authority will decide the actuarial funding basis to apply for such a termination assessment after taking advice from the actuary to the NYPF and considering the particular circumstances of the Scheme Employer.

#### Funding basis / Controlled Flexibility

- 2.7 An admission body may choose to pre-fund for termination i.e. to amend their funding approach to a matched methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the matched basis.
- 2.8 For any admission bodies funding on such a matched strategy a notional investment strategy will be assumed as a match to the liabilities. In particular the admission body's notional asset share of the Fund will be credited with an investment return in line with the matched funding assumptions adopted rather than the actual (largely equity related) investment return generated by the actual asset portfolio of the Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

#### **Administering Authority options**

- 2.9 The preference of the NYPF is for the Administering Authority to commission a risk assessment from the actuary to the NYPF on behalf of the potential admitted body, in line with the LGPS (Miscellaneous) Regulations 2012, effective from 1 October 2012, which requires a risk assessment to be carried out to the satisfaction of the Administering Authority. Where the potential admission body instead insists on carrying out the risk assessment (either themselves or by commissioning a third party), this must be done to the satisfaction of the Administering Authority (and the transferring employer where appropriate).
- 2.10 In order to protect other Fund employers, when considering applications for admission body status the Administering Authority's clear preference is that there should be a guarantor within the Fund. However, where there is no guarantor within the Fund, the Administering Authority will consider other applications on a case-by-case basis and can determine that:

- The admission body must pre-fund for termination with contribution requirements assessed using the matched methodology and assumptions; and/or
- The admission body must have a bond or indemnity from an appropriate third party in place. The actuary to the NYPF will be asked to carry out a risk assessment as per paragraph 2.9, with the level of any bond requirement being determined by the Administering Authority; and/or
- The admission body may be subject to any other requirements, such as monitoring specific factors, as the Administering Authority may decide; or
- The admission body's application may be refused.
- 2.11 Some aspects that the Administering Authority may consider when deciding whether to apply any of the options under 2.10 above, in the absence of a guarantor, are:
  - Uncertainty over the security of the organisation's funding sources e.g. the admission body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
  - If the admission body has an expected limited lifespan of participation in the Fund;
  - The average age of employees to be admitted and whether the admission is closed to new joiners.

#### 3 Implementation

#### New admissions (admitted on or after 26/5/2011)

3.1 With effect from 26 May 2011 the NYPF will apply the above principles to the admission of new bodies into the Fund and to the methodology for assessment of a termination payment on the cessation of such an admission body's participation in the NYPF.

#### Transferee admission bodies (TABs)

- 3.2 Transferee admission bodies generally will have a guarantor in the Fund since the Regulations require that, in the event of any unfunded liabilities on the termination of the admission, the contribution rate for the relevant Scheme Employer should be revised. Accordingly, in general, the matched approach to funding and termination will not apply for TABs.
- 3.3 On termination of a TAB admission, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.
- 3.4 An assessment of the level of risk on premature termination of the contract will be carried out, as detailed in paragraph 2.9. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the NYPF the decision over the level (if any) of any bond requirement for the transferee admission body is the responsibility of the Scheme Employer, and should be agreed by the contractor

and Scheme Employer as part of the commercial negotiation, to the satisfaction of the Administering Authority.

- 3.5 Deficit recovery periods for TABs will be set in line with the Fund's general policy as set out in the FSS.
- 3.6 An exception to the above policy applies if the guarantor is not a participating employer within the NYPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the NYPF the Administering Authority may in this case treat the admission body as if it has no quarantor.

#### Community admission bodies (CABs)

- 3.7 From 1 October 2012, as per the requirements of the LGPS (Miscellaneous) Regulations 2012, paragraph 2.9 will apply for the admission of a CAB.
- 3.8 The NYPF's policy is to consider applications on a case-by-case basis, in line with the principles set out above. In general, a guarantor will be required to the Admission Agreement. If a guarantor (of sufficient standing acceptable to the Fund) is not forthcoming the admission will either not be approved or the Administering Authority may, if it deems appropriate, accept the admission subject to the requirements as described in paragraph 2.10 above. If required, any bond amount will be subject to review on a regular basis.

In the case of some bodies such as housing management or leisure facilities which are set up under a trust arrangement and effectively have a council as a guarantor under the Admission Agreement, then the admission will be approved and no risk assessment will be required.

- 3.9 In a similar way, with effect from 1 April 2008, new town and parish councils entering the Fund will be treated as follows:
  - If a guarantor (of sufficient standing acceptable to the Fund) is forthcoming then the admission will be approved with the valuation funding basis used for the termination assessment and calculation of ongoing contribution requirements.
  - If there is no guarantor then the admission body must pre-fund for termination with contribution requirements assessed using the matched methodology and assumptions.
- 3.10 Deficit recovery periods will be determined consistent with the policy set out in the FSS. Alternatively, the Administering Authority may determine an employer specific deficit recovery period will apply.

#### Existing admissions (admitted prior to 26/5/2011)

3.11 A review of all current admission bodies participating in the NYPF has been conducted with the relevant details documented in the data base maintained by the Fund.

3.12 The NYPF policy is that these existing admissions will be notionally "ring-fenced" with the valuation funding basis used for the termination assessment and calculation of ongoing contribution requirements. In the event that unfunded liabilities arise that cannot be recovered from the admission body at termination and in the absence of a guarantor or successor body, these will fall to be met by the Fund as a whole.

#### **Notification of Termination**

3.13 In many cases, termination of the admission is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued. In this case admission bodies are required to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of the admission. Effectively, this will be achieved by "locking in" to financial conditions for the termination prior to that date, and the hypothecation of a notionally matched investment strategy. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

#### **Grouped bodies**

- 3.14 The NYPF currently groups the following types of employers for contribution rate setting purposes:
  - Grouped Scheduled Bodies (Town and Parish Councils admitted prior to 31 March 2008).
  - NYCC Local Management of Schools (NYCC LMS) Pool
  - City of York Local Management of Schools (COY LMS) Pool
     Further details of these groupings are set out below.

#### **Grouped Scheduled Bodies**

- 3.15 The NYPF policy is that, on termination of participation within the grouped scheduled bodies, the termination assessment is based on a simplified share of deficit approach. This involves disaggregating the outgoing body from the group by calculating the notional deficit share as at the last actuarial valuation of the Fund, in proportion to the respective payrolls for the body and the group as a whole, and then adjusting to the date of exit. The adjustment to the date of exit will normally be made in line with the assumptions adopted as at the last actuarial valuation unless the actuary and Administering Authority consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit.
- 3.16 In line with the NYPF's policy for existing admission bodies, the share of deficit will be assessed based on the ongoing valuation funding basis for the group as a whole at the last actuarial valuation. 6

- 3.17 Any unfunded liability that cannot be reclaimed from the outgoing body will be underwritten by the group and not all employers in the Fund.
- 3.18 Following the termination of a grouped body, any residual liabilities and assets in respect of that body will be subsumed by any guarantor body for the group, or in the absence of a guarantor, subsumed by the Fund as a whole.

#### **Local Management of Schools (LMS) Pool**

- 3.19 The LMS pool refers to the grouping of some transferee admission bodies relating to catering and cleaning contracts within schools. On the admission of each such body to the Fund, the Assistant Director, Finance & Central Services for CYPS appropriate assistant director at North Yorkshire County Council will determine whether they should be included in the LMS pool.
- 3.20 Employers in the LMS pool will pay the same contribution rate as that payable by North Yorkshire County Council or City of York depending on which pool they are in.
- 3.21 At each triennial actuarial valuation, for the purpose of determining the contributions, the Actuary will pool together the assets and liabilities in respect of the Council and all other employers included in that Council's LMS pool. The contribution rate so determined will be payable by all the employer members of that Council's LMS pool.
- 3.22 On termination of an admission body within the LMS pool, no termination valuation will be calculated. The assets and liabilities relating to the employees will be subsumed by North Yorkshire County Council or City of York depending on which pool they are in.

### North Yorkshire Pension Fund

## **Communications Policy Statement June 2014**

If you require this information in an alternative language or another format such as large type, audio cassette or Braille, please contact the Pensions Help & Information Line on 01609 536335

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- 2 Objectives
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#### **COMMUNICATIONS POLICY STATEMENT**

#### 1.0 BACKGROUND

- 1.1 All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement under the LGPS (Amendment) (No 2) Regulations 2005 relating to the Communications Strategy for the Fund.
- 1.2 The key requirements for preparing the Statement are summarised as follows: (a) the Administering Authority will prepare, publish and review a policy statement setting out its communication strategy for communicating with members, members' representatives, prospective members and employing authorities; and for the promotion of the Scheme to prospective members and their employing authorities.

  (b) the statement must be revised and published whenever there is a material change in the policy.
- 1.3 North Yorkshire County Council (NYCC) as the administering authority for the North Yorkshire Pension Fund (NYPF) has published this Statement in

accordance with these Regulations. This Statement has been prepared in consultation with appropriate interested parties.

#### 2.0 **OBJECTIVES**

- 2.1 The Fund's objectives in communicating with stakeholders (as defined in **Section 3** below) are:
  - to keep all stakeholders informed about the management and administration of the NYPF
  - to inform stakeholders to enable them to make the decisions they need to make regarding pensions and the NYPF
  - to consult major stakeholders on changes to regulations, policies and procedures that affect the NYPF
  - to promote the Local Government Pension Scheme as an important tool in recruitment and as a benefit to scheme members
  - to use the most effective ways of communicating with stakeholders
  - to seek continuous improvement in the way we communicate
- 2.2 The Fund also needs to ensure that Stakeholders find it easy and convenient to communicate with the Fund.

#### 3.0 **STAKEHOLDERS**

- 3.1 The key stakeholders for the NYPF are:
  - the County Council's Pension Fund Committee who make decisions about the way the Pension Fund and pension benefits are managed and administered
  - the Advisory Panel of employer representatives and other stakeholders which has been established to advise the Pension Fund Committee on policy matters as well as provide a scrutiny function
  - **scheme employers** who use the scheme to help recruit, retain and support employees and who themselves contribute to the Fund
  - scheme members (current contributors, deferred and retired members) and their representatives who are ultimately the recipients of the benefits of the pension scheme
  - prospective scheme members who are eligible to benefit from the scheme but have not yet joined

- staff employed by the County Council and other employers who are responsible for the management and operation of the Pension Fund and pension benefits
- 3.2 Other stakeholders who contribute to the NYPF include
  - the Fund Actuary
  - the Investment Adviser
  - the Investment Consultant
  - the Independent Professional Observer
  - investment managers
  - the asset custodian
  - the AVC provider
  - the Fund Solicitor
- 3.3 Because the stakeholders referred to in paragraph 3.2 above are the providers of services to the Fund, it is important that communication with them exists both to and from the Fund. Thus they must be made aware of changes affecting the Fund as well as have the ability and the means to provide advice / feedback, etc, to the Fund.

#### 4.0 METHODS OF COMMUNICATION

- 4.1 There are a variety of methods of communication adopted by the Fund. These are identified below with reference to each of the key stakeholders listed in Section 3 above.
- 4.2 The items marked with an \* are available on the NYPF website.

#### **Pension Fund Committee**

- 4.3 The following are used to provide information to Committee Members:
  - agenda papers these are prepared for each Committee meeting and cover all matters (ie benefit administration and investment of the Fund's assets) relating to policy and performance of the Fund
  - newsletters\* Committee Members receive copies of all newsletters issued by **NYPF**

- workshops organised for specific purposes usually linked to the review of a major piece of NYPF policy (eg Investment Strategy)
- third party training sessions details are circulated to all Members on a regular basis

#### **Advisory Panel**

4.4 The Panel receives the same information as provided to Committee members (see paragraph 4.3 above)

#### **Scheme Employers**

- 4.5 The following will be provided to all Scheme Employers:
  - newsletter\* updates delivered electronically
  - technical material any information connected with the Scheme and its administration is issued to Employer nominated liaison officer(s)
  - consultation opportunities for NYPF/Employer consultation wherever a collaborative approach is appropriate or policy changes are proposed or required
  - website including discrete area for 'employer only' information
  - Pension Fund Officer Group (NYPFOG) regular meetings held between NYPF and Employer representatives
  - one to one employer meetings dealing with any matters arising between NYPFOG meetings including training employers' staff engaged in pension administration activities
  - Employers Guide\* detailing pension administration processes
  - Pensions Administration Strategy\* agreed protocol setting out the respective responsibilities of NYCC (as the administering authority of the Fund) and the Fund's Employing Authorities
  - Communications Strategy setting out the current communication arrangements and future developments
  - Employer access to employee data a means of providing data on line including starters, leavers, amendments and contributions
  - Admission Agreements provide advice, process management and data analysis for any prospective employer pursuing admitted body status

#### **Scheme Members**

4.6 The following will be provided to active, deferred and retired members –

- Scheme Guide (short guide)\* downloaded by new members of the Scheme or provided in hard copy on request by employers
- Scheme Guide (full)\* provided on request
- Membership Certificate (Statutory Notice) confirmation of participation in the LGPS following the commencement of employment
- estimate of benefits\* calculated by members online or provided on request in appropriate cases
- annual benefit statement\* provided on-line for active and deferred members or can be provided in hard copy on request
- newsletter\* as appropriate for active members (but not less frequently than annual) and once per year for retired members
- pre-retirement courses support for employer led courses as required up to 6 times per year
- membership data on-line\* personal data securely available to active and deferred members
- satisfaction surveys conduct surveys for qualitative assessments on such matters as payment of retirement benefits, satisfaction with call-handling etc
- pay advice (sent to pensioners)
- replies to any correspondence by letter or e-mail
- helpline contact available via telephone during office hours or voicemail out of office hours
- website including online benefits calculator and other self-service facilities

#### **Prospective Scheme Members**

- 4.7 The following will be available to prospective members:
  - Scheme Guide (short guide)\* distributed via the employers to all new employees or downloaded from the website
  - direct promotion will assist the employer in promoting the Scheme via employer communication systems eg pay advice, newsletters, induction seminars, etc
  - helpline contact available via telephone during office hours or voicemail out of office hours
  - website including Scheme guides to the LGPS

#### 5.0 ANNUAL COMMUNICATIONS STRATEGY (incorporating Action Plan)

5.1 In consultation with Scheme employers and other stakeholders, via the Advisory Panel and NYPFOG, the County Council prepares an **Annual Communications Strategy** for the NYPF detailing the current arrangements for communication with its stakeholders together with future communication developments. The Communications Strategy is subject to annual review and is presented to the Pension Fund Committee for approval at the start of each financial year.

#### 5.2 The Strategy includes the following -

- commentary on current operating context for the Fund
- progress on actions included in previous Annual Strategy
- details of proposed actions for next year with costs
- details of any Satisfaction Surveys undertaken in previous year and proposed for next year

#### 6.0 KEY POLICY / STRATEGY DOCUMENTS

6.1 In addition to the range of documents produced by the Fund explaining the benefits of the LGPS, for Scheme members and employers (see paragraphs4.5 to 4.7 above), the Fund publishes a number of other key documents relating to the administration and governance of the Fund. These are as follows -

- Funding Strategy Statement (FSS)
- Statement of Investment Principles (SIP)
- Annual Report
- Annual Communications Strategy
- Pensions Administration Strategy
- Governance Compliance Statement
- 6.2 All of these documents are available on the NYPF website.

#### 7.0 REVIEW OF THIS POLICY STATEMENT

7.1 The Policy Statement will be reviewed annually to coincide with the approval of

the **Annual Communications Strategy** as referred to in **Section 5.** 

#### 8.0 FURTHER INFORMATION

8.1 If you would like to know more about our communications, or have a query about any aspect of the North Yorkshire Pension Fund, you can contact us in the following ways:

#### in writing

North Yorkshire Pension Fund County Hall Northallerton North Yorkshire DL7 8AL

#### by telephone

Pensions Help and Information Line 01609 536335

#### by email

pensions@northyorks.gov.uk

8.2 Further information can also be found on the NYPF website at <a href="http://www.nypf.org.uk">http://www.nypf.org.uk</a>

### Rates and Adjustments Certificate issued in accordance with Regulation 36 of the Administration Regulations

Name of Fund

**North Yorkshire Pension Fund** 

#### **Primary Contribution Requirements**

I hereby certify that, in my opinion, the common rate of employers' contributions payable in each year of the period of three years beginning 1 April 2011 should be at the rate of 12.2 per cent of Pensionable Pay.

I hereby certify that, in my opinion, the amount of the employers' contributions payable in each year of the period of three years beginning with 1 April 2011, as set out above, should be individually adjusted as set out in the attached schedule.

