

Agenda

Meeting: Audit Committee

**Venue: Brierley Room, County Hall,
Northallerton**

**Date: Thursday 29 September 2016 at
1.30pm**

Note: Members are invited to attend a seminar concerning the proposed pooling of the Local Government Pension Scheme at 1.00 pm in the Brierley Room.

Recording is allowed at County Council, committee and sub-committee meetings which are open to the public. Please give due regard to the Council's protocol on audio/visual recording and photography at public meetings, a copy of which is available to download below. Anyone wishing to record is asked to contact, prior to the start of the meeting, the Officer whose details are at the foot of the first page of the Agenda. We ask that any recording is clearly visible to anyone at the meeting and that it is non-disruptive. <http://democracy.northyorks.gov.uk>

Business

1. Minutes of the meeting held on:-

- (a) 23 June 2016**
- (b) 14 July 2016**

(Pages 5 to 12)
(Pages 13 to 18)

2. Any Declarations of Interest

3. Public Questions or Statements

Members of the public may ask questions or make statements at this meeting if they have given notice (including the text of the question/statement) to Ruth Gladstone of Democratic Services (*contact details at the foot of page 1 of the Agenda*) by midday on Monday 26 September 2016. 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.

4. 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 19 to 22)

5. External Audit Report 2015/16 – North Yorkshire County Council and North Yorkshire Pension Fund

(Pages 23 to 54)

6. North Yorkshire Pension Fund Annual Report 2015/16 – Report of the Corporate Director – Strategic Resources and Treasurer to the Pension Fund.

(Pages 55 to 163)

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

(Pages 164 to 166)

8. Statement of Final Accounts for 2015/16 including Letter of Representation - Report of the Corporate Director – Strategic Resources.

(Pages 167 to 179)

(Statement of Final Accounts booklet collated separately)

9. Annual Report of the Audit Committee - Report of the Chairman of the Audit Committee.

(Pages 180 to 188)

10. Health and Adult Services Directorate:-

(a) Internal Audit Work - Report of the Head of Internal Audit.

(Pages 189 to 199)

(b) Internal Control Matters - Report of the Corporate Director – Health and Adult Services.

(Pages 200 to 226)

11. **Internal Audit Report on Information Technology, Corporate Themes and Contracts** - Report of the Head of Internal Audit.
(Pages 227 to 245)
12. **Progress on 2016/17 Internal Audit Plan** - Report of the Head of Internal Audit.
(Pages 246 to 250)
13. **Programme of Work** – Report of the Corporate Director – Strategic Resources.
(Page 251)
14. **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)

County Hall
Northallerton

21 September 2016

Notes:

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. 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

County Councillors (8)							
	<i>Councillors Names</i>				<i>Political Party</i>		
1	ATKINSON, Margaret (<i>Vice-Chairman</i>)				Conservative		
2	BAKER, Robert				Conservative		
3	BLACKIE, John				NY Independent		
4	BROADBENT, Eric				Labour		
5	CLARK, Jim				Conservative		
6	FORT, John BEM				Conservative		
7	GRANT, Helen				NY Independent		
8	JORDAN, Mike (<i>Chairman</i>)				Conservative		
Members other than County Councillors (3)							
1	PORTLOCK, David						
2	MARSH, David						
3	Vacancy						
Total Membership – (11)				Quorum – (3) County Councillors			
Con	Lib Dem	NY Ind	Labour	Liberal	UKIP	Ind	Total
5	0	2	1	0	0	0	

2. Substitute Members

Conservative		Liberal Democrat	
	<i>Councillors Names</i>		<i>Councillors Names</i>
1	HARRISON-TOPHAM, Roger	1	De COURCEY-BAYLEY, Margaret-Ann
2	SANDERSON, Janet	2	
3	METCALFE, Chris	3	
4		4	
5		5	
NY Independent		Labour	
	<i>Councillors Names</i>		<i>Councillors Names</i>
1	JEFFERSON, Janet	1	SHAW-WRIGHT, Steve
2		2	
3		3	
4		4	
5		5	

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 23 June 2016 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillors Margaret Atkinson, Robert Baker, Eric Broadbent, Jim Clark, Helen Grant and Mike Jordan.

External Members of the Committee:-

Mr David Marsh and Mr David Portlock.

In Attendance:-

County Councillor Carl Les (Leader of the Council).

County Councillor Janet Sanderson (Executive Member for Children and Young People's Services with responsibility for foster and adoption, children's social care and prevention).

KPMG Officer: Alastair Newall.

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

County Council Officers: Kevin Draisey (Head of Procurement and Contract Management), Pete Dwyer (Corporate Director of Children and Young People's Services), Gary Fielding (Corporate Director – Strategic Resources), Ruth Gladstone (Principal Democratic Services Officer), Anton Hodge (Assistant Director - Strategic Resources, Children and Young People's Services), Karen Iveson (Assistant Director - Strategic Resources), Tom Knox (Emergency Planning Manager) and Fiona Sowerby (Corporate Risk and Insurance Manager).

Apologies for Absence:

Apologies for absence were received from County Councillors John Blackie and John Fort BEM.

Copies of all documents considered are in the Minute Book

174. Election of Chairman

Resolved -

That County Councillor Mike Jordan be elected as Chairman, to serve until the first meeting of the Committee following the Annual Meeting of the County Council in 2017.