Contributions will be payable monthly in arrears with each payment normally being due by the 19th of the following month. Pensionable Pay is pay as determined under the LGPS regulations for the calculation of employee contributions.

#### **Further Adjustments**

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's actuary and the Administering Authority.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer. Additional contributions may be paid if requested by the employer concerned.

The contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured against a third party.

In cases where an element of an existing Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions, as shown on the schedule to this Certificate in Appendix I, may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary and as agreed with the Administering Authority.

#### Regulation 36(8)

No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Signature	
Name	lan Kirk
Qualification	Fellow of the Institute of Actuaries

Date of signing 31 March 2011

#### NORTH YORKSHIRE COUNTY COUNCIL

#### **AUDIT COMMITTEE**

#### 25 September 2014

### Review of Statement of Final Accounts (incorporating Annual Governance Statement)

#### **Report from Audit Committee Members Working Group**

#### 1.0 Purpose of the Report

- 1.1 To advise members of the Audit Committee on:
  - Issues identified by the Members Working Group in reviewing the draft Statements of Final Accounts (SoFA) and the draft Annual Governance Statement (AGS);
  - ii. Actions taken as a result of issues being identified;
  - iii. Offering an opinion on the draft SoFA and draft AGS for 2013/14 in advance of the Audit Committee being asked to approve them.

#### 2.0 Background

- 2.1 On 26 June 2014 the Audit Committee considered a report which provided an overview on Corporate Governance. This included a draft Annual Governance Statement (AGS) and a full suite of Statements of Assurance from each of the Corporate Directors and one for the whole County Council. A number of issues were identified at that meeting and it was agreed that a Members Working Group be convened to give detailed consideration to the draft AGS and that a report would be presented to the full Audit Committee on 25 September 2014.
- 2.2 The Members Working Group was agreed as consisting of the Chairman and Vice-Chairman of the Audit Committee and to be supplemented by Cllr David Chance and Mr David Portlock.
- 2.3 On 17 July 2014 the Audit Committee considered the draft Statements of Final Accounts (SoFA) for 2013/14. Again, a number of issues were identified at the meeting and in subsequent correspondence. These issues have also been reviewed by the Members Working Group.
- 2.4 This report provides a summary of the Members Working Group review of the SoFA for 2013/14 which incorporate the AGS. Wider information has been

used in order to form the views contained in this report, notably the Directorates Statements of Assurance provided which have fed into the AGS together with associated working papers relating to the production of the draft SoFA.

#### 3.0 Key Areas Identified

3.1 To assist the Audit Committee's understanding, the Members Working Group comments separately on the AGS and the SoFA for 2013/14, whilst recognising that both ultimately feature in the same document. This section also identifies the action that has taken place and / or will take place.

#### Annual Governance Statement 2013/14

 Issue – a number of areas identified in the draft Directorate Statements of Assurance may require update to reflect developments that have occurred between their drafting and the Audit Committee meeting on 25 September 2014. One example is the Waste PPP on which the County Council will make a decision on 24 September 2014.

Action taken – a full review of the Directorate Statements of Assurance has taken place by the Management Board and necessary updates have been made. In the case of the Waste PPP, two alternative wordings have been drafted and it will be necessary to delete one of these alternatives following the decision made by County Council on 24 September 2014.

2. Issue – some of the actions proposed in the Directorate Statements of Assurance appeared vague with the possibility that it would be more difficult to assess whether or not the necessary action had taken place.

Action taken – a full review of the Directorate Statements of Assurance has taken place and the Statements have been amended in some areas to make them 'SMARTer'. In some cases it is not possible to provide firmer detail as it is dependent upon other factors. A revised set of Directorate Statements of Assurance have been shared with the Members Working Group and the amendments that impact upon Section 7 of the AGS have also been reflected accordingly.

Action for future years – increased focus to ensure that Directorate Statement of Assurance are as 'SMART' as possible.

#### Statements of Final Accounts 2013/14

1. Issue – a number of detailed questions were submitted and explanations were provided.

Action taken – explanations provided and no further action required on these particular areas.

2. Issue – some of the information relating to Veritau's financial performance appeared inconsistent (page 107 of the draft SoFA).

Action taken – explanation provided - information in draft SoFA is correct, but a change in wording has been made in order to clarify the position and is incorporated in the SoFA presented to the Audit Committee on this agenda.

Action for future years – this issue will be considered in more detail to see whether there are ways of making it more understandable for the reader.

3. Issue – a number of typos / simple errors were identified (for example page 175 and a reference to "2012/13")

Action taken – these have now been corrected and are incorporated within the SoFA presented to the Audit Committee on this agenda.

4. Issue – a query has been raised as to whether or not the County Council has entered into any compromise payments in 2013/14 as part of employee termination packages.

Action taken – this issue has been reviewed by the Assistant Chief Executive Business Support. It has been identified that the position for compromise agreements in13/14 was as follows –

- For schools there were 73 such payments with the average payments being approximately £10k
- For non schools there were 12 again with an average payment of £10k and 5 of the 12 being less than £5k
- 4.0 Conclusions of the Member Working Group regarding the Statements of Account and the Annual Governance Statement for 2013/14
- 4.1 The Members Working Group is satisfied that all appropriate actions have been taken and satisfactory explanations have been provided where required.

- 4.2 The decision of the County Council re Waste PPP on 24 September 2014 may have an impact on the Annual Governance Statement for 2013/14.
- 4.3 No further issues have been identified up to the date of this report. However, it should be noted that the Members Working Group has not been made aware of the findings of the County Council's External Auditors.
- 4.4 Subject to the above, the Members Working Group recommends to the Audit Committee that the Statements of Final Accounts and the Annual Governance Statement for 2013/14 are approved.

Members Working Group

10 September 2014

#### NORTH YORKSHIRE COUNTY COUNCIL

#### AUDIT COMMITTEE

#### **25 SEPTEMBER 2014**

### STATEMENT OF FINAL ACCOUNTS for 2013/14 including LETTER of REPRESENTATION

#### Report of the Corporate Director – Strategic Resources

#### 1.0 **PURPOSE OF REPORT**

- 1.1 To approve a Letter of Representation that is required to be submitted to the External Auditor.
- 1.2 To approve a Statement of Final Accounts for 2013/14 following completion of the external audit of those Accounts.
- 1.3 To approve the Annual Governance Statement (AGS) for 2013/14.

#### 2.0 BACKGROUND

- 2.1 A draft Statement of Final Accounts (SOFA) for 2013/14 was considered by this Committee on 17 July 2014 in advance of these accounts being audited by the External Auditor during July and August 2014. This SOFA incorporates the accounts of the North Yorkshire Pension Fund.
- 2.2 Subsequent to the meeting on 17 July 2014 some of the issues identified at the meeting and in subsequent correspondence have been picked up by the Members Working Group on Governance whose report is a separate item on the agenda for this meeting.
- 2.3 The external audit of the 2013/14 Accounts is now complete with the report of the External Auditor being included as a prior item on this Agenda. Separate reports are issued by the External Auditor for the County Council and North Yorkshire Pension Fund accounts.
- 2.4 The External Auditor has indicated that he anticipates being able to issue an unmodified opinion on 25 September 2014.
- 2.5 The revised SOFA is provided as a separate booklet in the Agenda papers for this meeting.
- 2.6 To conclude the Final Accounts process (in advance of the External Auditor signing off the 2013/14 Accounts by the required statutory date of 30 September 2014), it is necessary for this Committee to
  - (i) agree and countersign a Management Letter of Representation to the External Auditor (see paragraph 3)

- (ii) note the changes reflected in the Final SOFA compared to the version considered on 17 July 2014 (see **paragraph 4**), and
- (iii) approve the Final SOFA and authorise the Chairman to sign the Accounts on that basis (see **paragraph 5**)
- 2.6 The report also asks Members to approve a final Annual Governance Statement for 2013/14 and authorise the Chairman to sign the AGS on its behalf (paragraph 6).

#### 3.0 LETTER OF REPRESENTATION

- 3.1 The External Auditor requires a written representation from the County Council's management as an acknowledgement of its responsibility for the fair presentation of the SOFA and as audit evidence on matters material to the financial statements when other sufficient appropriate evidence cannot reasonably be expected to exist.
- 3.2 The External Auditor has therefore requested that this Letter should be discussed and agreed by the Audit Committee (as the body charged with responsibility for governance) and then signed on their behalf by the Chairman, before approval of the SOFA. This is to ensure that Members of this Committee are aware of the representations on which the Auditor intends to rely when issuing his opinion.
- 3.3 This Letter for 2013/14 is attached as **Appendix A** and has already been signed by management (ie the Chief Executive and the Corporate Director Strategic Resources). For security reasons the copy attached does not include the signatures of the two officers the version to be signed at the meeting by the Chairman has already been signed by the two officers.
- 3.4 The Letter applies to the financial statements of both the County Council and North Yorkshire Pension Fund and reflects some changes compared to last year. These changes are not material but reflect the Auditor's latest template in terms of:
  - a) Rewording of some of the clauses and
  - Removal of some clauses based on the current level of risk involved and materiality levels and
  - c) The addition of some clauses to reflect amongst other things, the current economic climate.
- 3.5 Members are therefore asked to consider and approve this Letter and then authorise the Chairman to approve it on their behalf. The Letter will then be submitted to the External Auditor.

#### 4.0 CHANGES REFLECTED IN THE FINAL SOFA

4.1 A number of changes have been made to the SOFA since it was considered by Members of this Committee on 17 July 2014.

- 4.2 These changes are explained in detail in **Appendix B** attached and arise from:-
  - (i) refinements agreed with the External Auditor during their audit of the accounts
  - (ii) internally initiated refinements together with those resulting from comments and questions by Members of this Committee when considering the draft SOFA on 17 July 2014 and the input of the Members Working Group on Governance when subsequently raising a number of issues in relation to the SOFA
  - (iii) inclusion of the External Auditor's certificate which was not included in the draft document on 17 July 2014.

#### 5.0 APPROVAL OF THE FINAL SOFA

- The audited final SOFA is attached as a separate booklet. This incorporates all the changes to the draft version considered by Members on 17 July 2014, as set out in **paragraph 4** and **Appendix B**. These accounts will be resigned by the Corporate Director Strategic Resources and the Chief Executive on 25 September 2014.
- 5.2 Members are therefore asked to approve the Final SOFA for 2013/14 following completion of the audit and authorise the Chairman to sign the accounts on behalf of the Audit Committee. A copy of the Balance Sheet (pages 38 and 39 of the SOFA) which the Chairman is asked to sign is attached as **Appendix C** with the wording
  - 'I confirm that these accounts were approved by the Audit Committee on 25 September 2014 following completion of the External Audit.'
- As mentioned in **paragraph 2.4** the External Auditor has indicated that he anticipates being able to issue an unmodified opinion on the accounts.

#### 6.0 ANNUAL GOVERNANCE STATEMENT

- 6.1 The Annual Governance Statement (AGS) is an annual report which assesses the effectiveness of the governance processes which have been put in place within the Council. It accompanies the Statement of Final Accounts.
- 6.2 The AGS has been drafted to comply with the Delivering Good Governance Framework in Local Government 2007 and the Application Note to Delivering Good Governance in Local Government: a Framework (March 2010).
- 6.3 In order to fulfill its responsibilities, the Audit Committee needs to be able to satisfy itself that the governance and internal control processes described in the AGS are in fact both operational and effective. One aspect of this assurance process is to review progress by management on dealing with the issues identified in the AGS. The Audit Committee considered a draft AGS at its meeting on 26 June 2014.

- A Members Working Group was established following the Audit Committee meeting on 26 June 2014 and this Group have considered the draft AGS and the more detailed Statement of Assurances from Directorates. Their report is included elsewhere on this Committee's agenda.
- The requirement to produce an AGS is set out in the Accounts and Audit (England) regulations for the Council to approve an AGS as part of the SOFA and the Audit Committee is therefore requested to formally approve the AGS 2012/13 and to authorise the Chairman to sign the AGS on its behalf.

#### 7.0 **RECOMMENDATIONS**

- 7.1 That in relation to the Letter of Representation
  - (i) Members approve the Letter of Representation set out in **Appendix A**, and
  - (ii) authorise the Chairman to sign the Letter on behalf of the Audit Committee
- 7.2 That in relation to the Statement of Final Accounts 2013/14
  - (i) Members note the changes to the Final SOFA as set out in **paragraph 4 and Appendix B**, and
  - (ii) Members approve the Final SOFA for 2013/14 (paragraph 5.2), and
  - (iii) authorise the Chairman to sign the Balance Sheet as attached at **Appendix C**
- 7.3 That Members approve the Annual Governance Statement 2013/14 and authorise the Chairman to sign the AGS on its behalf (**paragraph 6.5**).

#### **GARY FIELDING**

Corporate Director – Strategic Resources

County Hall, Northallerton 15 September 2014

There are no background documents



Your ref: CDP/AJL/NYCC2012 3

**Corporate Director Strategic Resources** 

County Hall, Northallerton, North Yorkshire, DL7 8AD

Fax: (01609) 777567

**Gary Fielding** 

Email: gary.fielding@northyorks.gov.uk

Web: www.northyorks.gov.uk

Contact: Mr G Fielding

GF/GJ

Direct line: 01609 533304

25 September 2014

**Dear Sirs** 

Our ref:

### NORTH YORKSHIRE COUNTY COUNCIL – AUDIT OF THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2014

This representation letter is provided in connection with your audit of the financial statements of North Yorkshire County Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of North Yorkshire County Council as of 31 March 2014.

We confirm, to the best of our knowledge and belief, the following representations.

#### Financial statements

- We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework which give a true and fair view.
- 2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- 3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures"*
- 4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
- 5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to the report to the Audit Committee.

- 6. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for any future actions.
- 7. We confirm that in our view the provision in relation to debt is adequate.

#### Information provided

- 8. We have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters:
  - additional information that you have requested from us for the purpose of the audit: and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- 9. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
- 10. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the 11. financial statements may be materially misstated as a result of fraud.
- 12. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of that affects the entity and involves:
  - (i) management;
  - (ii) Members of the Council;
  - employees who have significant roles in internal control; or (iii)
  - others where the fraud could have a material effect on the financial (iv) statements
- 13. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- 14. We are not aware of any instances of non-compliance, or suspected noncompliance with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements.
- 15. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

- All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.
- 17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

#### 18. Pension Scheme:

- all retirement benefits and schemes have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the value of scheme liabilities accord with the members' best estimates of the future events that will affect the cost of retirement benefits and are consistent with the members' knowledge of the business;
- the actuary's calculations have been based on complete and up-to-date member data (as far as is appropriate regarding the adopted methodology);
   and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.
- 19. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the Members, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council. Any significant changes in those values since the balance sheet date have been disclosed to you.
- 20. The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets.
- 21. We are not aware of any potential clawback by grant payers of grants that have been released to income.
- 22. There have been no events since the balance sheet date which require adjustment of or a disclosure in the financial statements or notes thereto that have not been fully disclosed. Should further material events occur, which may necessitate revision of the figures included in the annual accounts or inclusion of a note thereto, we will advise you accordingly.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.							
Yours fait	hfully						
Signed on behalf of North Yorkshire County Council							
Name:	R Flinton	Name:	G Fielding				
Position:	Chief Executive	Position:	Corporate Director – Strategic Resources (S151 Officer)				
Signed: _		Signed:					
Date: _	25 September 2014	Date:	25 September 2014				
Signed by the Chairman of the Audit Committee on behalf of that Committee as evidence that Members are aware of the representations on which the auditor intends to rely.							
Signed: _		CI	nairman of the Audit Committee				
Date:	25 September 2014						

Deloitte LLP 1 City Square Leeds LS1 2AL

### CHANGES TO THE 2013/14 STATEMENT OF FINAL ACCOUNTS SINCE AUDIT COMMITTEE ON 17 JULY 2014.

#### 1.0 Introduction

- 1.1 There have been a number of changes made to the Statement of Final Accounts (SOFA) since it was considered by the Audit Committee on 17 July 2014.
- 1.2 These changes are as a result of:
  - (a) Refinements agreed with the External Auditor during the Audit of Accounts process
  - (b) Internally initiated refinements together with those resulting from comments and questions by Members of this Committee when considering the draft SOFA on 17 July 2014 and the input of the Members Working Group on Governance when subsequently raising a number of issues in relation to the SOFA.
  - (c) Inclusion of the External Auditor's Certificate that was not included in the draft document on 17 July 2014.

#### 2.0 Changes made as a result of the final accounts audit

- 2.1 Deloitte commenced their auditing of the SOFA in early July 2014 and concluded their auditing process in early September 2014. During the audit process, the following amendments have been agreed with the auditor.
  - Rationalisation of Material Contingent Liability Disclosures by removing several that were either deemed not to be material or a potential liability event had not yet materialised
  - amendments to the Balance Sheet, Cash Flow Statement, Group Balance Sheet, Group Cash Flow and supporting notes, (Short Term Debtors, Short Term Creditors, Collection Fund Adjustment Account), to reflect changes in the calculation of the District Council's Collection Fund Adjustment;
  - amendments to the Balance Sheet, Cash Flow Statement, Group Balance Sheet, Group Cash Flow and supporting notes to reflect changes in the allocation of Short Term and Long Term Bad Debt Provision;
  - insertion of additional terms to the Glossary of Terms to assist the reader of the Accounts;
  - split of provisions in the balance sheet between short term (current liabilities) and long term (long term liabilities);
  - amendments to Disclosures on the title of some revenue grants credited to Service Directorate Accounts and amendments to figures relating to CYPS Capital Grants; and

- various amendments to Pension Fund Main Statements and supporting notes, including;
  - o an increase in Administration Expenses for the Fund in the Income and Expenditure Account and supporting notes due to a re-allocation of expenses and the receipt of some updated figures;
  - o an increase in Investment Expenses in the Income and Expenditure Account and supporting notes due to finalised Quarter 4 Management and Custodian Fees along with a re-calculation of anticipated Performance Related Fees:
  - an amendment to Sales and Purchase values for Fixed Interest and Equity Investments. This also impacted upon the Change in Market Value figure for investments and resulted in amendments to the Income and Expenditure Account and supporting notes.
  - o the Salary Inflation Assumption as used by the Fund Actuary within the Future Service Liability Calculation was amended so as to bring it into line with the figure used within the 2013 Triennial Valuation;
  - o other minor changes to disclosures and notes to the accounts;

The net effect of all amendments was to increase the Closing Net Assets of the Fund by £60,000.

- 3.0 Internally initiated refinements, together with queries raised by Members of the Audit Committee on 17 July 2014 and subsequently the Members Working **Group on Governance** 
  - adjustment of Segmental Reporting Statement to reclassify expenditure within Business and Environmental Services from Employee Expenses to Other:
  - further analysis for FTE's within the Explanatory Foreword;
  - various presentational adjustments to the supporting notes to the Group Accounts to assist the reader of the accounts:
  - adjustments to the Annual Governance Statement; and
  - various minor presentational issues and rounding adjustments.
- 4.0 Inclusion of the External Auditor's Certificate in the final SOFA as a result of the Audit process having now been finalised.

# **BALANCE SHEET AS AT 31ST MARCH 2014**

135,947	Short Term Investments (note 44d)	93,833
921	,	1,630
38,048	Short Term Debtors (note 34)	41,503
	Cash and Cash Equivalents (note 30)	144,836
0	Landfill Allowances Trading Scheme	0
64	Carbon Allowances Trading Scheme (note 25)	0
462	Assets held for sale (note 29)	2,582
265,260	Current Assets	284,384
(28,933)	Short Term Borrowing (note 44a)	(58,439)
(76,368)	Short Term Creditors (note 35)	(69,215)
(230)	PFI Liability repayable within 12 months (note 14)	11
(6)	Finance Lease repayable within 12 months (note 15)	(7)
(15,191)	Provisions to be used within 12 months (note 36)	(11,440)
(13,077)	Capital Grant Receipts in Advance (note 10)	(6,925)
(133,805)	Current Liabilities	(146,015)
(86)	Long Term Creditors	(3)
(4,692)	PFI Liability repayable in excess of 12 months (note 14)	(4,703)
(1,099)	Finance Lease repayable in excess of 12 months (note 15)	(1,092)
(5,736)	Provisions to be used in excess of 12 months (note 36)	(5,752)
(559,095)	Pensions Liability (note 11)	(317,521)
(344,581)	Long Term Borrowing (note 44a and 44d)	(304,757)
(8,659)	Capital Grant Receipts in Advance (note 10)	(5,713)
(923,948)	Long Term Liabilities	(639,541)
713,744	Net Assets	1,035,172

## **BALANCE SHEET AS AT 31ST MARCH 2014 (continued)**

31st March 2013 £000		31st March 2014 £000
	Usable Reserves	
56,602		78,491
101,252	,	113,147
. 0	Capital Receipts Reserve (note 37c)	0
6,807	Capital Grant Unapplied Reserve (note 37d)	6,645
164,661	Total Usable Reserves	198,283
	Unusable Reserves	
149,014	Revaluation Reserve (note 38a)	198,531
763	Collection Fund Adjustment Account (note 38b)	2,087
0	Financial Instruments Adjustment Account (note 38c)	0
(10,088)	Accumulated Absences Account (note 38d)	(9,598)
(559,095)	Pension Reserve (note 38e)	(317,521)
968,489	Capital Adjustment Account (note 38f)	963,390
549,083	Total Unusable Reserves	836,889
713,744	Total Reserves	1,035,172

The Balance Sheet is a statement of the financial position of the County Council as at the Balance Sheet date. It shows the assets and liabilities of the County Council; the net assets on the Balance Sheet are matched by reserves held by the County Council. The first category of reserves are usable reserves.

These are reserves that the County Council may use to provide services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of Unusable Reserves are those that arise from statutory accounting requirements and are not available to be used for service provision.

I confirm that these Accounts were approved by the Audit Committee on following completion of the External Audit.	25th September 2014
Chair of the Audit Committee	Date
Grail of the Addit Committee	

## NORTH YORKSHIRE COUNTY COUNCIL

#### **AUDIT COMMITTEE**

#### **25 SEPTEMBER 2014**

#### 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 2014, 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 Cllr Andrew Backhouse, Chair of the Audit Committee

County Hall Northallerton

4 September 2014

#### PURPOSE OF THE REPORT

To provide Members of the County Council with details of the work carried out by the Audit Committee during the year ended 30 September 2014. 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) issued guidance to local authorities to help ensure that Audit Committees are operating effectively<sup>1</sup>. 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 2014, 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:

## **External Audit**

1 Received and considered the annual audit letter for 2012/13 produced by the external auditor, Deloitte which detailed the outcome of the audit of the County Council and North Yorkshire Pension Fund accounts. The Committee was pleased

<sup>&</sup>lt;sup>1</sup> CIPFA – Practical Guidance for Local Authorities and Police, 2013

to note that the external auditors had issued unqualified audit opinions for both the County Council and the North Yorkshire Pension Fund. Deloitte had also issued an unqualified value for money conclusion and an unqualified opinion on the Whole of Government Accounts return:

- Received and considered Deloitte's annual report on the certification of grants and returns for 2012/13. The audit certification covered those grants with a lifetime value over £125,000. The only grant that required certification during the year was the teachers' pension return. The Committee noted that Deloitte had issued a qualification letter due to a minor disclosure error. The auditors had undertaken further testing and concluded that it was an isolated problem. The Committee was satisfied with the explanation provided;
- 3 Received and considered Deloitte's planning reports for the audit of the County Council and the North Yorkshire Pension Fund's 2013/14 financial statements:
- 4 Received and considered the external auditor's report on the 2013/14 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;
- Received and considered Deloitte's fee letter for the audit of the County Council's 2014/15 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 2014/15. The Committee noted that the Audit Commission would be appointing new external auditors for both the County Council and the Pension Fund audits for 2015/16 onwards:

## Internal Audit

- 6 Considered the changes to internal audit arrangements arising from the introduction of the new Public Sector Internal Audit Standards in April 2013. Approved the Internal Audit Charter.
- Received and considered the results of internal audit work performed in respect of each Directorate and across different thematic areas. Monitored the progress made by management during the period to address identified control weaknesses;
- 8 Received and considered the Internal Audit Plan for 2014/15;
- Monitored the delivery of the annual Internal Audit Plans through regular update reports presented by the Head of Internal Audit. Reviewed variations to the Audit Plans which were considered necessary to reflect new or changed County Council priorities;
- Approved changes to the County Council's Whistleblowing Policy and the related Whistleblowing Policy for Schools to reflect new requirements introduced by the Enterprise and Regulatory Reform Act 2013 including changes to the definition of a 'qualifying disclosure';
- 11 Received and considered the outcome of the annual 2013/14 Fraud and Loss Risk Assessment. The Committee also reviewed the work of Internal Audit in respect of

- suspected fraud including the results of investigations into matters reported via the County Council's whistleblowing facilities or directly by management;
- 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 noted that the work of internal audit is primarily focused on those areas which represent the highest risk for the County Council. The Committee also considered the breaches of the Council's Finance, Contract and Property Procedure Rules which had been identified during audit work. The Head of Internal Audit confirmed that the Council's internal controls provided substantial 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. The Head of Internal Audit also drew the Committee's attention to a number of significant control weaknesses identified through audit work including issues related to information security, service continuity planning and the highways maintenance contract;
- Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2013/14, and considered the performance targets for 2014/15. The Committee also considered the outcome of the internal audit quality assurance and improvement programme (QAIP). The QAIP is an ongoing process which helps to ensure internal audit work is conducted in accordance with required professional standards. The QAIP included the results of the external review of internal audit working practices carried out in April 2014 by the South West Audit Partnership. The Committee was pleased that internal audit practices met the required standards and therefore continued reliance could be placed on the arrangements operating within the County Council;

## Risk Management

- 14 Reviewed the progress made by the County Council to identify and address corporate risks. This included consideration of the updated Corporate Risk Register;
- Assessed the adequacy and effectiveness of each Directorate's risk management arrangements through consideration of the progress made to address issues identified in the annual Statements of Assurance. The Committee also considered the risks identified in the Directorate Risk Registers and how these linked to the Corporate Risk Register;

## **Corporate Governance**

- 16 Considered and approved the Annual Governance Statement for 2013/14 of the County Council. The Committee also noted the issues identified in the annual Statements of Assurance prepared by Management Board, the Chief Executive and each Corporate Director, which inform the preparation of the Annual Governance Statement. The Committee also reviewed the progress made by management to address significant issues identified in the 2012/13 Annual Governance Statement;
- 17 Considered changes to the Local Code of Corporate Governance prior to referral to the Executive for approval by the County Council;
- 18 Considered the effectiveness of the governance arrangements for the North Yorkshire Pension Fund (NYPF) for 2013/14;

- 19 Considered the annual report of partnership governance. The report included details of the County Council's current partnerships, changes which had occurred in the year and the arrangements in place to monitor the management and performance of key partnerships. The Committee consider that partnership governance is effective and the existing arrangements are proportionate and commensurate to the risks;
- 20 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 considered the ongoing work of the Corporate Information Governance Group (CIGG) which is responsible for developing the corporate information policy framework, identifying new or emerging risks, sharing best practice and monitoring compliance with corporate information governance standards;
- 21 Received a report outlining the progress made to implement revised business continuity arrangements across the County Council. Good progress has been made but there was still a need to improve consistency and ensure plans were properly tested. Consideration was also given to the business continuity plans in place to support the Tour de France;

## Value for Money

22 Considered the arrangements adopted by the County Council to achieve value for money;

#### **Financial Statements**

- Considered and approved the Statement of Accounts for 2013/14 of the County Council;
- Considered the annual report of the North Yorkshire Pension Fund for 2013/14 (which had previously been approved by the Pension Fund Committee);
- 25 Received and considered proposed changes to the County Council's Accounting Policies. The only changes during the year had arisen as a result of CIPFA issuing an updated Code of Practice on Local Authority Accounting in April 2013. The main changes related to the definition of employee pension benefits and the localisation of business rates. The Committee also noted that further changes might be required to the Code of Practice as a result of recent proposals published by CIPFA;

## Other

Received and considered proposed changes to the Contract, Property and Financial Procedure Rules prior to referral to the Executive and approval by the County Council. The need for changes had arisen due to a number of factors including changes in legislation or regulation, issues identified during the course of internal audit work and/or developments in business practice. The Committee was satisfied that the proposed amendments were appropriate and would help the County Council to maintain sound internal control and achieve Value for Money. The proposed changes were therefore agreed;

- 27 Received briefings from officers on issues and new developments facing the County Council including governance arrangements for the Statement of accounts, proposed changes to the finance function arising from 2020 North Yorkshire programme and an update on the IT Strategy;
- Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee, including treasury management, the appointment of co-opted members to the Committee and proposed changes to the timetable for approving the Statement of Accounts;
- 29 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.
- 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 review 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. In respect of **Value for Money**

- to have oversight of the arrangements across the County Council in securing Value for Money.
- 10. To meet not less than four times a year on normal business and review its Terms of Reference on an annual basis.
- 11. 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.
- 12. To exercise all functions in relation to the making and changing of policy relating to such audit and counter-fraud matters which fall within the remit of the Committee (save as may be delegated otherwise).

#### NORTH YORKSHIRE COUNTY COUNCIL

# **AUDIT COMMITTEE**

#### **25 SEPTEMBER 2014**

# INTERNAL AUDIT WORK FOR THE HEALTH AND ADULT SERVICES DIRECTORATE

## Report of the Head of Internal Audit

#### 1.0 PURPOSE OF THE REPORT

1.1 To inform Members of the **internal audit work** performed during the year ended 31 August 2014 for the Health and Adult Services (HAS) directorate and to give an opinion on the systems of internal control in respect of this area.

#### 2.0 BACKGROUND

- 2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to HAS, the Committee receives assurance through the work of internal audit (as provided by Veritau Ltd), as well as receiving a copy of the latest directorate risk register and the relevant Statement of Assurance (SoA).
- 2.2 In line with recent practice, this agenda item is considered in two parts. This report considers the work carried out by Veritau and is presented by the Head of Internal Audit. The second part is presented by the Corporate Director Health and Adult Services and considers the risks relevant to the directorate and the actions being taken to manage those risks.

#### 3.0 WORK DONE DURING THE YEAR ENDED 31 AUGUST 2014

- 3.1 Details of the internal audit work undertaken for the directorate and the outcomes of these audits are provided in **Appendix 1.**
- 3.2 Veritau has also been involved in carrying out a number of assignments which have not resulted in the completion of an audit report. This work includes special investigations that have either been communicated via the Whistleblowers' hotline or have arisen from issues and concerns referred to Veritau by HAS management. In addition, Veritau has provided support to directorate management in respect of a number of safeguarding alerts.
- 3.3 As with previous audit reports, an overall opinion has been given for each of the specific systems or areas under review. The opinion given has been based on an assessment of the risks associated with any weaknesses in control identified. Where weaknesses are identified then remedial actions will be agreed with management. Each agreed action has been given a priority ranking. The

- opinions and priority rankings used by Veritau are detailed in **Appendix 2**. Some of the audits undertaken in the period focused on value for money or the review of specific risks so did not have an audit opinion assigned to them.
- 3.4 It is important agreed actions are formally followed up to ensure that they have been implemented. Veritau follow up all agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. On the basis of the follow up work undertaken during the year, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.
- 3.5 All internal audit work undertaken by Veritau is based on an Audit Risk Assessment. Areas that are assessed as well controlled or low risk are reviewed less often with audit work instead focused on the areas of highest risk. Veritau's auditors work closely with directorate senior managers to address any areas of concern.

## 4.0 **AUDIT OPINION**

- 4.1 Veritau performs its work in accordance with the Public Sector Internal Audit Standards (PSIAS). In connection with reporting, the relevant standard (2450) states that the Chief Audit Executive (CAE)<sup>1</sup> should provide an annual report to the board<sup>2</sup>. The report should include:
  - (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
  - (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
  - (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (ie the control environment)
  - (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
  - (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
  - (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.
- 4.2 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating in the Health and Adult Services directorate is that it provides **Substantial Assurance**. There are no qualifications to this opinion and no reliance was placed on the work of other assurance bodies in reaching that opinion.

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<sup>&</sup>lt;sup>1</sup> The PSIAS refers to the Chief Audit Executive. This is taken to be the Head of Internal Audit.

<sup>&</sup>lt;sup>2</sup> The PSIAS refers to the board. This is taken to be the Audit Committee.

## 5.0 **RECOMMENDATION**

5.1 That Members consider the information provided in this report and determine whether they are satisfied that the internal control environment operating in the Health and Adult Services Directorate is both adequate and effective.

Max Thomas Head of Internal Audit

Veritau Ltd County Hall Northallerton

1 September 2014

## **BACKGROUND DOCUMENTS**

Relevant audit reports kept by Veritau Ltd at 50 South Parade, Northallerton.