County Councillor Mike Jordan in the Chair

175. Minutes

Resolved –

That the Minutes of the meeting held on 3 March 2016, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

176. Election of Vice-Chairman

Resolved -

That County Councillor Margaret Atkinson be elected as Vice-Chairman, to serve until the first meeting of the Committee following the Annual Meeting of the County Council in 2017.

177. Any Declarations of Interest

No declarations of interest were made at this stage of the meeting.

178. Public Questions or Statements

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

179. Progress on Issues Raised by the Committee

Considered -

The joint report of the Corporate Director - Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services) which advised of progress on issues which the Committee had raised at previous meetings.

The Corporate Director – Strategic Resources reported orally that discussions concerning the timing of the next governance review of the Health and Wellbeing Board and Integrated Commissioning Board was “work in progress” and the situation was very fluid and represented some very significant challenges, many of which County Councillor Jim Clark was aware of in the capacity of Chairman of the Scrutiny of Health Committee. The Corporate Director – Strategic Resources explained that there were now three sustainability transformation plan footprints affecting North Yorkshire and, as such, footprint planning was taking place with West Yorkshire, with South Tees, and with the Humber, Coast and Vale of York. It was proving to be very difficult for North Yorkshire to interact because all three were doing things very differently. Simultaneously the County Council maintained an obligation to produce integration plans with health partners by June 2017. Alongside that, there was a single Health and Wellbeing Board for North Yorkshire; the County Council had a Better Care Fund which it shared with the five CCGs on a North Yorkshire footprint; and the County Council also had a number of internal plans, such as Vanguard in Harrogate, working jointly with health partners. Consequently the situation was complicated and was all based on good working with little definitive guidance being available concerning responsibilities. The Corporate Director – Strategic Resources suggested that any fundamental health governance/decision-making review undertaken now would quickly become out-of-date. Members concurred that, in the circumstances, the timing of the next governance review of the Health and Wellbeing Board and Integrated Commissioning Board should remain as an item in the “Progress on Issues Raised by the Committee” report to the Committee’s future meetings.

With regard to the Committee's previous request for a briefing on Procurement and VfM, the Corporate Director – Strategic Resources suggested that this should be regarded as completed following today's meeting because Procurement and VfM were the subject of a report on today's Agenda. Members expressed support for that suggestion.

A Member commented that it seemed like a long time since he had last received a copy of the quarterly Treasury Management report to the Executive. The Corporate Director – Strategic Resources undertook to supply copies of the most recent report.

In response to Members' questions, the Corporate Director – Strategic Resources advised of the following:-

- 293 employees appeared to have not completed the Information Governance mandatory online learning course by the 31 March 2016 deadline. However, of those 293 employees, some had been on sickness or maternity leave. Those who should have, but had not, completed the course by 31 March 2016 would not receive a pay increment or their managers would not receive a pay increment. Further detail would be reported to a future meeting.
- Advice had been provided to County Councillors to assist them in submitting online expense claims using MyView. Such advice had been provided at a Members' Seminar and by sending out guidance.

Resolved -

- (a) That the report be noted.
- (b) That the timing of the next governance review of the Health and Wellbeing Board and Integrated Commissioning Board remain as an item in the "Progress on Issues Raised by the Committee" report to the Committee's future meetings.
- (c) That the Committee's previous request for a briefing on Procurement and VfM be regarded as being now completed.
- (d) That the Corporate Director – Strategic Resources supply Committee Members with a copy of the most recent quarterly Treasury Management to the Executive.
- (e) That the precise number of employees who should have, but had not, completed the Information Governance mandatory online learning course by the 31 March 2016 deadline be reported to a future meeting, together with information concerning the action which had been taken as a consequence of non-completion.

180. Annual Report of the Head of Internal Audit 2015/16

Considered -

The annual report of the Head of Internal Audit which advised of:-

- Internal audit work performed during the year ended 31 March 2016 and the opinion of the Head of Internal Audit in respect of the overall framework of governance, risk management and control in place within the County Council.
- Breaches of Finance, Contract and Property Procedure Rules identified during 2015/16 audit work.

- Internal Audit performance outturn for 2015/16 and Veritau's 2016/17 performance targets.
- The conclusions arising from the Quality Assurance and Improvement Programme.
- Changes to the County Council's Audit Charter.

Max Thomas (Head of Internal Audit) introduced the report and responded to Members' questions.

Resolved -

- (a) That the overall "Substantial Assurance" opinion of the Head of Internal Audit regarding the overall framework of governance, risk management and control operating within the County Council be noted.
- (b) That the outcome of the quality assurance and improvement programme and the confirmation that the internal audit service conforms with the Public Sector Internal Audit Standards be noted.
- (c) That the breaches of Contract and Finance Procedure Rules, and the actions taken to address these matters, be noted.
- (d) That Veritau's performance outturn for 2015/16, and the performance targets for Veritau for 2016/17, be noted.
- (e) That the proposed changes to the Internal Audit Charter, as set out at Appendix 1 to the report, be approved.

181. Interim Audit Work/Internal Controls for the Children and Young People's Services Directorate

Note: During consideration of this item of business, Mr David Portlock declared an interest as the Chair of Governors at a Primary School.

Considered -

- (a) The report of the Head of Internal Audit which advised of the internal audit work performed during the year ended 31 May 2016 for the Children and Young People's Services Directorate and that the opinion of the Head of Internal Audit was "Substantial Assurance" with regard to the systems of internal control in respect of that area.
- (b) The report of the Corporate Director - Children and Young People's Service which advised of the position regarding the Children and Young People's Service Directorate's Statement of Assurance and the Directorate's new Risk Register.