Report prepared by Stuart Cutts, Audit Manager, Veritau and presented by Max Thomas, Head of Internal Audit.

# Appendix 1

# FINAL AUDIT REPORTS ISSUED IN THE YEAR ENDED 31 AUGUST 2014

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Payments for Residential Care – follow up	Substantial Assurance	The audit reviewed the progress made by the directorate to address previously identified control weaknesses including the completion of bed returns, the authorisation of Individual Placement Agreements and the method for making payments to providers.	September 2013	There had been an overall improvement since the previous audit. The following issues were however noted:  • some bed return forms were not being returned by private providers within the required timescales. Some were not received at all. However, no payments had been withheld, despite this incomplete information;  • the time taken to authorise Individual Placement Agreements varied significantly within, and between different areas.	Two P2 and one P3 actions were agreed  Responsible Officer Assistant Director – Resources  Reminders were sent to staff on the importance of chasing and checking bed returns. It was envisaged that the introduction of Liquid Logic, including the provider portal, would allow processes to be improved to help address the other findings raised in the audit.
В	Charges for Residential Care – follow up	Substantial Assurance	The audit reviewed the progress made by management to address previously identified control weaknesses including errors in financial assessments and service contributions.	September 2013	<ul> <li>There had been an overall improvement since the previous audit. The following issues were however noted:</li> <li>some letters advising the service user of their contribution were not being sent out in a timely manner;</li> <li>some financial assessments had not been undertaken in line with internal procedures, for example when moving from short term to</li> </ul>	Two P2 actions were agreed  Responsible Officer Assistant Director – Resources  Discussions were to be held with the Benefits, Assessment and Charging team with a view to considering a system of independent sampling. It was also envisaged the introduction of Liquid Logic, including the provider portal, would allow

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					permanent care.	processes to be improved to help address findings raised in the audit.
С	Court of Protection	No opinion given	The Court of Protection (COP) has jurisdiction over the property, financial affairs and personal welfare of people who lack mental capacity to make their own decisions. The County Council may be appointed as a 'deputy' to manage all aspects of a service user's care. Alternatively, it may be granted an 'appointeeship' from the Department for Work and Pensions (DWP) to receive and manage a service user's welfare benefits. A deputy undertakes responsibility for the management of all a person's financial affairs if they become incapable of doing so themselves. An appointee is only responsible for managing a person's benefits and a small and limited amount of savings in case of unforeseen circumstances; paying bills and managing money if the client has smaller assets. The aim of the audit was to investigate and share	September 2013	The auditors visited the City of York and Newcastle MBC Councils to benchmark the County Council's current 'Court of Protection' arrangements. Feedback was then provided on areas where changes or improvements should be considered, including:  • the obtaining of Court of Protection orders; • the processing of income and expenditure for service users, including reconciliation procedures; • banking and accounting arrangements; • the paying of personal allowances; • organisational arrangements.	The results of the review were considered by management.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			understanding of how different bodies organise and discharge their Court of Protection responsibilities and to identify areas where processes could be delivered more effectively at the County Council.			
D	Physical and Sensory Impairment (PSI) Groups	No opinion given	There are four PSI groups in North Yorkshire each supported by a separate service provider. At the time of the audit, the contracts for the service providers were for three years and included a series of performance indicators. The contracts were due to end in March 2014. Funding was initially allocated to the 'Physical and Sensory Impairment Board' and then split equally between the four PSI groups. The audit reviewed the operation of the groups to establish whether they were achieving the expected outcomes.	November 2013	The audit identified variable performance by the PSI Groups and support providers and there was scope for improvement in a number of areas. The County Council also needed to ensure contract outcomes were delivered and effective contract management practices applied.  The report recommended a number of improvements to current and future arrangements to enable the required outcomes to be achieved.	Four separate reports and a summary report were provided to the Assistant Director – Contracting, Procurement and Quality Assurance.  The future of the groups is part of a corporate review which will lead to the development of the Community Engagement Framework. The PSI Board will take part in the workshops and consultation as the Framework is developed. Work continues with the four reference groups to ensure a more directed focus in the future.
E	Accrued Debt	Moderate Assurance	The audit examined the assessment and monitoring procedures for services users who are in permanent residential care but who own	January 2014	The management of the Accrued Debt function has been restructured and the processes re-organised over the last 12-18 months. As a result, the overall control framework had improved.	Three P2 and five P3 actions were agreed  Responsible Officer Benefits, Assessment and Charging

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			property and accrue debts in relation to their care. The debt is in the form of an interest free loan up to the point of the service user's death. Interest is then added to the outstanding debt until the property is sold and/or the debt is repaid.		<ul> <li>However, a number of issues were found, including:</li> <li>instances where monitoring procedures were not working as envisaged;</li> <li>a lack of reconciliation of the debt recorded on Oracle to the monitoring spreadsheets maintained and used by Benefits and Charging staff;</li> <li>inconsistencies in the method for calculating the accruement of debt;</li> <li>the use of monitoring spreadsheets that require significant staff time to produce and paper files, which are not integrated to other electronic systems and not always available.</li> </ul>	The audit findings on monitoring procedures were noted and follow up actions were taken during and after the audit. The new systems of Liquid Logic and Controc were to be investigated to improve reconciliation procedures and minimise the need for surrogate spreadsheet procedures.  A revised and consistent approach to calculating accrued debt and for determining potential bad debts is to be proposed
F	Public Health	Moderate Assurance	The audit reviewed the new arrangements for managing the provision of public health services, including risk management and contract monitoring.	March 2014	Public health responsibilities transferred to the County Council in April 2013. The period covered by the audit therefore involved significant change for the delivery of public health services and for the County Council itself. These changes were well managed but it is recognised that further work is required to fully establish effective processes and systems. The main findings from the audit related to:	Three P2 and five P3 actions were agreed  Responsible Officer Director of Public Health  The contracts that operated during 2013/14 were those that transferred from the North Yorkshire Primary Care Trust. The County Council is part way through re-tendering all of the transferred contracts. This process has allowed specific

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					<ul> <li>the ongoing provision of performance information by some of the transferred providers of public health services;</li> <li>the need to establish appropriate information sharing agreements with NHS bodies and service providers;</li> <li>the need to develop consistent and proportionate contract performance structures.</li> </ul>	requirements to be specified, including the provision of regular and consistent performance information. Work is ongoing to establish appropriate information sharing agreements and to overcome some of the difficulties experienced with certain providers.
G	Fairer Contribution	Substantial Assurance	The audit examined the systems and processes for charging for home care and other non – residential care services. The decision to charge for non-residential care continues to be a matter for the Council's discretion but the Department of Health has determined that the net income of a service user should not fall below the basic level of Income Support, plus 25%. A financial assessment is therefore required to calculate the client contribution towards the cost of any services provided. The audit assessment are carried out for all	May 2014	The control framework was found to be effective. A small number of improvements were however identified, including the need to:  • obtain receipts for disability related expenses; • query and record the reasons for any large variances between financial assessments; • ensure the online records contain a copy of the signed declaration.	One P2 and one P3 actions were agreed  Responsible Officer Benefits, Assessment and Charging Manager  The requirement to obtain receipts for disability related expenses and to review the previous financial assessment will be stressed as part of the re-issue of the General Procedure document. Staff will be reminded of the requirement to scan the signed declaration document for inclusion on the electronic record  A further review of the system is to take place during 2014/15 after the introduction on Controc.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			service users in line with the Fairer Charging Policies and the County Council's own guidance; all relevant income, expenditure and capital is taken into consideration; and appropriate performance management arrangements are in place.			
Н	Care Home reactive visits – summary report	No opinion given	The report identified a number of common themes following a series of reactive visits to care providers in early 2014.	July 2014	The current contract performance management arrangements do not include the routine review of the processes operated by care homes in respect of service users' finances. The report recommended that further work to review arrangements at those 'at risk' care providers should be undertaken.	Responsible Officer Assistant Director – Contracting, Procurement and Quality Assurance  The findings will be considered by management. This may result in the need for further involvement by internal audit.
I	Visits to the following Care Providers:  • Meadow Lodge (Kellington) • Skell Lodge (Ripon)	Various	A series of audit visits to care providers to provide assurance that:  • the financial transactions of service users are recorded correctly and in accordance with the care providers policies and	Various	The overall arrangements were found to be good with effective controls operating in the homes visited. Two of the reports were high assurance and the other four were all substantial assurance.  One common problem was that reconciliations of service users'	P3 actions were agreed for all the substantial assurance reports  Responsible Officer Assistant Director – Contracting, Procurement and Quality Assurance  The Contract, Procurement and Quality Assessment Team will

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
<ul> <li>Westfield         (Killinghall)</li> <li>Sabre Court         (Scarborough)</li> <li>Beanlands         (Glusburn)</li> <li>Spring         Cottage         (Norton)</li> </ul>		procedures;  all expenditure relating to service users is appropriate and properly evidenced;  financial arrangements ensure the property of the service users is protected.		personal allowances were not evidenced as being verified by an independent person.	discuss the issues identified with the homes in question.

# **Audit Opinions and Priorities for Actions**

# **Audit Opinions**

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities f	Priorities for Actions					
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.					
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.					
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.					

# NORTH YORKSHIRE COUNTY COUNCIL AUDIT COMMITTEE

#### **25 SEPTEMBER 2014**

# INTERNAL CONTROL MATTERS FOR THE HEALTH & ADULT SERVICES DIRECTORATE

# Report of the Corporate Director – Health & Adult Services

#### 1.0 PURPOSE OF THE REPORT

1.1 To provide details of the draft **Risk Register** for the HAS Directorate.

#### 2.0 BACKGROUND

2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to the HAS Directorate the Committee receives assurance through the work of internal audit (detailed in a separate report to the Committee), details of the Statement of Assurance provided by the Corporate Director, together with the Directorate Risk Register.

## 3.0 **DIRECTORATE RISK REGISTER**

- 3.1 The **Directorate Risk Register** (DRR) is the end product of a systematic process that initially identifies risks at Service Unit level and then aggregates these via a sieving process to Directorate level. A similar process sieves Directorate level risks into the Corporate Risk Register.
- 3.2 The Risk Prioritisation System used to derive all Risk Registers across the County Council categorises risks as follows:

Category 1 and 2 are high risk (RED)
Category 3 and 4 are medium risk (AMBER)
Category 5 is low risk (GREEN)

These categories are of course relative not absolute assessments - equally the Risk Register at Directorate level is designed to identify the dozen or so principal risks that may impact on the achievement of performance targets etc. for the Directorate as a whole in the year – it is not a full Register of all the risks that are managed in the Directorate.

- 3.3 The draft detailed DRR is shown at **Appendix A.** This shows a range of key risks and the risk reduction actions designed to minimise them together with a ranking of the risks both at the present time and after mitigating action.
- 3.4 A summary of the draft DRR is also attached at **Appendix B**. As well as providing a quick overview of the risks and their ranking, it also provides details of the change or movement in the ranking of the risk since the last review in the left hand column.
- 3.5 A review of the HAS DRR has just been completed although not yet signed off by the HAS Directorate Management Board so the DRR in the appendices are in draft form. A six month update review of the register will take place in December 2014/January 2015.
- 3.6 The new risks that have been added to the risk register since September 2013 (date of last progress report to the Committee) are as follows:
  - Deprivation of Liberty (DoLs) Supreme Court Ruling
  - Managing Effective Outcomes for Individuals
- 3.7 The risks that have been deleted from the Directorate risk register since September 2013 are as follows:
  - Delivery of Liquid Logic Protocol System Phase II
  - Learning Disability Transformation
  - FACS and Charging
  - Extra Care Housing and Regeneration Programme
- 3.8 The risks that have changed are as follows:
  - Service Transformation and Finance and Resources risks have been amalgamated into HAS 2020 Transformation and Efficiency Programme (incl. the MTFS)
  - Partnership Working with the Health Environment and Integration risks have been amalgamated into Partnership and Integration with the NHS
  - Workforce Planning and Development and Cultural Change including 2020
     North Yorkshire risks have been amalgamated into Workforce Planning and Development including Cultural Change
- 3.9 The significant actions that were achieved include the following:
  - HAS 2020 Transformation and Efficiency Programme (incl. the MTFS) –
    there has been good progress made here including the Leadership team
    monitoring progress and delivery of the change and savings programme to
    ensure delivery against key objectives and within available resources.
  - Preparedness for Implementation of the Care Act an integrated transformation plan and operating model which includes all requirements for the Care Act and Dilnot have been created, and signed off by HAS Leadership team. Lead managers have also been identified for all

- workstreams. HAS Leadership team are receiving monthly updates and hold 'confirm and challenge' sessions with lead managers on all workstreams.
- Information Governance there has been significant overall progress here, including data sharing agreements being underway with key agencies and in particular with Health; lessons are being learnt as a result of breaches that occur and corrective action has been taken; quarterly governance papers are received by the Leadership team.
- Major Failure due to Quality and/or Economic Issues in the Care Market the Leadership team and HAS Executive receive monthly reports on these issues and monitor and challenge progress against key objectives.
- Maintaining Service Delivery a robust 2020 HAS programme resource plan with Programme Sponsors has been developed and implemented which ensures sufficient capacity to deliver projects whilst maintaining 'business as usual' activity. Safe plans and processes with the Customer Services Centre continue to be reviewed and further developed to ensure the management of work between the Centre and the Adult Social Care service.
- Safeguarding Arrangements a countywide safeguarding general manager was appointed towards the end of last year. Work continues with the Procurement, Partnerships and Quality Assurance team to improve quality assurance and to ensure that partners are fully engaged with Safeguarding boards centrally and locally, particularly new health partners (CCGs)
- 3.10 Any ranking changes of the risks are shown on the left hand side of the Summary report **Appendix B.** As mentioned above, the HAS 2020 Transformation and Efficiency Programme (incl. the MTFS) risk, the Partnership and Integration with the NHS risk and the Workforce Planning and Development including Cultural Change risk have substantially changed and are therefore shown as 'new'. Please see the table at the bottom of the appendix for an explanation of the left hand column.

## 4.0 STATEMENT OF ASSURANCE

- 4.1 The Audit Committee received a draft Statement of Assurance from the Corporate Director of Health and Adult Services in June 2014. This statement has subsequently been reviewed to include relevant updates in developments and improvements and is attached at **Appendix C**.
- 4.2 It is usual practice to report on progress against the Statement of Assurance. However, given that the Statement has only just been produced, there is no update possible at this stage.

## 5.0 **RECOMMENDATION**

5.1 That the Committee note the draft Risk Register for the Health & Adult Services Directorate and provide feedback or comments thereon.

RICHARD WEBB Corporate Director – Health & Adult Services 5 September 2014

Report prepared by Paul Cresswell – Assistant Director- Resources and Nick Morgan, Directorate Finance Manager Tel no. 01609 532629

hase 1 - Ide	entificat	ion									
Risk Number	3/217	Risk Title	3/217 - D	eprivation of Liberty (DoLs) Supreme C	ourt Ru	ling	Risk Owner	CD HAS		Manager	HAS A ASCO
		o manage increase onal issues includin		ad as a result of the DoLs Supreme Cou l legal action	ırt judg	ment resulting in financial and	Risk Group			Risk Type	
ase 2 - Cu	rrent As	ssessment									
Curren	t Contr	ol Measures		es and capacity have been increased; ance and finance provided to Leaders			nmendations	s; regular repo	rt on activity,	Effectiveness	3
Probability	Н	Objectives	M	Financial	Н	Services	Н	Reputation	Н	Category	1
nase 3 - Ris	k Redu	ction Actions									
							Action	Manager	Action by	Comple	eted
Reduction	3/191 - 0	Continue to monito	resources	and capacity issues			has ad asc	:0	Tue-30-Jun- 15		
Reduction	3/193 - 0	Continue to provide	regular b	riefings to staff and providers			has ad asc	0	Tue-30-Jun- 15		
leduction	3/255 - 1	Maintain horizon sco	anning for	future developments			has ad asc	0	Tue-30-Jun- 15		
Reduction	3/320 - 1	Maintain communic	ation with	key partners			has ad asc	0	Tue-30-Jun- 15		
Reduction	3/1951 -	Update action pla	n				has ad asc	0	Tue-30-Jun- 15		
hase 4 - Po	st Risk R	Reduction Assessr	nent								
Probability	Н	Objectives	M	Financial	Н	Services	Н	Reputation	Н	Category	1
hase 5 - Fal	lback F	Plan									
										Action Mo	anager
Fallback Plan	3/556 - /	A further review of t	ne action	plan, with external support may be sou	ıght. Es	calation to senior management with p	potential opt	ions for mitigo	tion.	has ad asco	





Phase 1 - Id	entifico	ation						1				
Risk Number	3/184	Risk Title	3/184 - W	Vorkforce Planr	ning and Development in	cluding Cul	rural Change	Risk Owner	CD HAS		Manager	HAS HoHR
Description					ments and / or develop s on objectives not achieve		ith transformation agenda resulting in	Risk Group	Personnel		Risk Type	
Phase 2 - C	urrent A	Assessment										
Current	Contro	l Measures	Group a represen	nd Corporate \ Itatives are me	WD Group, new training ombers of Directorate Mar	and learning nagement T	or Leadership forum, Chief Exec led tro structure, training admin system and eams and key members of project gro egular update reports to HASLT,	Learning Zor	e. HR and WD		Effectivenes	s
Probability	Н	Objectives	M		Financial	Н	Services	М	Reputation	М	Category	1
Phase 3 - Ri	sk Redi	uction Actions										
								Action	Manager	Action by	Comple	ted
Reduction	3/23 - E	nsure an effecti	ive relatio	nship and com	munication with the Cen	tral Training	and Learning team (ongoing)	HAS HOHR		Mon-31-Aug- 15		
Reduction	3/164 -	Continue to pro	ovide supp	oort to the inde	pendent provider workfo		HAS HOHR Mon-31-7					
Reduction	3/201 -	Continue to mo	nitor com	npliance with C	Corporate and Directorate	e statutory/r	nandatory training	HAS HOHR		Mon-31-Aug- 15		
Reduction	3/218 - Operat	Develop an Inte	egrated C equips GN	Operational Trai Ms and CSMs to	ning Programme which e ensure delivery (ongoing	encompasse g)	s all the key changes facing	has ad asc has hohr	0	Mon-31-Aug- 15		
Reduction		Ensure Directoro ancy processes				e managen	nent processes, reorganisation and	HAS HOHR		Mon-31-Aug- 15		
Reduction	(onaoir	na)				0 0	ular dialogue and DJCC meetings	HAS HOHR		Mon-31-Aug- 15		
Reduction	3/233 - requirin	Ensure Director g the training a	ate trainin re identifi	ig needs are id ed and their ak	entified in a timely way, o ostraction is planned (onc	clearly speci going)	fied and costed and that staff groups	HAS HOHR		Mon-31-Aug- 15		
		•		•	•		velopment Group (ongoing)	has ad asc	00	Mon-31-Aug- 15		
Reduction	3/263 - of statu	Monitor the importance to the importance of the control of the con	oact of wo	orkforce develo vice" for mana	ppment 2020 workstream gers in relation to HR issue	changes or es (ongoing	front line service users such as deliver	HAS LT		Mon-31-Aug- 15		
Reduction		Implement Dire				e relations i	ssues, ensure recruitment to any	HAS LT		Tue-31-Mar- 15		
Reduction	3/323 -	Develop and in	nplement	a staff engage	ement plan			HAS LT		Tue-31-Mar- 15		
Reduction	3/324 -	Implement the	resourcing	g strategy to su	pport continuity of staffin	g in EPHs ur	til they are replaced by Extra Care	HAS AD ASC HAS HOHR	00	Mon-31-Aug- 15		





Fallback					ure continuity of service						Action Mai	nage
hase 5 - Fa	allback	Plan										
robability	М	Objective	s M		Financial	M	Services	L	Reputation	L	Category	4
nase 4 - Po	ost Risk	Reduction A	Assessm	ent								
Reduction	3/1964	- Continue to	engage	with and contrib	oute to all 2020 North Y	orkshire workstre	ams (ongoing)	HAS LT		Mon-31-Aug- 15		
Reduction	3/343 -	Represent H	AS at Cor	oorate Workford	e Planning and Develo	pment Group (c	ngoing)	HAS HOHR		Mon-31-Aug- 15		
Reduction	3/341 -	Provide time	y and ac	curate workforc	e information and data	a (ongoing)		HAS HOHR		Mon-31-Aug- 15		
Reduction	3/340 -	Provide HR a	nd WD a	dvice and suppo	ort to Managers leading	g Transformation	Projects (ongoing)	HAS HOHR		Mon-31-Aug- 15		
teauchon .	3/326 - prograi		l implem	ent an OD/cultu	ral change programme	e to support staff	to implement the HAS 2020	HAS LT		Mon-31-Aug- 15		
Reduction	3/325 -	Develop and	l implem	ent a skill mix in c	assessment teams for th	e future		HAS LT		Mon-31-Aug- 15		





Phase 1 - Ide	entification										
Risk Number	3/218	Risk Title	3/218 -	Managing effective outcomes	for individuals		Risk Owner	CD HAS		Manager	HAS AE ASCO
Description				agenda, carer's assessment, re external criticism, reputational is		t payments resulting in poor	Risk Group	Performana	е	Risk Type	
hase 2 - Cu	ırrent Asse:	ssment									
Cui	rrent Contr	ol Measures		OLT; embedded performance for workers	management;	budgetary management; neec	ls assessment q	uestionnaire	; individual	Effectivenes	S
Probability	М	Objectives	Н	Financial	M	Services	Н	Reputation	H	Category	2
Phase 3 - Ris	k Reductio	on Actions									
							Action	Manager	Action by	Compl	eted
Reduction	1/76 - Cont	inue to embed reablen	nent thro	ugh all services			HAS AD AS	sco	Tue-30- Jun-15		
Reduction	1/77 - Ensur	e actions for personalism	ation are	embedded in 2020 Programm	e and Vision		HAS AD AS	SCO	Thu-30- Apr-15		
Reduction	1/78 - Set to	argets through robust se	rvice plo	ınning aligned to local accoun	t		HAS AD AS	SCO	Tue-30- Jun-15		
Reduction	1/79 - Hold	bi-monthly CSM and TA	1 forums				HAS AD AS	SCO	Tue-30- Jun-15		
Reduction	1/149 - Dev	elopment of Think Locc	l Act Per	sonal co-produced Making it R	eal action plar	1	HAS AD AS	SCO	Tue-30- Sep-14		
Reduction	1/317 - Ensu	ure effective assessmen	and rev	riew processes are maintained	throughout the	transformation programme	HAS AD AS	SCO	Tue-30- Jun-15		
hase 4 - Pos	st Risk Red	uction Assessment									
Probability	М	Objectives	Н	Financial	M	Services	M	Reputation	H	Category	2
Phase 5 - Fal	llback Plar	1									
										Action M	anager
Fallback Plan	1/15 - Take	action to balance bud	get, rese	t performance and efficiency t	argets, look at	capacity plan				HAS AD ASCC	)





Phase 1 - Id	lentification	1									
Risk Number	3/187	Risk Title	3/187 -	Preparedness for implementation of the	Care A	act	Risk Owner	CD HAS		Manager	HAS AE ASCO
Description	impact of t	he Dilnot proposals on li	etime ch	the new Care Act and embed into the C arges, revised capital limit, portable asse d finance leading to loss of reputation ar	ssment,	, increase in a number of clients	Risk Group	Performanc	е	Risk Type	
Phase 2 - C	urrent Asse	ssment									
С	urrent Con	trol Measures		lace; Lead Manager in post; Programme rmation Plan including requirements for t				tegrated		Effectiveness	
Probability	М	Objectives	Н	Financial	Н	Services	Н	Reputation	Н	Category	2
Phase 3 - Ri	sk Reductio	on Actions							1	1	
							Action	Manager	Action by	Comple	ted
Reduction	3/144 - Wor	king at regional and na	ional leve	el to influence the financial case for NYC	С		AD SR &	Proc	Mon-31- Aug-15		
Reduction	3/236 - Dev	elop an action plan for	implemer	nting the Operating Model to capture all	Care A	Act requirements	HAS AD A	ASCO	Tue-30- Sep-14		
Reduction		ure HASLT in Transformati h lead managers on all		mode continue to receive monthly updo ms	ates an	d hold 'confirm and challenge'	CD HAS HAS LT		Fri-31-Jul- 15		
Phase 4 - Pa	ost Risk Rec	luction Assessment									
Probability	М	Objectives	Н	Financial	Н	Services	Н	Reputation	Н	Category	2
Phase 5 - Fo	allback Pla	n									
										Action Ma	nager
Fallback Plan	2/550 - Tigh	ten controls on who car	receive	services. Utilise BCF to support core activi	ty. Re-	allocate other work to prioritise the sto	atutory req	luirements of	the Act.	HAS AD ASCO	





Phase 1 - Ide	entification	n									
Risk Number	3/164	Risk Title	3/164	- Information Governance			Risk Owner	CD HAS		Manager	AD S & Proc
<b>Description</b>	quality or d		reques	gements lead to unauthorised disclosu its, and inability to locate key data upo c			Risk Group	Legislative		Risk Type	
Phase 2 - Cu	rrent Asse	essment									
Cui	rrent Cont	rol Measures	princi regist data	datory eLearning for all staff; informatic ples; information governance procedu er; implementation of process if/when transfer methods; developing robust in p and creation of Virtual Group (VIGG	ires; Corp data bre formatior	porate laptop and security encryption aches occur including cascading le an sharing protocols; revised format o	n; continue ssons learnt; f Corporate	d us of informa implementati	ation asset on of secure	Effectivenes	s
<b>Probability</b>	М	Objectives	L	Financial	М	Services	L	Reputation	Н	Category	2
Phase 3 - Ris	k Reducti	on Actions									
							Action	Manager	Action by	Comple	ted
Reduction	3/147 - Imp	lementation of Caldicot	† 2				AD SR & Pr	ос	Sat-31-Jan- 15		
Reduction	3/148 - Cor	ntinue to implement awa	ıreness	raising campaign			AD SR & Pr	ос	Sat-31-Jan- 15		
Reduction	3/159 - Mor	nitor completion of man	datory	e-learning courses			AD SR & Pr	ос	Sat-31-Jan- 15		
Reduction	3/227 - Cor	ntinue to ensure use of se	cure r	nethods of data transfer			AD SR & Pr	ос	Sat-31-Jan- 15		
Reduction	6/124 - Prog	gress data sharing issues	with H	ealth colleagues to ensure the benefits	of this ar	e realised	AD SR & Pr	ос	Sun-31- May-15		
Reduction	6/130 - Ensu	ure 'lessons learned' rep	orts are	e completed following any breach			AD SR & Pr	oc	Sat-31-Jan- 15		
Phase 4 - Po	st Risk Red	duction Assessment					•		•		
Probability /	M	Objectives	L	Financial	М	Services	L	Reputation	Н	Category	2
Phase 5 - Fal	llback Pla	n									
										Action Mai	nage
Fallback Plan	3/36 - Medi	a management, staff di	sciplina	ary, work with Information Commissione	r's Office	, review all data breaches for lesson	s learnt			AD SR & Proc	





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Phase 1 - Id	lentificatio	n	1					<u> </u>		
Risk Number	3/180	Risk Title	3/180 - Partnership and In	tegration with the	NHS		Risk Owner	CD HAS	Manag	er HAS AD T&I, HAS AD ASCO, Dir Public Health, HAS AD PP&QA
Description	Commissior economy to impact on	ners and other NHS organ hat will provide better ou the development of integ	ng NHS landscape, to devinisations to achieve the ne tcomes for patients and lograted services, delay the ne loss of opportunities tha	cessary changes to cal communities. transformation of I	to the North Yorkshir This failure will have HAS services, give ris	a negative	Risk Group	Partnerships	Risk Typ	pe
Phase 2 - C	urrent Asse	essment								
Cu	urrent Cont	trol Measures	H & W Board and ICB, hos local Partnership arrange for use of the Better Care	ments with CCGs					Effectiver	ness
Probability	М	Objectives	H Financi	al H	Servic	es	М	Reputation	H Catego	ory 2
Phase 3 - Ri	sk Reducti	on Actions								
							Action	Manager	Action by	Completed
Reduction	3/151 - Ensu	ure S75 agreement signed	d by CCGs				AD SR &	Proc	Wed-31-Dec- 14	
Reduction	3/155 - Ensu	ure Better Care Fund plan	signed and agreed with	Government			HAS AD	T&I	Thu-30-Apr-15	
Reduction	3/160 - Con	nplete and implement th	e Governance Review of	HWB and ICB			has ad		Thu-30-Apr-15	
Reduction	3/192 - Con	nplete CHC review					has ad	ASCO	Wed-30-Sep- 15	
Reduction	3/206 - Und	ertake review of manage	ement and operational de	livery of social car	re mental health ser	vices	has ad	ASCO	Thu-30-Apr-15	
Reduction			ring with CCGs to co-lead		<u> </u>		has ad	T&I	Tue-30-Jun-15	
Reduction	3/208 - Ensu within	ure NHS partners are fully	aware of the democratic	and political envir	onment they are op	perating	CD HAS		Mon-31-Aug- 15	
Reduction	3/209 - Acti engaged o	vely monitor relationships It appropriate level and r	s, priorities and communico eview at HAS WLT on a reg	ations and ensure gular basis	that HAS managers	are fully	CD HAS		Mon-31-Aug- 15	
Phase 4 - Pa	ost Risk Red	duction Assessment								
Probability	М	Objectives	H Financi	al H	Servic	es	М	Reputation	H Catego	ory 2
Phase 5 - Fo	allback Pla	in								
										Action Manager
Fallback Plan	3/532 - Esco	alation to CMB and Execu	utive Members, further eng	gagement with ser	nior tiers in NHS local	lly, regionally	and nati	onally.	CD HAS	





Phase 1 - Id	entification									
Risk Number	3/188	Risk Title	3/188 -	Maintaining Service Delivery		Risk Owner	CD HAS		Manager	HAS Prog E HAS A ASCO
Description	new ways of w capacity issue	orking, a new client database o	and maki agemen	gnificant system and organisational change ng significant savings as part of 2020 North t to ensure successful completion of the pro orkshire.	Yorkshire. To include also	Risk Group	Performano	ce	Risk Type	
Phase 2 - Ci	urrent Assessr	ment								
	Current Co	ontrol Measures	Operat teams,	ional management team in place to reviev	v and monitor any impact, incre	ased cap	acity in asses	ssment	Effectivenes	s
Probability	М	Objectives	М	Financial H	Services	М	Reputation	H	Category	2
Phase 3 - Ris	sk Reduction	Actions								
						Action	n Manager	Action by	Comple	ted
Reduction	capacity to de	eliver projects whilst maintaining	BAU acti	gramme resource plan with Programme Spr vity. The plan will develop over time as det oject capacity is required we will aim to sou	ail of specific project resource	HAS Pro	g Dir	Tue-30- Jun-15		
		ogramme control environment streams to reduce duplication	n HAS to	ensure all key projects are supported and	that synergy is achieved	HAS Pro	g Dir	Tue-30- Jun-15		
Reduction		ue to develop safe plans and pr re on ASC while reducing hand		with Customer Service Centre to manage of C	s much work as possible to	HAS AD	ASCO	Tue-30- Jun-15		
Reduction	3/240 - Ensure	a clear escalation process is in p	olace thro	ough to the Risk Enablement team		HAS AD	ASCO	Tue-31- Mar-15		
Reduction	3/1950 - Delive	er HAS restructure whilst ensuring	effective	service delivery		HAS AD	ASCO	Tue-30- Jun-15		
Phase 4 - Pa	ost Risk Reduc	tion Assessment								
Probability	М	Objectives	М	Financial H	Services	M	Reputation	n H	Category	2
Phase 5 - Fa	ıllback Plan									
,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,									Action Ma	nager
Fallback Plan	3/537 - Reduce	e activity to ensure statutory dut	ies delive	ered. Re-phase programme of work to redu	ce pressure at key pinch points.				has ad ascc	)





hase 1 - Id	entificatio	n										
Risk Number	3/162	Risk Title	3/162 - N	Major Failure due to Qu	uality and/or Eco	nomic Issues	in the Care Market.	Risk Owner	CD HAS		Manager	HAS A
escription)	reputation meet peop commissio	, potential legal pro ples need appropri	oceedings lately. Pote continues	(e.g. failure of major pential for judicial review to be a risk in terms of	provider) and lon w as a result of on	ng term impa ngoing HAS 20	t un-met service needs, loss of ct in trust in the local care market 020 work and for care services and provider abil	Craus	Legislative		Risk Type	
hase 2 - Ci	urrent Ass	essment										
Curre	ent Contro	l Measures	share be legal ser process,	est practice, experience vices, CQC, Financial alerts system including	ced staff, regular Services & insura g brokerage, Serv	communicat nce consulta vice Unit & pr	e), standard contract terms, appr tion with providers, bulletins, custo ttion, market analysis, capacity plo ovider SCPs, contingency plans d staff, HASLT & HAS Exec receives n	mer feedback anning, contra eveloped, QA	z, Engageme act non comp Framework	nt Group,	Effectivenes	s
Probability	М	Objectives	М	Finar	ncial	M	Services	M	Reputation	Н	Category	2
hase 3 - Ri	sk Reduct	ion Actions										
								Action	n Manager	Action by	Comple	eted
Reduction	3/153 - Ca	rry out domiciliary	care repro	curement (3 phases).	Phase 1 impleme	entation com	pletion date shown	HAS AD	PP&QA	Tue-30- Jun-15		
Reduction		going quarterly Pa nation sharing	rtnership a	nd Partner Liaison mee	etings (market de	evelopment b	ooard), market analysis and mapp	ing HAS AD	PP&QA	Thu-30- Apr-15		
Reduction	3/254 - Co	ntinue to monitor b	oaseline as	sessments of providers	, targets are revie	ewed at qua	rterly officer meetings	HAS AD	PP&QA	Thu-30- Apr-15		
Reduction				ork to implement the fi consultation with prov			are exercise. This will involve ettlement	HAS AD	PP&QA	Thu-30- Apr-15		
Reduction							financial issues in the care provid ews at a national level	er HAS AD	PP&QA	Thu-30- Apr-15		
Reduction	47/185 - Re	egular engagemer	nt meeting:	s with CQC, relevant F	lealth Commissio	ning Organis	ations and the Police	HAS AD	PP&QA	Thu-30- Apr-15		
Reduction	47/186 - In	troduction of the C	PQA data	base and planning fo	r CONTROCC and	d Liquid Logic	c - dependent on LL rollout	HAS AD	PP&QA	Thu-30- Apr-15		
Reduction	47/220 - Er	sure communicati	ons with C	CGs are robust and co	onsistent			HAS AD	PP&QA	Thu-30- Apr-15		
Reduction	47/221 - W	ork with Veritau on	audits of i	ndividual suppliers				HAS AD	PP&QA	Thu-30- Apr-15		
				-				ı		Thu-30-		