Members questioned County Councillor Janet Sanderson, Pete Dwyer and Anton Hodge concerning the issues in the reports. With regard to the Children's Direct Payments system, the reasons why the staff training of June 2015 had not been fully effective were explained. It was also reported that the P2 and P3 actions concerning that system had either been actioned or were being dealt with.

Resolved -

- (a) That the reports be noted.
- (b) That it be noted that this Committee is satisfied that the internal control environment operating in the Children and Young People's Services Directorate is both adequate and effective.

182. Internal Audit Plan for 2016/17

Considered

The report of the Head of Internal Audit which sought approval for the planned programme of internal audit work to be undertaken in 2016/17.

The draft Plan had been considered at the Committee's previous meeting. The version submitted to today's meeting was the final version which took account of comments which had been received. The Plan needed to remain flexible to take account of changes in the County Council's priorities and risk profile. Regular progress reports would be presented to the Committee to enable delivery of the plan to be monitored.

Max Thomas (Head of Internal Audit) introduced the report and responded to Members' questions. He also undertook to research a Court case, to which a Member referred, concerning bus subsidy in Cambridgeshire.

Resolved -

That the Internal Audit Plan for 2016/17, as set out at Appendix 1 to the report, be approved.

183. Maintaining an Effective Control Framework

Considered -

The report of KPMG which summarised the key findings arising from their interim audit work at North Yorkshire County Council in relation to the Council's 2015/16 financial statements; their interim audit work with North Yorkshire Pension Fund in relation to the Pension Fund's 2015/16 financial statements; and work to support their 2015/16 VfM conclusion to the Council up to April 2016.

Alastair Newall (KPMG), in introducing the report, highlighted that KPMG had received all the assurances they were seeking at this time from the County Council. KPMG had raised two recommendations arising from their work. The County Council had accepted one recommendation which related to bank reconciliations and had agreed to take the necessary action with immediate effect. The second recommendation related to the creation and posting of journals to the general ledger. However, the County Council was satisfied that a compensating control mitigated the risks and KPMG accepted that position. In relation to the Pension Fund, KPMG had received the information they were seeking and were happy that the further information they would require would be available to enable them to carry out their work.

The Chairman advised that he was pleased to hear, from KPMG, that County Council officers were bringing issues to KPMG's attention.

Karen Iveson (Assistant Director - Strategic Resources) confirmed that County Council officers had discussed the content of the report with KPMG and management

accepted the issues raised by KPMG and their responses were as set out in the report.

Officers responded to Mr David Portlock's questions about journal entries and sought to provide an assurance that the County Council had controls in place. Mr David Portlock advised that he continued to have reservations.

Resolved -

That the report be noted.

184. Corporate Governance

Considered -

The report of the Corporate Director - Strategic Resources concerning consideration of the Annual Governance Statement for 2015/16 and an updated version of the Local Code of Corporate Governance.

Members were advised that today's meeting provided opportunity for the Committee to review the draft Annual Governance Statement and, at its 14 July 2016 meeting, the Committee would consider the draft Statement of Final Accounts including refinements to the Annual Governance Statement. The aim of these arrangements was to ensure all Members of the Committee would become comfortable with formally approving the Statement of Final Accounts including the Annual Governance Statement at the Committee's meeting on 29 September 2016, thereby ensuring compliance with the County Council's statutory obligations. It was proposed that a sub-group should be created to provide a dedicated resource to review the Annual Governance Statement and provide feedback to the Audit Committee on 29 September 2016. Nominations were invited for appointment to the sub-group. The Chairman, County Councillor Helen Grant Mr David Portlock were proposed for appointment.

Members highlighted the following general issues:-

- The draft Statements of Assurance lacked timescales and Members felt that officers should provide an indication of the date by which action was likely to be taken.
- Some of the Statements of Assurance were almost identical to the previous year's Statements. Members queried whether management were approaching this work correctly.

Resolved -

- (a) That the updated Local Code of Corporate Governance, as set out at Appendix A to the report, be recommended for collective approval by the Chief Executive, the Leader of the Council, the Executive Member for Central Services, the Corporate Director - Strategic Resources, and the Assistant Chief Executive (Legal and Democratic Services).
- (b) That the Annual Governance Statement 2015/16, as set out at Appendix B to the report, together with the intention of formally approving a later version at the meeting on 29 September 2016, be noted.
- (c) That the Committee's Chairman, County Councillor Helen Grant and Mr David Portlock be appointed to serve on the Governance Sub-Group so that a feedback report can be made to Committee on 29 September 2016.

- (d) That the Statements of Assurance, as set out at Appendix C to the report, together with the improvements that have been, and will be, made in Corporate Governance, as set out at Appendix D to the report, be noted.

185. Risk Management - Progress

Considered -

The report of the Corporate Director - Strategic Resources which provided information concerning a six monthly update of the Corporate Risk Register; identified the significant changes which had been made to the Register; advised of additional risk prioritisation exercises organised; and provided a summary of the outcome of an analysis by KPMG into corporate/strategic risk registers from a range of local authorities.

Fiona Sowerby (Corporate Risk and Insurance Manager) introduced the report and responded to Members' questions.

Resolved -

- (a) That the updated Corporate Risk Register, as set out at Appendix A to the report, be noted.
- (b) That the position on other Risk Management related issues be noted.

186. Business Continuity Plan - Update

Considered -

The report of the Emergency Planning Manager which set out an overview of the current Business Continuity arrangements for North Yorkshire County Council with a view to providing a continued high assurance concerning the management of risk within Directorates and Service areas.

The Corporate Director – Strategic Resources advised that the Business Continuity Plan had not yet been considered by Management Board, as stated in paragraph 4.1 of the report, and apologised to the Committee for this error.

Tom Knox (Emergency Planning Manager) introduced the report and responded to Members' questions. He also provided copies of the Corporate Business Continuity Plan to Members and advised that he would arrange for Ruth Gladstone (Democratic Services) to provide Committee Members with the link to the County Council's Business Continuity Sharepoint site.

During discussion, it was highlighted that, during May 2016, the County Council had faced unprecedented protests against fracking proposals in North Yorkshire. The planning for the protests identified the need for activation of Directorate and Corporate Business Continuity Plans across the organisation. The County Council had the challenge of maintaining "business as usual" and full provision of services across the organisation without the use of the majority of the County Hall site. Throughout the period of protest, the County Council had demonstrated its ability to work around identified problems, using well and pre-defined flexible Business Continuity Plans, to produce a robust and effective response to disruption, with large numbers of staff working remotely to great effect.

Arising from discussion about the risks associated with railway lines, chemical works etc, it was noted that the County Council was not responsible for identifying risks for which other public and private organisations were responsible.

Resolved -

- (a) That the review of Business Continuity, planning and resilience arrangements within North Yorkshire County Council be noted.
- (b) That Members' comments be fed into Management Board as part of the validation of the Corporate Business Continuity Plan.
- (c) That the link to the County Council's Business Continuity Sharepoint site be provided to Committee Members.

187. Corporate Procurement Strategy

Considered -

The report of the Corporate Director - Strategic Resources which provided an update on progress in delivering the Corporate Procurement Strategy, including the Strategy Action Plan, and advised of recent and planned activities.

Kevin Draisey (Head of Procurement and Contract Management) introduced the report and responded to Members' questions. He undertook to research a query about whether the County Council now had more suppliers as a consequence of the simplification of the rules.

Resolved -

- (a) That the progress on delivering the Procurement Strategy be noted.
- (b) That the Head of Procurement and Contract Management research whether the County Council now has more suppliers as a consequence of the simplification of the rules.

188. Programme of Work 2015/16

Considered -

The report of the Corporate Director - Strategic Resources which invited the Committee to review its programme of work for 2015/16.

The Corporate Director – Strategic Resources reported that he would make arrangements for private discussions to be held between Committee Members and Internal Audit and between Committee Members and External Audit. He also advised that he would liaise with KPMG to ensure that all External Audit reports for future meetings were included in the programme of work.

Resolved -

That the programme of work be approved.

The meeting concluded at 4.15pm.

RAG/JR

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 14 July 2016 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillor Mike Jordan (in the Chair), County Councillors Margaret Atkinson, Eric Broadbent, Jim Clark and John Fort BEM.

External Members of the Committee:-

Mr David Marsh and Mr David Portlock.

In Attendance:-

KPMG Officer: Rashpal Khangura.

County Council Officers: Gary Fielding (Corporate Director – Strategic Resources), Ruth Gladstone (Principal Democratic Services Officer), Neil Irving (Assistant Director (Policy and Partnerships)), Tom Morrison (Head of Commercial and Investments) and John Raine (Head of Technical Finance).

Apologies for Absence:-

Apologies for absence were received from County Councillors Robert Baker, John Blackie and Helen Grant.

Copies of all documents considered are in the Minute Book

189. Any Declarations of Interest

Rashpal Khangura of KPMG (External Audit) advised that he intended to leave the meeting before the Committee considered the item of business “Changes to Arrangements for Appointment of External Auditors”.

190. Public Questions or Statements

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

191. Statement of Final Accounts 2015/16 - 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 2015/16 in advance of the accounts being audited by KPMG and being re-submitted to the Audit Committee for formal approval on 29 September 2016.

It was reported orally that North Yorkshire Pension Fund Committee had approved, as a draft, the Fund's draft Statement of Final Accounts which was now before the Audit Committee.

Tom Morrison (Head of Commercial and Investments) introduced the report. The Corporate Director – Strategic Resources and the Head of Commercial Investments, in response to Members' questions, provided additional information, including the following:-

- Formal proposals arising from the 2016 triennial funding valuation would be considered by North Yorkshire Pension Fund Committee during February 2017 and the outcome would be included in the Fund's 2016/17 accounts.
- All relevant information, including the impact of the Living Wage, would be taken into account during the triennial funding valuation. Such information was included in data submissions which officers sent to the Fund's Actuary.
- The Fund's overall return on investments had been marginally above 0% for 2015/16 due to market conditions. It was highlighted that, over the previous six years, North Yorkshire Pension Fund had been in the top 5 in terms of Pension Fund performance.
- There had been hardly any change, over the year, in the market value of Additional Voluntary Contributions. This was accidental but not surprising on the basis that the Fund's assets had also hardly changed.
- The reason why there was a significant rise in investment plans at a time when interest rates were so low (*note 24 to the Pension Fund Accounts*) was substantially due to an arrangement between the Pension Fund and the County Council and related to an administrative issue arising from the introduction of the Oracle financial system. Tom Morrison (Head of Commercial and Investments) confirmed that he was satisfied that no breaches in reporting had occurred.