Phase 4 - Pos	st Risk Reduc	tion Assessme	ent							
Probability A	M	Objectives	М	Financial	M	Services	M	Reputation M	Category	4
Phase 5 - Fal	lback Plan								Action Mo	nager
				implement relevant steps, consulta se contingency plan(s).	tion with senior s	taff and relevant organisations (e.ç	g. Police CG	C). Effective	HAS AD PP&G	





	-	, , ,									
hase 1 - Id	lentific	ation									
Risk Number	3/27	Risk Title	3/27 - \$	afeguarding Arrangements			Risk Owner	CD HAS		Manager	HAS A
Description	Failure stando	to have a robust So rd on CQC and ac	afeguar verse e	ding regime in place results in risk to se fect on Directorate reputation.	ervice us	ers, failure to reach required	Risk Group	Partnerships		Risk Type	
hase 2 - C	urrent .	Assessment									
Curren	ıt Cont	ol Measures	manag better	d action plan, Safeguarding review for ger and team, strengthening of Safegu understanding & embedding of Ment developed, countywide safeguarding	uarding p al Capa	policy team, case file audit and revie city Act. Independent chair to Safeg	ew, training pla	n, best interest c	issessors in post,	Effectivenes	<b>,</b>
Probability	L	Objectives	Н	Financial	Н	Services	М	Reputation	Н	Category	3
hase 3 - Ri	sk Red	uction Actions									
							Action	Manager	Action by	Comple	ted
Reduction	1/123 -	Review of safegue	rding pr	ocedures linked to consultation in ligh	nt of the	Care Act	HAS AD ASCC	)	Fri-31-Oct-14		
Reduction		Continue to ensure		rs are fully engaged with Safeguardin	ıg board	s centrally and locally, particularly	HAS AD ASCC	)	Thu-30-Apr-15		
Reduction	3/187 -	Continue to work	vith Prod	curement, Partnerships and Quality As	surance	team to improve quality assurance	HAS AD ASCC HAS AD PP&G		Thu-30-Apr-15		
Reduction	3/217 -	Develop and imple	ement n	ew safeguarding board performance	e framew	vork	HAS AD ASCC	)	Thu-30-Apr-15		
Reduction	3/321 -	Carry out review o	f appro	ach to domestic abuse, Prevent and s	serious in	cident data	HAS AD ASCC	)	Thu-30-Apr-15		
Reduction	3/1961	- Implement the co	ncordo	t following Winterbourne View			HAS AD ASCC	)	Thu-30-Apr-15		
hase 4 - Pa	ost Risk	Reduction Asses	sment								
Probability	L	Objectives	Н	Financial	Н	Services	М	Reputation	H	Category	3
hase 5 - Fo	allback	Plan									
										Action Ma	nager
Fallback Plan	3/33 - 1	Escalate to Safegue	ırding B	oard / Mgt Board and carry out nece:	ssary rev	iew and action improvement plans,	lessons learned	from any seriou	s case reviews	HAS AD ASCC	)





hase 1 - Id	lentificatio	n									
Risk Number	3/167	Risk Title	3/167 - Pu	ublic Health			Risk Owner	CD HAS		Manager	Dir Public Healt
	resulting in			el within the County Council blic health services, develop			Risk Group	Partnerships		Risk Type	
hase 2 - C	urrent Asse	essment									
С	urrent Cor	ntrol Measures	Health bu plan deve Contracts structures	ent to public health team; Se isiness and team meetings; C eloped; Consultation on pub s group with CYC; Health and in place; Leading work on the JSNA process in place	Consultant link rol lic health commi d Wellbeing Boar	es with NYCC Directorates, issioning intentions; MOU for d; H & W Strategy; Link to re	CCGs and D r Advice Servi elevant Em Pla	istricts; Public He ice with CCGs in anning/Health F	ealth service n place; Joint rotection	Effectivenes	s
Probability	L	Objectives	М	Financial	Н	Services	М	Reputation	М	Category	3
Phase 3 - Ri	sk Reducti	ion Actions									
							Actio	n Manager	Action by	Comple	eted
Reduction	5/246 - Co	ntinue to ensure Public I	Health statuto	ry functions are met			Dir Public I	Health	Tue-30-Jun- 15		
Reduction	5/247 - Imp	plement the communic	ation and eng	agement strategy for Health			Dir Public I	Health	Tue-30-Jun- 15		
Reduction	5/248 - Ens and financ		ders Public He	alth needs and that Public H	ealth team are c	aware of impact on resourc	e Int Fin Acc		Tue-30-Jun- 15		
Reduction		licitly embed Public Hed , children social care, LE		uncils mainstream strategies (	and policies eg.	trading standards,	Dir Public I	Health	Tue-30-Jun- 15		
Reduction		ure sufficient capacity or ore time for consultant le		Public Health team and in t	he interim, explo	re alternative solutions to	Dir Public I	Health	Tue-30-Jun- 15		
Reduction	5/252 - Co	ntinue to work closely w	rith CoY Coun	cil especially around contrac	cting and profess	sional networks	Dir Public I	Health	Tue-30-Jun- 15		
Reduction	5/254 - Dev	velop more detailed find	ancial arrange	ements for the Public Health	budget with sign	off by CMB and HAS Exec	AD SR & Pr Dir Public I		Wed-31- Dec-14		
Reduction	5/313 - Ens	ure good systems are in	place for mo	nitoring our performance ag	ainst the PHOF		Dir Public I	Health	Tue-30-Jun- 15		
Reduction	5/314 - Rep	port on quarterly basis to	o HAS LT and F	PH Business team			Dir Public I	Health	Tue-30-Jun- 15		
									Wed-31-		-





<b>Probability</b>	_	Objectives	М	Financial	Н	Services	M	Reputation M	Category 3	3
Phase 5 - Fal	llback Plan									
									Action Man	nager
Fallback Plan	3/526 - Implen	nent alternative arrang	ements t	o ensure public health functions are	delive	red.			Dir Public Healt	th





	·										
Phase 1 - Id	lentification										
Risk Number	3/5 <b>F</b>	Risk Title	3/5 - HAS	2020 Transformation and Efficiency	, Programme (inc	cl. the MTFS)	Risk Owner	CD HAS		Manager	HAS AD ASCO HAS AD T&I
Description	where neede	d and informa	ation advic		ole to live indepe	oviding prevention, support when and ndent lives as part of their community ems		Financial		Risk Type	
Phase 2 - C	urrent Assess	ment									
Curre	nt Control Me	easures	dedicate	ed staff; Transformation Board; HAS I	Programme Briefs	ng reporting to & monitoring by Direct s Produced; EIAs being developed; Ex cific programme activity; HAS Vision				Effectiveness	5
Probability	LO	bjectives	Н	Financial	Н	Services	Н	Reputation	Н	Category	3
Phase 3 - Ris	sk Reduction	Actions									
							Action	Manager	Action by	Comple	ted
Reduction	1/155 - Design achieved by	and impleme	ent a Preve nmunity sus	ention Strategy and action plan whi tainability, prevention and reablem	ch models the in	vestment needed and savings to be	Dir Public HAS LT	Health	Tue-31- Mar-15		
Reduction	3/54 - Embed	savings progr	amme and	d programme management metho	dology		AD SR & HAS AD 1		Wed-31- Dec-14		
Reduction	3/156 - Comm	nission a range	e of preven	tive services in local communities fo	or CRC and Asses	ssment Teams to refer people to	Dir Public HAS AD I		Thu-30- Apr-15		
Reduction	Assessment Te	eams to ensure	e we progre		service provision	e with NHS Intermediate Care and wit transferring towards 100% START and be agreed	HAS AD A	ASCO	Wed-31- Dec-14		
Reduction	3/158 - Suppo	rt the acceler	ation of ex	tra care housing. Targets and proje	cted savings hav	ve been agreed	HAS AD I		Tue-31- Mar-15		
Reduction	3/185 - Appro appropriate.	priate engage	ement with	staff and staff side in the transform	ational agenda i	ncluding HR support where	HAS LT		Mon-31- Aug-15		
Reduction	3/186 - Ensure	that individud	al projects (	are supported by detailed business	cases signed off	by finance and HR	HAS Prog	g Dir	Tue-31- Mar-15		
Reduction		ies to further s	hift the mo	del of care and reduce costs to mi		earning disabilities and report to HASI greater numbers. Ensure this modellin		Proc	Mon-31- Aug-15		
Reduction	3/211 - Ensure	effective eng	gagement	with the Cross Cutting 2020 themes,	, particularly Cust	tomer and Stronger Communities	HAS Prog	g Dir	Mon-31- Aug-15		
Reduction	3/212 - Impler duplication a			2 ensuring that it maximises the cap	pacity of staff to v	work flexibly, reduce hands offs and	AD SR &	Proc	Mon-31- Aug-15		





Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	M	Services	M	Reputation M	Category	5	
Phase 5 - Fa	llback	k Plan									
									Action Ma	nager	
				n of the financial efficiencies already ide nanisms and escalate issues	ntified, ens	ure Member and public awareness o	of seriousne	ess and risk to statutory	HAS AD ASCO		





		Identity	F	erson							Clo	assification							Fallb	ack Plan
			Risk	Risk			P	re				RR			P	ost				Action
Change	Risk Title	Risk Description	Owner	-	Prob Obj Fin Serv Rep Cat R		tRRs	Next Action	Prob	Ob	jFin	Serv	Rep	Cat	FBPlan	Manager				
- new -	3/217 - Deprivation of Liberty (DoLs) Supreme Court Ruling	Failure to manage increase in workload as a result of the DoLs Supreme Court judgment resulting in financial and reputational issues including potential legal action	CD HAS	HAS AD ASCO	Н	М	Н	Н	Н	1	5	30/06/2015	Н	М	Н	Н	Н	1	Y	HAS AD ASCO
- new -	3/184 - Workforce Planning and Development including Cultural Change	Failure to appropriately plan workforce requirements and / or develop staff in line with transformation agenda resulting in reduction in quality of service and transformation objectives not achieved	CD HAS	HAS HOHR	Ι	М	Н	М	М	1	18	31/03/2015	і М	М	М	L	L	4	Υ	CD HAS
- new -	3/218 - Managing effective outcomes for individuals	Failure to meet targets in line with national agenda, carer's assessment, review and direct payments resulting in poor outcomes for individuals and internal and external criticism, reputational issues.	CD HAS	HAS AD ASCO	М	Н	М	Н	н	2	6	30/09/2014	М	Н	М	М	н	2	Υ	HAS AD ASCO
<b></b>	implementation of	Failure to prepare for the implementation of the new Care Act and embed into the Operating Model including the financial impact of the Dilnot proposals on lifetime charges, revised capital limit, portable assessment, increase in a number of clients requiring assessment for both care needs and finance leading to loss of reputation and under capacity	CD HAS	HAS AD ASCO	М	Н	Н	Н	н	2	3	30/09/2014	M	Н	Н	Н	Н	2	Y	HAS AD ASCO
<b>•</b>		Ineffective information governance arrangements lead to unauthorised disclosure of personal and sensitive data, poor quality or delayed responses to FoI requests, and inability to locate key data upon which the Council relies resulting in loss of reputation, poor decision making, fine, etc		AD SR & Proc	М	L	М	L	Н	2	6	31/01/2015	м	L	М	L	Н	2	Y	AD SR & Proc
- new -	3/180 - Partnership and Integration with the NHS	Failure, in the context of the changing NHS landscape, to develop effective partnerships with NHS Commissioners and other NHS organisations to achieve the necessary changes to the North Yorkshire Health economy that will provide better outcomes for patients and local communities. This failure will have a negative impact on the development of integrated services, delay the transformation of HAS services, give rise to increased costs to HAS and cause the loss of opportunities that joint provision may have.	CD HAS	HAS AD T&I HAS AD ASCO Dir Public Health HAS AD PP&QA	М	Н	Н	М	Н	2	8	31/12/2014	М	Н	Н	М	Н	2	Υ	CD HAS





		Identity	F	erson							Clo	ssification							Fallbo	ack Plan
			Diele	Risk			P	re				RR			P	ost				Action
Change	Risk Title	Risk Description	Risk Owner		Prob	Prob Obj Fin Serv		Rep	Ca	tRRs	Next Action	Prob	Ob	jFin	Serv	Rep	Cat	FBPlan	Manager	
<b></b>	3/188 - Maintaining Service Delivery	Failure to maintain service delivery whilst undergoing significant system and organisational change including the introduction of new ways of working, a new client database and making significant savings as part of 2020 North Yorkshire. To include also capacity issues for both project staff and management to ensure successful completion of the project. This results in loss of morale and inability to deliver services to the people of North Yorkshire.	CD HAS	HAS Prog Dir HAS AD ASCO	М	М	Н	М	Н	2	5	31/03/2015	М	М	Н	М	Н	2	Y	HAS AD ASCO
•	3/162 - Major Failure due to Quality and/or Economic Issues in the Care Market.	Fundamental breach of contract by key provider(s) (including health) resulting in significant un-met service needs, loss of reputation, potential legal proceedings (e.g. failure of major provider) and long term impact in trust in the local care market to meet peoples need appropriately. Potential for judicial review as a result of ongoing HAS 2020 work and commissioning/procurement continues to be a risk in terms of the Directorate's budgeting for care services and provider ability and willingness to provide services to the Council	CD HAS	HAS AD PP&QA	М	М	М	М	Н	2	10	30/04/2015	м	М	м	М	М	4	Υ	HAS AD PP&QA
<b></b>	3/27 - Safeguarding Arrangements	Failure to have a robust Safeguarding regime in place results in risk to service users, failure to reach required standard on CQC and adverse effect on Directorate reputation.	CD HAS	HAS AD ASCO	L	Н	Н	М	Н	3	6	31/10/2014	L	Н	Н	М	Н	3	Y	HAS AD ASCO
•	3/167 - Public Health	Failure to fully implement the public health model within the County Council and carry out Public Health responsibilities resulting in inability to effectively commission public health services, develop and implement strategies and manage the Public Health grant effectively	CD HAS	Dir Public Health	L	М	Н	М	М	3	10	31/12/2014	Ł	М	Н	М	М	3	Υ	Dir Public Health
- new -	3/5 - HAS 2020 Transformation and Efficiency Programme (incl. the MTFS)	Failure of the HAS 2020 Programmes to transform services, including cultural change by providing prevention, support when and where needed and information advice and guidance that enables people to live independent lives as part of their community; resulting in budget overspend, fragmented services, lack of equity and reputational problems	CD HAS	HAS AD ASCO HAS AD T&I	L	Н	Н	Н	Н	3	10	31/12/2014	Ł	М	М	М	М	5	Y	HAS AD ASCO





Key	
	Risk Ranking has worsened since last review.
_	Risk Ranking has improved since last review
<b>4</b>	Risk Ranking is same as last review
- new -	New or significantly altered risk





#### NORTH YORKSHIRE COUNTY COUNCIL

# **AUDIT COMMITTEE**

#### **25 SEPTEMBER 2014**

# INTERNAL AUDIT REPORT ON INFORMATION TECHNOLOGY, CORPORATE THEMES AND CONTRACTS

#### Report of the Head of Internal Audit

#### 1.0 PURPOSE OF THE REPORT

1.1 To inform Members of the **internal audit work** completed during the period to 31 August 2014 in respect of information technology (IT), corporate themes and contracts and to give an opinion on the systems of internal control in respect of these areas.