Resolved –

- (a) That the draft Statement of Final Accounts of the North Yorkshire Pension Fund for 2015/16 be noted.
- (b) That Members contact officers (*email addresses to be supplied*) with further questions and queries with a view to satisfactorily resolving all issues in advance of the Audit Committee's meeting on 29 September 2016.

192. Statement of Final Accounts 2015/16 - North Yorkshire County Council

Considered -

The report of the Corporate Director – Strategic Resources inviting the Committee to consider the draft Statement of Final Accounts of North Yorkshire County Council for the financial year 2015/16 in advance of the accounts being audited by KPMG and being re-submitted to the Audit Committee for formal approval on 29 September 2016. The draft Statement of Final Accounts included the draft Annual Governance Statement which, at this stage, remained incomplete pending further work by the Governance sub-group established by the Committee on 23 June 2016.

Gary Fielding (Corporate Director – Strategic Resources) highlighted that the draft Statement of Final Accounts contained many accounting entries which were non-cash eg Capital Accounting. He also highlighted that the County Council's in-year

accounting and budgeting arrangements were designed to fit its organisational structure and were different to both the statutory year end and the requirements relating to Statements of Final Accounts. Therefore the management accounts as reported to the Executive on 14 June 2016 had been re-worked to fit the formal requirements. The main differences between the County Council's management accounts and the published statutory accounts was set out at Appendix B to the report. It was emphasised, however, that the resulting changes did not affect the overall net expenditure to be funded from Central Government Grant, Business Rates and Council Tax or the levels of working balances.

John Raine (Head of Technical Finance) introduced the report. The Corporate Director – Strategic Resources and the Head of Technical Finance, in response to Members' questions, provided additional information, including the following:-

- The County Council's management accounts, including the reasons for any variances, were considered by the Executive on a quarterly basis. The Corporate Director – Strategic Resources was responsible for signing off the accounts. External Audit had responsibility for stating whether the accounts were a true and fair record, for undertaking a range of tests and looking at the County Council's processes. Therefore Members could be assured that review of the accounts was in place.
- The County Council was not permitted to set a deficient budget, although it was permitted to set a deficit budget based on Reserves.
- The County Council, over the previous few years, had simplified its approach to maintaining a minimum level of working balances, including the eradication of small Reserves. This aimed to ease understanding of the accounts.
- If a school, in respect of which there was a PFI agreement in place, changed to become an Academy, the cost of the PFI agreement remained with the County Council.

The Chairman commended the officers' work to date in respect of the draft Statement of Final Accounts.

Resolved -

- (a) That the draft Statement of Final Accounts for 2015/16 be noted in advance of the accounts being audited and re-submitted to the Audit Committee on 29 September 2015 for formal approval.
- (b) That Members contact officers (*email addresses and timescale to be supplied*) with further questions and queries with a view to satisfactorily resolving all issues in advance of the Audit Committee's meeting on 29 September 2016

193. Annual Report on Partnership Governance 2015/16

Considered -

The annual report of the Assistant Director (Policy and Partnerships) concerning the governance of partnerships involving the County Council for the financial year 2015/16.

Neil Irving (Assistant Director (Policy and Partnerships)), in introducing the report, outlined the range of criteria and risk ratings against which each partnership was judged. It was reported that no partnership had a high risk rating, and that 17 of the

approximately 60 partnerships had a medium risk rating. Neil Irving highlighted that the governance arrangements of all partnerships with a medium or high risk rating overall were reviewed by officers from Legal and Democratic Services to ensure that robust arrangements were in place to protect the interests of the partnership and, in particular, of the County Council. No concerns regarding governance arrangements had been identified. Neil Irving also referred to work undertaken by Veritau concerning the York, North Yorkshire and East Riding Local Enterprise Partnership, including governance arrangements, the outcome of which was to provide a substantial assurance audit opinion.

In response to Members' questions, Neil Irving advised of the following:-

- The County Council's reputational risk arising from its involvement in partnerships was considered by County Council officers. Although there had been no governance problems, some issues had been identified and further work needed to be done. None of the partnership concerns identified in the report were about reputational risk and were instead about whether finances were in place to carry out the partnership's work, or whether there were so many partners involved that it was difficult for the partnership to make a decision.
- It was confirmed that outside organisations to which the County Council appointed County Councillors were not included in the report because they were organisations in their own right rather than partnerships. Instead, outside organisations were listed in the County Council's Constitution. If an elected Member had any issues about the governance of an outside organisation, they would report those issues to officers who would then carry out an investigation.
- The Directors of a Company, which might include a County Councillor, were responsible for ensuring that that Company complied with company law requirements. Advice was provided to Members about their responsibilities either as a Director or Trustee of an outside organisation. Neil Irving undertook to inform Committee Members of the frequency with which that advice was reviewed.
- Concerns about a partnership could be escalated under normal reporting arrangements and, if necessary, to the County Council's Monitoring Officer or Veritau.

Resolved -

- (a) That the Annual Report on Partnership Governance be received.
- (b) That the arrangements in place to ensure good governance and reporting of partnership activity be noted.
- (c) That the contents of the schedule of partnerships that are within the scope of the report as at 31 March 2016, as set out at Appendix 1 to the report, be noted.
- (d) That Neil Irving (Assistant Director (Policy and Partnerships)) advise Members of the frequency of review of the advice which is provided to County Councillors about their responsibilities either as Directors or Trustees of an outside organisation.

194. Programme of Work

Considered -

The Committee's programme of work for 2016/17.

Members commented on the large quantity of business currently scheduled for the Committee's meeting on 29 September 2016. The Corporate Director - Strategic Resources undertook to review the situation and make adjustments if necessary.

It was highlighted that, prior to the Committee's meeting on 1 December 2016, Committee Members and the Head of Internal Audit would have a private discussion between 12.30pm and 1.00pm and that, between 1.00pm and 1.30pm, Committee Members would have a private discussion with External Audit.

It was noted that currently the Committee had no Seminars scheduled for immediately prior to its meetings in March and June 2017. It was highlighted that the Committee's meeting in June 2017 would be the first following the County Council elections in May 2017.

Resolved -

That, subject to any changes made by the Corporate Director – Strategic Resources, the programme of work be approved.

195. Changes to Arrangements for Appointment of External Auditors

Note: Prior to consideration of this item of business:-

- Rashpal Khangura of KPMG (External Audit) left the meeting.
- County Councillor Mike Jordan advised that he was Chairman of Selby District Council's Audit Committee which had already considered Selby District Council's arrangements for the appointment of that Council's External Auditor. Therefore he intended to abstain from voting on this item of business at today's meeting.

Considered -

The report of the Corporate Director - Strategic Resources inviting the Committee to agree a recommendation for consideration and decision by the full County Council concerning the arrangements for the appointment of the County Council's External Auditor.

The report set out the following information:-

- A summary of the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.
- That the County Council needed to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.
- Three options were available, namely:- (i) to make a stand-alone appointment; (ii) a joint appointment with other authorities; and (iii) an appointment via a sector led body established by the Local Government

Association for this purpose. The advantages/benefits and disadvantages/risks of each option were set out in the report.

- The recommendation of the Corporate Director – Strategic Resources, namely, to opt-in to the appointment via a sector led body.

Committee Members expressed clear support for the option to opt-in to the appointment via a sector led body. They gave the following reasons for supporting that option:-

- Firms would be able to offer better rates and lower fees for large contract values.
- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- The LGA had knowledge and experience acquired through the setting up of the transitional arrangements.
- Using a sector led body would improve transparency.

Resolved -

That it be a recommendation to the County Council – That, subject to confirmation of the proposals by the Local Government Association, North Yorkshire County Council opt-in to a sector-led body for the appointment of external auditors when the current transitional arrangements expire.

The meeting concluded at 2.30pm.

RAG/JR

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

29 September 2016

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?
23/09/15	146 – Internal Audit Work and related Internal Control Matters for the Health and Adult Services Directorate.	That the Corporate Director – Strategic Directors discuss the timing of the next governance review of the Health and Wellbeing Board and Integrated Commissioning Board with the Assistant Director – Strategic Resources and the Head of Internal Audit.	Awaiting latest set of guidelines for Better Care Fund and on-going discussions with Health. Optimum timing will then be determined. A verbal update was provided to the Committee at the last meeting. This issue is such that it is unlikely that a single action will address. It is suggested that verbal updates continue to be provided and the focus on HAS for the September meeting provides opportunity to explore further.	X

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
23/06/16	179 – Progress on Issues Raised by the Committee	That the Corporate Director – Strategic Resources supply Committee Members with a copy of the most recent quarterly Treasury Management to the Executive	The report was circulated to Committee Members on 15 September 2016	✓
	179 – Progress on Issues Raised by the Committee	That the precise number of employees who should have, but had not, completed the Information Governance mandatory online learning course by the 31 March 2016 deadline be reported to a future meeting, together with information concerning the action which had been taken as a consequence of non-completion.	Verbal update to be provided	?
	187 – Corporate Governance	That the Committee’s Chairman, County Councillor Helen Grant and Mr David Portlock be appointed to serve on the Governance Sub-Group so that a feedback report can be made to Committee on 29 September	See report from sub-group on agenda	✓
	186 – Business Continuity Plan - update	That Members’ comments be fed into Management Board as part of the validation of the Corporate Business Continuity Plan	Business Continuity not been on Management Board agenda subsequently as yet	x
	186 – Business Continuity Plan - update	That the link to the County Council’s Business Continuity Sharepoint site be provided to Committee Members	For technical and security reasons, access to the County Council’s Sharepoint site is restricted to County Councillors and NYCC staff only.	✓
	187 - Corporate Procurement Strategy	That the Head of Procurement and Contract Management research whether the County Council now has more suppliers as a consequence of the simplification of the rules.	Kevin Draisey to provide response at the appropriate time	x

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
14/07/16	191 – Statement of Final Accounts 2015/16 – North Yorkshire Pension Fund	That Members contact officers (email addresses to be supplied) with further questions and queries with a view to satisfactorily resolving all issues in advance of the Audit Committee’s meeting on 29 September 2016.	SOFA presented to Audit Committee on 29 September	✓
	192 – Statement of Final Accounts 2015/16 - NYCC	That Members contact officers (email addresses to be supplied) with further questions and queries with a view to satisfactorily resolving all issues in advance of the Audit Committee’s meeting on 29 September 2016.	SOFA presented to Audit Committee on 29 September	✓
	193 – Annual Report on Partnership Governance 2015/16	That Neil Irving (Assistant Director, Policy and Partnerships) advise Members of the frequency of review of the advice which is provided to County Councillors about their responsibilities either as Directors or Trustees of an outside organisation.	Reviewed periodically as required as part of Constitution reviews. Last amended 2012. Monitoring Officer will review as part of the next Constitution Review (about to commence) and will also include this area in next governance training session for Members (date not yet set).	✓