#### 2.0 BACKGROUND

- 2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to IT, corporate themes and contracts, the Committee receives assurance through the work of internal audit (provided by Veritau) as well as receiving copies of relevant corporate and directorate risk registers. Veritau engages a specialist contractor to support the provision of IT audit services. Since 1 April 2013, that service has been provided by Audit North. Details of the 3 year strategic IT audit plan (to March 2016) prepared by Audit North, were presented to the Committee in December 2013.
- 2.2 This report considers the work carried out by Veritau and Audit North during the period to 31 August 2014. It should be noted that the internal audit work referred to in this report tends to be cross cutting in nature and therefore there are no corresponding Statements of Assurance (SoA) or directorate risk registers.
- 2.3 The Corporate Risk Register (CRR) is fully reviewed every year and updated by the Chief Executive and Management Board in August / September. A six monthly review is then carried out in February / March. Details of the Corporate Risk Register were presented to the Committee in June 2014. There have been no significant changes in the County Council's risk profile since that date. A copy of the updated Corporate Risk Register will be presented to the committee once the current review is completed.

#### 3.0 WORK CARRIED OUT DURING THE PERIOD TO 31 AUGUST 2014

3.1 Summaries of the internal audit work undertaken and the reports issued in the period are attached as follows:

IT audit assurance and related work
Corporate assurance
Contracts and procurement

Appendix 1
Appendix 2
Appendix 3

- 3.2 Internal Audit have also been involved in a number of related areas, including:
  - providing advice on corporate governance arrangements and IT related controls:
  - providing advice and guidance to directorates and schools on ad hoc contract queries and on matters of compliance with the County Council's Contract and LMS Procedure Rules;
  - attending meetings of the Corporate Information Governance Group (CIGG), the Corporate Procurement Group (CPG) and various project groups relating to 2020 North Yorkshire;
  - contributing to the annual review and update of the County Council's Financial, Contract and Property Procedure Rules;
  - completion of the audit certificate for the Carbon Reduction Commitment (CRC) Energy Efficiency return prior to its submission to the Environment Agency in July 2014;
  - reviewing the final accounts for capital projects. Using a risk based process, Veritau auditors identify those projects which need to be reviewed in more detail and request the relevant documentation;
  - carrying out a number of special investigations into corporate or contract related matters that have either been communicated via the whistleblowers' hotline or have arisen from issues and concerns raised with Veritau by management.
- 3.3 As with previous audit reports an overall opinion has been given for each of the specific systems or areas under review. The opinion given has been based on an assessment of the risks associated with any weaknesses in control identified. Where weaknesses are identified then remedial actions will be agreed with management. Each agreed action has been given a priority ranking. The opinions and priority rankings used by Veritau are detailed in appendix 4.
- 3.4 It is important that agreed actions are formally followed up to ensure that they have been implemented. Veritau formally follow up all agreed actions on a quarterly basis, taking account of the timescales previously agreed with management for implementation. On the basis of the follow up work undertaken during the year, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.
- 3.5 All internal audit work undertaken by Veritau is based on an Audit Risk Assessment. Areas that are assessed as well controlled or low risk are reviewed less often with audit work instead focused on the areas of highest risk. Veritau's auditors work closely with directorate senior managers to address any areas of concern.

#### 4.0 AUDIT OPINION

- 4.1 Veritau performs its work in accordance with the Public Sector Internal Audit Standards (PSIAS). In connection with reporting, the relevant standard (2450) states that the chief audit executive (CAE)<sup>1</sup> should provide an annual report to the board<sup>2</sup>. The report should include:
  - (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
  - (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
  - (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment)
  - (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
  - (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
  - (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.
- 4.2 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating across the three functional areas is that it provides **Substantial Assurance**. There are no qualifications to this opinion. With the exception of IT audit, no reliance has been placed on the work of other assurance bodies in reaching this opinion. As noted above, the Head of Internal Audit commissioned specialist IT audit services during the period from Audit North to support the delivery of this aspect of the Audit Plan. The Head of Internal Audit is satisfied with the quality of this work and has therefore placed reliance upon it in reaching his opinion.

#### 5.0 **RECOMMENDATION**

5.1 That Members consider the information provided in this report and determine whether they are satisfied that the overall control environment operating in respect of information technology, corporate and contract arrangements is both adequate and effective.

<sup>&</sup>lt;sup>1</sup> For the County Council this is the Head of Internal Audit.

<sup>&</sup>lt;sup>2</sup> For the County Council this is the Audit Committee.

Max Thomas Head of Internal Audit

Veritau Ltd County Hall Northallerton

27 August 2014

## **BACKGROUND DOCUMENTS**

Relevant audit reports kept by Veritau Ltd at 50 South Parade, Northallerton.

Report prepared and presented by Max Thomas, Head of Internal Audit (Veritau).

Appendix 1

# INFORMATION TECHNOLOGY - FINAL AUDIT REPORTS ISSUED IN THE PERIOD TO 31 AUGUST 2014

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	County Hall Data Centre – physical and environmental controls	Substantial Assurance	The audit examined the physical and environmental controls which exist to maintain the security and integrity of the data centre at County Hall.	December 2013	An effective control environment was found to exist, including swipe card access controls and CCTV to restrict and monitor access into both the ICT suite and the data centre. Environmental monitoring software and equipment also exist to provide warning of temperature, water or humidity issues that could have an impact on the delivery and availability of services.  The following issues were noted:  • a periodic review of those staff with access permissions to both the ICT department and the data centre is not performed;  • a report of failed access attempts to the data centre was not regularly generated for review; and  • a schedule had not been agreed, to periodically test run the generators.	Two P2 and one P3 action were agreed  Responsible Officer: Head of ICT Operations  A review of current access permissions was carried out in January 2014.  A quarterly review of failed access attempts will be carried out and documented using SharePoint. A visitor log will also be created.  A schedule for generator testing will be established.
В	Server administration and security	Substantial Assurance	The audit reviewed the controls in place to manage the server	December 2013	Good controls were found to be in place. A small number of minor issues were identified.	Three P3 actions were agreed

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			environment and prevent unauthorised access and / or changes to applications and data.			Responsible Officer: Head of ICT Operations  Action was taken immediately to address the issues highlighted in the audit.
С	Schools ICT Data Centre – physical and environmental controls	Limited Assurance	The audit examined the physical and environmental controls which exist to maintain the security and integrity of the data centre at Highfield House, Ripon.	February 2014	Schools ICT (SICT) provides support to approximately 400 schools in North Yorkshire. Highfield House is also used as a training centre and office base for the team. The computer room is a converted office located on the first floor of the building. The audit recognised that significant investment would be required in order to ensure a satisfactory level of physical and environmental protection for the hardware located in the computer room. However, Highfield House is a Grade 2 listed building, built around 1853, and as such there are restrictions on any adaptations that can be made.  The following specific control weaknesses were identified:  • there are no automated fire suppression systems and, with the exception of smoke detectors, a lack of environmental monitoring equipment (e.g. water, heat	Six P2 and one P3 action were agreed  Responsible Officer: Head of ICT – CYPS  The Service Desk solution, the primary solution housed on the servers located in the computer room will move to a hosted solution, therefore making a large part of the server farm, and that hosting customer data, redundant. This will reduce the risk of key equipment and data being damaged or lost. The service will also review the affordability of physical and environmental controls based on the future service provision.  A plan to test Disaster Recovery arrangements has been put in place and this will be carried out on a 6-monthly basis.

	System/Area	Audit Opinion	Areas Reviewed	Date	and humidity) in the computer room;  Iive equipment (servers and UPS devices) are stacked on desks within the computer room rather than being housed in cabinets. The computer room was also used as a storage area for new equipment;  there is no backup generator to provide power in the event of a power outage which exceeded the short term cover provided by UPS devices; and scheduled failover testing was not performed, which would ensure that live services could be manually transferred to run from the disaster recovery server. Additionally, documentation detailing the process to be followed in order to transfer the services had not been developed.	Action Taken
D	Network security controls	Substantial Assurance	The network infrastructure underpins the provision of systems and services across the County Council. The need to maintain the integrity, availability and confidentiality of information and protect	February 2014	The County Council operates a resilient, high capacity, private data network, which carries voice as well as data traffic. The network design follows a recognised hierarchical model to support high speed central switching, wide area access and security, and the provision of end user devices (for example	Two P2 and one P3 action were agreed  Responsible Officer: Head of ICT Operations Implementation of UPS at County Hall is being evaluated and costs are

	System/Area	Audit Opinion	IT assets requires a security management process. This process includes the use of security techniques and related management procedures (eg network segmentation, device configuration and management controls) to authorise access and control information flows. The audit reviewed the controls in place to ensure that network security remained effective.	Date Issued	Comments  computers and telephones).  Within the Country Hall campus, a resilient fibre optic ring exists between each of the buildings, making up the Local Area Network component (LAN). The LAN is managed internally by ICT Services. The Wide Area Network (WAN) is managed and monitored by NYnet Limited.  Some areas of improvement were noted, as follows:  Uninterruptable Power Supply (UPS) devices were not always present; one potentially unprotected legacy connection was found; two Intrusion Prevention System (IPS) sensors protecting part of the network were not active at the time of the audit; and older, insecure Simple Network Management Protocol (SNMP) versions were found to be in use.	being obtained. This will enable telephones and the Wireless Network to remain active for telephony, laptop PCs and other devices. It is important to note that during a power failure all other office equipment and lighting will be affected until the generators are started. The additional benefit of having the communication cabinets powered by UPS is to ensure the equipment survives the switch between mains and generator power.  The need for the legacy network connection will be investigated and appropriate alternative arrangements put in place.  The upgrade of the IPS has been completed and sensor segments have now been restored to provide full protection.  The use of SNMP versions will be reviewed and, where possible, these will be replaced with the most secure version available. However, some switches are relatively old and may only support v1. If that is the case then consideration will be given to restricting SNMP access to those
E	Firewall security	Substantial Assurance	The firewall allows or blocks incoming and	February 2014	The County Council uses firewall equipment supplied by its chosen	one P2 and two P3 actions were agreed

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			outgoing network traffic to provide protection from intrusion attempts / malicious code from the internet or outbound traffic from the County Council's network to other organisations. The audit reviewed the configuration of the firewalls in place to ensure that they adequately maintain the confidentiality, integrity and availability of networked services.		vendor, Juniper Networks. The firewalls are configured so as to provide a degree of resilience in respect of a hardware failure. Whilst the audit noted a number of good practices in operation, such as change control management, there were some minor control weaknesses which, if addressed, would enhance the existing security environment. The areas for improvement included:  • a recent review of the rule set had not been performed in the context of current business requirements;  • the operating software version present on the nexus and N3 Juniper firewall devices was not current; and  • a firewall log retention period had not been defined.	Responsible Officer: Head of ICT Operations  A Firewall Security Management tool with the capability for automating the process of rule management will be evaluated. The evaluation will determine whether the product can provide an efficient means of identifying those rules that present a risk or are no longer in use. A business case will be presented for approval following the evaluation.  The firewall software has been upgraded to the latest version. In addition, the main firewalls were upgraded in February 2014.  The previous firewall monitoring software has been replaced with the McAfee Enterprise Security Management (ESM) solution and a log retention period of 9 months has been set. 6 monthly reports are also now required for PSN compliance.
F	VMWare security controls	Substantial Assurance	Virtualisation allows computing resources to be used remotely. For example, applications operating on one device	May 2014	The audit found good arrangements were in place, including access controls, change management controls and a high level of resilience. A small number of areas	One P2 and two P3 actions were agreed  Responsible Officer: Head of ICT Operations

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			can be used by other devices. In addition, virtualisation can be performed on many other computing resources, including operating systems, networks, memory and storage. Eighty percent of the County Council's server estate is virtualised and this arrangement helps to underpin service provision and business continuity. The audit examined the design of the controls in respect of the security and configuration of the VMWare Server Virtualisation solution.		for improvement were identified, including:      a procedure had not been developed for the re-provision of user access to systems from the VMware Disaster Recovery (DR) environment, in the event of a failure of the live VMware environment;      A patch management policy had not been defined (including VMWare) and a control was not in place to initiate the review of patches on a periodic basis.  Additionally, there was no control to check the application of critical patches, which may require action sooner than the planned review period.	VMWare Site Recovery Manager (SRM) has been successfully implemented. This will facilitate a quicker recovery of servers / systems to the DR environment. Access to the DR environment has also been restricted to specific roles to ensure a more controlled recovery.  A formal VMware patching policy will be adopted with six monthly updates of all ESX servers and patches deemed as critical being reviewed monthly. VMware update alerts will also be sent to a common email account to enable easier access.
G	Software licensing – follow up	Moderate Assurance	The audit was a follow up review to assess the progress made to address the control weaknesses previously identified by internal audit in 2013.	May 2014	Four of the eight recommendations contained in the original report were found to have been implemented. Progress had also been made to address the remaining four recommendations, as follows:  Software Asset Management (SAM) discoverer and management tools are now being used; a software audit had been	Responsible Officer: Head of ICT Operations  The software asset management tool included in the Microsoft licence contract will be installed and used as a baseline process to evaluate the overall software licence position. It will also allow the other software asset management tools which are available to be tested. This is due to be completed by September 2014.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					performed in conjunction with Microsoft; and • regular meetings had been held with software providers to confirm the accuracy of the County Council's software licensing arrangements.  At the time of the audit, work was also ongoing to upgrade to the latest version of Microsoft System Centre Configuration Manager (SCCM), which incorporates new functionality enabling it to be used for broader SAM tasks.	Following evaluation, the knowledge gained will be used to inform the ongoing strategy for software asset management. This will be completed by December 2014. A proposal will then be presented to the Technology and Change Leadership Team by January 2015
Н	Liquid Logic – general IT controls	Substantial Assurance	The Liquid Logic Children's Social Care system (LCS) holds information relating to children and social care, including assessments, care plans and child protection information. The system security controls are essential to maintaining the confidentiality, integrity and availability of information stored and processed by the system. The audit examined the effectiveness of those controls.	June 2014	The audit found robust user management and access controls in place; satisfactory system documentation and a training programme for new users. A small number of areas for improvement were identified, including:  • the lack of a dedicated server to host LCS despite the system being categorised as 'gold' (business critical);  • the current SQL Server database software (2005 Service Pack 4) is still supported by Microsoft. However, no further development work is planned	Two P2 and four P3 actions were agreed  Responsible Officer: Head of ICT – CYPS  A plan to upgrade the whole infrastructure for LCS will be developed. This will include upgrading the front end servers which are currently Windows 2003 to Windows 2008, and the SQL version from 2005 to 2008.  Access by the LCS supplier will be reviewed.  A BCP will be developed, in

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					and two later, fully supported, versions are available (SQL Server 2008 and SQL Server 2012). There were no formal plans in place to upgrade the SQL Server to a fully supported version;  there were no controls in place to restrict or monitor remote access by the LCS supplier;  a business continuity plan (BCP) detailing how the Systems Team would manage and communicate a failure of LCS had not been developed; and  a recent test recovery from backup for LCS had not worked properly.	conjunction with the Technology and Change BCP, for use by the Corporate Systems Team, outlining how LCS downtime will be managed.  The issues that occurred with the recent test will be addressed in the next Disaster Recovery test planned for July 2014.
I	Lagan Customer Relationship Management System (CRM) – general IT controls	Moderate Assurance	The Lagan CRM System is used to manage contact and interaction with local residents. The system records, tracks and monitors all customer contact, including requests for services. The system was installed approximately six years ago and is managed and administered on a day to day basis by a CRM Support Team.	July 2014	The audit identified a number of weaknesses in control, including:  the lack of a dedicated server to host Lagan despite the system being categorised as 'gold' (business critical);  the current SQL Server database software (2005 Service Pack 4) is still supported by Microsoft. However, no further development work is planned and two later, fully supported, versions are available (SQL)	Four P2 and three P3 actions were agreed  Responsible Officer: Head of ICT Operations  A new process is currently being developed which will channel all Lagan new / amendments / leaver user requests through to a central point in Technology & Change and enable them to be dealt with directly by the Corporate Systems Team. The form will capture all required