3.0 TREASURY MANAGEMENT

- 3.1 Following the outcome of the EU referendum, the Bank of England cut Bank Rate from 0.50% to 0.25% on 4 August 2016.
- 3.2 As a result, Capita Asset Services – Treasury Management provided an updated interest rate forecast on 16 August 2016. The forecast anticipates a further rate reduction to near zero in November, potentially to 0.10%. However, the Governor of the Bank of England, Mark Carney, has dismissed the potential for a negative interest rate. Going forward subsequent increases in Bank Rate are forecast in May 2018 to 0.25% and to 0.50% in May 2019

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

29 September 2016

Background Documents: Report to, and Minutes of, Audit Committee meetings held on 23 June 2016 and 14 July 2016



External Audit Report 2015/16

**North Yorkshire County Council
North Yorkshire Pension Fund**

—
September 2016



Contents

The contacts at KPMG in connection with this report are:

Rashpal Khangura

Director

KPMG LLP (UK)

Tel: 0113 231 3396

rashpal.khangura@kpmg.co.uk

Alastair Newall

Manager

KPMG LLP (UK)

Tel: 0113 231 3552

alastair.newall@kpmg.co.uk

	Page
Report sections	
— Introduction	3
— Headlines	5
— Financial statements	9
— VFM Conclusion	18
Appendices	
1. Key issues and recommendations	24
2. Audit differences	26
3. Materiality and reporting audit differences	28
4. Declaration of independence and objectivity	29

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.



Section one: Introduction



This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Council and its pension fund; and
- Our assessment of the Council's arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- Our audit work at North Yorkshire County Council ('the Council') in relation to the Council's 2015/16 financial statements and those of the North Yorkshire Pension Fund it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in February 2016, set out the four stages of our financial statements audit process.



We previously reported on our work on the first two stages in our *Control Framework Report 2015/16* issued in June 2016.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July and August 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work and we included the findings from our planning work in our *Control Framework Report 2015/16*. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Council and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Council and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix One. We have also reviewed your progress in implementing prior recommendations.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.



Section two: Headlines



This table summarises the headline messages for the Council and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	<p>We anticipate issuing an unqualified audit opinion on the Council's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.</p> <p>We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Council's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.</p>
Audit adjustments	<p>Our audit identified a number of audit adjustments in excess of our reporting threshold of £750,000. The Council has amended all of these except one relating to the cash flow statement for which it does not have the relevant information. None of these adjustments impacted on the general fund balance, the surplus on provision of services, or the net worth of the Council.</p> <p>We have included a list of the significant audit adjustments at Appendix two detailed the background to, and impact of, each of them.</p> <p>We have raised three recommendations in relation to the matters identified from the audit, and these are reported in Appendix one.</p>
Key financial statements audit risks	<p>We review our identified risks to the financial statements on an ongoing basis. We identified the following significant financial statements audit risks in our 2015/16 External Audit Plan issued in February 2016.</p> <ul style="list-style-type: none"> — New financial system, implemented from 1st April 2015; and — Accounting impact of the flooding in the county in December 2015. <p>We have worked with officers to understand the impact of these risks and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.</p>



This table summarises the headline messages for the Council and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<p>Accounts production and audit process</p>	<p>We received complete set of draft financial statements on 29 June 2016 in accordance with the DCLG deadline. Other than presentational changes that were made following the audit, the accounting policies, accounting estimates and financial statement disclosures were in line with the requirements of the Code.</p> <p>Given that this was the first year of our audit, and hence we had no cumulative knowledge to inform our audit, the impact on Council officers has understandably been greater than will be the case in the second and subsequent years of our audit. Nonetheless, it is pleasing to report that the relationship we have established has been very positive, and officers have produced good quality supporting working papers, and dealt efficiently with our numerous audit queries, enabling us to complete the audit process within the planned timescales.</p> <p>The Council has changed the personnel and the finance structure since the previous year-end. Although this has presented challenges through the audit, it is pleasing to report that this has not impacted on the quality of the working papers or the responses to our queries.</p> <p>We will hold a debrief meeting with the finance team to share views on our first year of audit and to learn lessons that will lead to further efficiencies in the 2016/17 closedown and audit processes.</p> <p>We would like to thank council officers who were available throughout the audit visit to answer our queries.</p>
<p>VFM conclusion and risk areas</p>	<p>We completed our planning process in spring 2016 and reported our conclusions in our Control Environment Report 2016 issued in June 2016. This reported that we had not identified any significant risks to our VFM conclusion.</p> <p>We have updated our work at the year end, and have not identified any new significant risks as a result of this update. There are no matters of any significance arising as result of our audit work in these VFM risk areas.</p> <p>We have consequently concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and we therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.</p>



This table summarises the headline messages for the Council and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> — Whole of Government Accounts audit work; — Completion of testing on post balance sheet events; and — Resolution of queries on <ul style="list-style-type: none"> - SERCoP disclosures, and - contingent liabilities. <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 26 August 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We have not asked management to provide any additional and specific representations.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.</p>
-------------------	--



Section three: Financial Statements

Proposed opinion and audit differences – Council



We have not identified any issues in the course of the audit that are considered to be material.

Following the audit, the Council has made a number of adjustments to the draft financial statements.