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			The audit examined access, systems maintenance and business continuity controls.		Server 2008 and SQL Server 2012). There were no formal plans in place to upgrade the SQL Server to a fully supported version;  There were limited password settings available within the Lagan CRM system for configuration and those that were available were not set in line with the IT access policy. User passwords were set to 'never to expire' and the password minimum length was only set to four characters;  User management processes for new users, leavers or amendments to existing users had not been formalised or documented. Authorisation from line managers for new user access or user amendments was not recorded;  A business continuity plan (BCP) detailing how the CRM Support Team would respond to a system failure had not been developed.	system access information, including appropriate authorisation.  A user review will be undertaken as part of housekeeping tasks scheduled after the Lagan upgrade. This will establish a snapshot of currently active users and users that are no longer require access. User accounts that are no longer required will be disabled. Access groups will also be reviewed and where possible consolidated into a structure that ties in with defined job roles.  The SQL Server version will be upgraded as part of the Lagan upgrade project. The server environment hosting Lagan will also be reviewed.  Password controls will be discussed as part of the Lagan upgrade project. The intention will be to include Lagan within the existing single sign-on process.  The Corporate Systems team will develop a full BCP.
J	Synergy system - general IT controls	Substantial Assurance	At the time of the audit, the County Council was implementing the Synergy Children's	July 2014	The audit found good arrangements were in place, including systems access controls, documentation and new user management	Two P2 and three P3 actions were agreed

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			Information Management System suite of products to support and manage education administration. The first module (Admissions) went live in August 2013 and, at the time of the audit, five modules had been implemented with a further two scheduled by October 2014. The audit examined access, systems maintenance and business continuity controls.		<ul> <li>procedures. A small number of areas for improvement were identified, including:</li> <li>the SQL server backup was only run once a day rather than more frequently;</li> <li>a test recovery from the backup had not been performed;</li> <li>a detailed business continuity plan (BCP) had not been prepared to manage the service and communicate with members of staff in the event of any system failure.</li> </ul>	Responsible Officer: Head of ICT – CYPS  The frequency of system backups will be explored further with the supplier to determine best practice.  The live Synergy SQL database backup has now been restored although further testing is planned to ensure a full recovery of the system is possible.  The Corporate Systems team will develop a full BCP.
К	Schools ICT – server administration and security	Moderate Assurance	Schools ICT (SICT) provides server and network management support to a significant number of schools within North Yorkshire. Each school has its own server hardware underpinning the provision of key business systems and operations.  The schools sign up to a base Technical Support Services contract, which	July 2014	The schools visited were operating up to date Sophos anti-malware, various back-up management software and automatic Windows updates for patch management. There were no issues in respect of the anti-malware and server patching configurations in operation and controls were generally operating effectively. However, a number of control weaknesses were noted, including:  • the physical and environmental controls	Three P2 and two P3 actions were agreed  Responsible Officer: Head of ICT – CYPS  Improved advice and guidance will be provided to schools on recommended:  • physical and environmental controls to protect servers; • secure password controls; • user management particularly the disabling of accounts

System/Area	Audit Areas Reviewe	l Date Issued	Comments	Action Taken
	provides unlimited telephone, remote and on-site assistance support to resolve faurand also technical advice and support to end users. The school are also able to enhand the support received by purchasing additional support levels.  The audit examined the controls in place to prevent unauthorised access to information maintain continuity of service and avoid loss data.	s ce y	adopted by schools may not provide adequate server protection;  • secure password controls had not been enforced by Active Directory group policies;  • formal user management process were not in place to ensure that all access to the school network and data was appropriate;  • internal backup jobs were not checked for completeness on a daily basis and records were not maintained detailing the reasons for any failed backups; and  • automated server monitoring software had not been installed, which could alert SICT of any issues that may impact on server availability.	relating to leavers;

Appendix 2

# **CORPORATE THEMES - FINAL AUDIT REPORTS ISSUED IN THE PERIOD TO 31 AUGUST 2014**

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Information Security compliance audits	Various	Unannounced audit visits are made to offices and establishments across the County Council. The visits are intended to assess the extent to which personal and sensitive data is being held and processed securely. The visits also consider the security of assets, particularly mobile electronic devices and other portable equipment. Seven reports were finalised during the period covering separate areas of County Hall and other buildings.	Various	Following each visit, a detailed report was sent to the Senior Information Risk Owner (SIRO), as well as to relevant directorate managers. Working practices were found to be poor in a number of instances, as follows:  • three visits were classified as Limited Assurance; • two as Moderate Assurance; • one as Substantial Assurance.  A composite report (Limited Assurance) was also issued covering a number of visits to smaller establishments made in 2013. There has been a general improvement over the period with fewer issues detected in the most recent visits.	Various P1, P2 and P3 actions were agreed  Responsible Officer: Corporate Director - Strategic Resources (and others)  Responses have been obtained to each report. Management have viewed the findings extremely seriously and have taken immediate action where issues have been discovered.
В	Corporate Information Governance Group (CIGG), Data Breaches and ICO Investigation	Moderate Assurance	The audit reviewed the effectiveness of the strategic arrangements for information governance, including the operation of the Corporate Information	February 2014	The audit found that the County Council has made good progress in developing its corporate information governance arrangements. However, CIGG needed to adopt a more focused and strategic approach to considering new and	Three P2 actions were agreed  Responsible Officer: Corporate Director - Strategic Resources (and others)

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			Governance Group (CIGG), the reporting and investigation of data security breaches and the response to enquiries by the Information Commissioner's Office (ICO).		emerging information governance risks. The information governance policy framework also needed to be updated and streamlined.  The audit also reviewed the internal response to an ICO investigation in 2013. The roles and responsibilities of key officers needed to be more clearly defined and understood in such circumstances. There was also no central record maintained of information relating to serious data security breaches. In respect of other data security breaches, good progress had been made to establish reporting arrangements. However, some improvements were still required, as follows:  • the information incident investigation procedures needed to be updated; • no monitoring is undertaken to ensure that internal deadlines for completing investigations are met; • it is unclear how or whether the County Council routinely learns the lessons from data breaches.	The Council had already recognised that CIGG could be more effective. A new strategic CIGG group has therefore been established, supported by a virtual group comprising directorate information governance champions. The new strategic CIGG offers clear leadership and focus.  LAGAN is to be used to retain a complete record of data security breaches. A lead officer will also be clearly identified at the outset of any future ICO investigation.  Revised procedures for data security breaches will be established, including arrangements to share knowledge and any lessons learnt.
С	Payroll	Limited Assurance	Employment Support Services (ESS) are responsible for	February 2014	As previously reported to the Committee, a number of significant control weaknesses were found, as	One P1, six P2 and two P3 actions were agreed

System/Area	Audit Areas Reviewed Opinion	Date Issued	Comments	Action Taken
	processing salaries, calculating deductions, processing timesheets and expense claims and ensuring that the service complies with all relevant statutory regulations. ESS provides a payroll service for 45,000 employees and pensioners and incurs employee related expenditure of approximately £26m per annum. They are also responsible for processing the payrolls of 14 external bodies. A major restructure of the service took place in March 2013. The audit was requested by management and involved a review of the procedures and controls within the payroll system to ensure they were working effectively. The audit covered the period when the new operating arrangements were being implemented.		<ul> <li>errors had occurred leading to incorrect amounts being paid to some staff;</li> <li>all of the errors involved an element of manual intervention following an unexpected occurrence. There was not a sufficiently robust system in place to check these calculations before they were processed;</li> <li>exception reports were not being used as effectively as they should;</li> <li>payroll staff did not have access to a central pay element guide. Information is held in a variety of sources which increases the risk that staff do not fully understand the implications of changes;</li> <li>no information is recorded to enable the reasons for pay advances to be effectively monitored;</li> <li>whilst individual and service information is collected and targets set, performance information is not routinely reported to all external customers;</li> <li>errors had occurred with the calculation of VAT on some</li> </ul>	Responsible Officer: Head of Business Support Services  All of the findings included in the report were agreed by management. Manual calculations will now be checked at a 100% level. Variance and deviance reports for net pay will now be produced and checked on a monthly basis.  A central pay element guide/booklet will be compiled which will be distributed to all staff and customers. Detailed processing and customer service information will be distributed internally and to external customers. ResourceLink will be updated, and responsibility to senior member of ESS assigned, to help prevent mileage issues such as those found in the audit.  A reminder will be issued to staff and managers that timesheets signed by the same person will be rejected.  A further audit is due to commence shortly. This will include a review to assess the progress made by management to implement the agreed actions.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					<ul> <li>mileage claims;</li> <li>some timesheets were being processed by ESS when they had been signed and authorised by the same person.</li> </ul>	
D	Post implementation reviews (PIR) / Review of salt barn project (BES)	Substantial Assurance	A post implementation review (PIR) is generally conducted after the completion of a project / work programme. The main purposes of a PIR are to evaluate whether the original objectives were met, determine how effectively the project/programme was run, learn lessons for the future and to capture learning points for further improvements. Completing a PIR is therefore an important learning process. The audit consisted of two parts. The first part considered the extent to which the County Council has defined corporate arrangements in place to undertake post implementation reviews. In conjunction with management, the	May 2014	The audit found that the County Council has structures in place to share good practice, for example, the Corporate Procurement Group meets regularly and discusses the outcomes of major projects. However, there is scope to further improve Council wide learning by introducing proportionate and simple mechanisms.  The issues which occurred with the salt barn project were shared with the Corporate Procurement Group so as to raise awareness and enable lessons to be learnt.	Responsible Officer: Assistant Director – Strategic Resources Head of Procurement and Contract Management Corporate Performance Group.  The Council will work with Internal Audit to gain experience with completing post implementation reviews.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			audit also reviewed one specific project to evaluate the extent to which it had achieved its intended aims and objectives.			
E	Risk Management	Substantial Assurance	The audit examined the Council's arrangements for managing risk. The systems for identifying, evaluating and recording risks were examined. The processes for determining risk appetite, obtaining assurances to support mitigating actions, training and management reporting were also examined.	July 2014	The audit found that the systems and processes for risk management were operating well. A few areas for possible improvement were highlighted, including the need to provide further training for Members.	One P2 and two P3 actions were agreed.  Responsible Officer Corporate Risk and Insurance Manager.  Training requirements for Members will be considered by the Corporate Governance Officer Group.

Appendix 3

# **CONTRACTS - FINAL AUDIT REPORTS ISSUED IN THE PERIOD TO 31 AUGUST 2014**

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A Review of the Northallerton College Enhanced Engineering Unit - capital contract	Substantial Assurance	The contract for the building work was awarded to Interserve. The work was completed in December 2011 and the value of the contract was £205k (excluding the cost of furniture and fittings). The audit reviewed the procedures followed to ensure compliance with the Procurement Manual and Contract Procedure Rules.	October 2013	The correct procedures had generally been followed. Management were advised to address the following issues when undertaking similar schemes in the future:  • there is a need to follow the published tender requirements throughout the process; • less reliance should be placed on Jacobs to provide an evidential trail; • furniture and fittings costs should be recorded on budget reports and the final account examination form; and • care should be taken to ensure that the original signed contract documentation is submitted to the County Record Office in Malpas Road for safekeeping.	Two P2 and two P3 actions were agreed  Responsible officer: Assistant Director – Strategic Resources and Property (CYPS)  The issues highlighted in the report will be addressed through the next review of the Property Procedure Rules and new regular liaison meetings between Property Services and Jacobs which will be in place by February 2014.
B Review of King James School capital contract – refurbishment of science laboratory and other associated works.	Substantial Assurance	The scheme formed part of the 2012/13 Capital Programme. A feasibility study was undertaken by Jacobs but the anticipated	April 2014	The audit found that appropriate contract management arrangements had been in place to deliver the scheme. Payments had also been checked and made in line with contractual requirements.	Two P2 and one P3 actions were agreed  Responsible officers: Assistant Director – Strategic Resources and Property (CYPS)

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			scheme costs initially exceed the approved budget of £670k. Further changes were then made to the proposed scheme layout to enable the work to begin. The audit reviewed the procedures followed to ensure compliance with the Procurement Manual and Contract Procedure Rules.		Management were advised to address the following issues when undertaking similar schemes in the future:  • information on YORtender should be complete and the relevant file should not be archived until the work is completed;  • further measures should be considered to ensure that subcontractors meet the same quality standards expected of the main contractor;  • evaluation models involving framework contracts should continue to be sent to Internal Audit.	The issues identified in the audit will be discussed with Jacobs and NYPS and procedures amended accordingly.
С	Revenue contract - Action for Children (May Lodge Scarborough)	Moderate Assurance	The contract with Action for Children (AfC) is to provide a flexible residential short breaks service for disabled children and young people in Scarborough In September 2013, the County Council extended the contract until March 2015. However this extension was only on the basis that AfC implement a number of service	August 2014	The contract had been subject to a Performance Improvement plan, designed to address various concerns initially raised in 2012. The audit noted that:  • the current contract ends in March 2015. There are many complex decisions which need to be made to ensure the forthcoming procurement exercise maximises the outcomes for the County Council and service users  • any future contract should have	Three P2 and two P3 actions were agreed  Responsible officers: Assistant Director – Strategic Resources, Finance and Management Support (HAS)  Officers will seek legal and procurement advice prior to commencing the forthcoming procurement exercise. Any future agreements will also include appropriate contract and performance management

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
		improvements, supported by a detailed action plan. In 2012/13, expenditure on this block contract was £640k of which £400k was contributed by the Clinical Commissioning Group's (CCGs) (NHS). The audit reviewed the arrangements in place to monitor the delivery of the service and to ensure payments are correct.		robust monitoring arrangements included and a method of payment linked to obtaining best value;  monitoring of the current contract needs to ensure that Action for Children always have sufficient staff on duty to maintain appropriate levels of care.	arrangements.

#### **AUDIT OPINIONS AND PRIORITIES FOR ACTIONS**

# **Audit Opinions**

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities	Priorities for Actions					
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.					
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.					
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.					

AUDIT COMMITTEE - PROGRAMME OF WORK 2014 / 15

ANNUAL WORKPLAN	JUNE	JULY	SEPT	DEC	MAR	APRIL
	4	14	4	14	15	15
Audit Committee Agenda Items						
Training for Members (as necessary)	2		3	4	2	9
Annual Internal Audit Plan 2014/15					×	×
Annual report of Head of Internal Audit 2013/14	×					
Progress Report on Annual Internal Audit Plan 2013/14	×			×	×	×
Internal Audit report on Children and YP's Service	×					
Internal Audit report on Computer Audit/Corporate Themes/Contracts			×			
Internal Audit report on Health and Adult Services			×			
Internal Audit report on BES				×		
Internal Audit report on Central Services					×	
Annual Audit Letter	×					
Annual Audit Plan 2013/14 (NYCC & NYPF)		×				
Annual Report / Letter of the External Auditor			×			
Annual Grant Letter					×	
Discussion with External Auditor on 1-to-1 basis					0	
Statement of Final Accounts including AGS (NYCC + NYPF)		×	×			
Letter of Representation			×			
Chairman's Annual Report			×			
Effectiveness of Audit Committee	×					
Changes in Accounting Policies						
Corporate Governance – review of Local Code + AGS	×					
<ul> <li>progress report inc re AGS</li> </ul>	×					
Risk Management (inc Corporate R/R) - progress report	×					
Partnership Governance – progress report		×				
Information Governance – progress report						
Review of Finance,/Contract/Property Procedure Rules		×				
Service Continuity Planning	×					
Audit Committee Terms of Reference				×		
Counter Fraud					×	
Treasury Management – Executive February					×	
<ul> <li>Revised TMPs</li> </ul>					×	
VFM Review		×				×
Work Programme	×	×	×	×	×	×
Progress on issues raised by the Committee (inc Treasury Management)	×	×	×	×	×	×
Agenda planning / briefing meeting	11/06	03/02	10/09	19/11		
Audit Committee Agenda/Reports deadline	16/06	07/07	15/09	24/11	19/02	31/03
Audit Committee Meeting Dates	26/06	17/07	25/09	04/12	05/03	16/04

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Internal Audit External Audit Statement of Final Accounts / Governance Other Dates