None of the adjustments impacted on:

- the balance on the general fund account at 31 March 2016;
- the deficit on the provision of services for the year; or
- the net worth of the Council as at 31 March 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Council's financial statements following approval of the Statement of Accounts by the Audit Committee on 29 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level (see Appendix Three for more information on materiality) for this year's audit was set at £15 million. Audit differences below £750,000 are not considered significant.

Our audit identified a number of significant audit differences, which we set out in Appendix Two. It is our understanding that these will be adjusted in the final version of the financial statements with the exception of one adjustment to the cash flow statement. In this case the Council is unable to identify the required entries without significant additional manual input, and as it does not materially misstate the financial position of the Council, it has determined to not undertake that additional work for 2015/16. Full details are included in Appendix Two.

The tables on the right illustrates that the adjustments made had no impact on the Council's movements on the General Fund for the year and balance sheet as at 31 March 2016.

The adjustments are set out on the next page and Appendix Two.

Annual governance statement

We have reviewed the Council's Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Movements on the general fund 2015/16

£'000	Pre-audit	Post-audit
Deficit on the provision of services	31,996	31,996
Adjustments between accounting basis and funding basis under Regulations	(44,220)	(44,220)
Transfers to earmarked reserves	76,665	76,665
Decrease in General Fund	64,441	64,441

Balance sheet as at 31 March 2016

£'000	Pre-audit	Post-audit
Property, plant and equipment	1,507,699	1,507,699
Other long term assets	69,432	69,432
Current assets	361,784	361,784
Current liabilities	(146,672)	(146,672)
Long term liabilities	(764,967)	(764,967)
Net worth	1,027,276	1,027,276
General Fund	(27,270)	(27,270)
Other usable reserves	(219,847)	(219,847)
Unusable reserves	(780,159)	(780,159)
Total reserves	(1,027,276)	(1,027,276)

Proposed opinion and audit differences – Council (cont.)



We have not identified any issues in the course of the audit that are considered to be material.

Following the audit, the Council has made a number of adjustments to the draft financial statements.

None of the adjustments impacted on:

- the balance on the general fund account at 31 March 2016;
- the deficit on the provision of services for the year; or
- the net worth of the Council as at 31 March 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Of the other audit adjustments we have identified, the most significant in monetary value are as follows:

- Bentham New School, valued at £6 million, which opened and became operational in February 2016, had been included in Assets under Construction within the Property, Plant & Equipment balance, rather than transferring it to Operational Land & Buildings. This adjustment did not impact on the overall value of Property, Plant & Equipment; and
- Adjustments of £3 million were made to the Cash Flow Statement to accurately report the cash and non-cash adjustments, and comply with the CIPFA Code.

During our audit, the Council identified some significant adjustments itself and has amended the relevant notes to the accounts accordingly. We have included these adjustments in Appendix Two for completeness.

In addition, we identified a number of presentational adjustments required to ensure compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Council has addressed these issues.

Proposed opinion and audit differences – Pension Fund



We have identified no issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Council's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Fund's financial statements, both in the Council's financial statements and the Pension Fund Annual Report, following approval of the Statement of Accounts by the Audit Committee on 29 September 2016.

Pension fund audit

Our audit of the Fund did not identify any material misstatements. For the audit of the Fund we used a materiality level of £25 million. Audit differences below £1.25 million are not considered significant.

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 29 September 2016.

We did not identify any significant audit adjustments required to the Pension Fund accounts, and the tables on the right confirm that the minor adjustments made have not impacted on the Increase in the Fund Account for the year or the value of Net Assets at the year end.

Our audit testing identified one matter to report to you relating to the Fund's treatment of benefits payable around the end of the financial year. The Fund accounts for benefits payable on a cash basis rather than accruing benefit liabilities which are due at the year end but not yet paid. This issue was reported last year by the Fund's previous auditors, and we have not included any specific recommendations or actions for the Fund as a result.

The benefits paid after 31st March 2016 which should have been accrued into 2015/16 were £836,000. This amount is below our significant differences threshold, and we have not required the amount to be corrected in the accounts. The corresponding figure reported by the previous auditors last year was £608,000.

Pension fund annual report

We have reviewed the Pension Fund Annual Report and confirmed that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

The statutory deadline for publishing the Annual Report is 1 December 2016. Should we not be able to sign our report on the Annual Report at the same time we would need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

Movements on the Fund Account 2015/16

£'000	Pre-audit	Post-audit
Contributions and transfers in	120,368	120,368
Benefits and other expenses	(104,528)	(104,528)
Net returns on investments	2,124	2,124
Increase in the Fund	17,964	17,964

Net Assets as at 31 March 2016

£'000	Pre-audit	Post-audit
Investment assets	2,420,068	2,420,068
Investment liabilities	(10,771)	(10,771)
Net investment assets	2,409,297	2,409,297
Current assets	12,295	12,295
Current liabilities	(3,759)	(3,759)
Total Net Assets	2,417,833	2,417,833

Significant audit risks



We have worked with the Council throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, we identified the significant risks affecting the Council's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The tables below and on the next page set out our detailed findings for each of the risks that are specific to the Council.

New Financial System (Council and Pension Fund)

— Risk

The Council and Pension Fund financial systems have been replaced during 2015/16, with a new general ledger system in place from the start of the financial year.

The implementation of a new system and the transfer of balances between systems are not routine processes, and therefore represent a significant risk to our opinion on the 2015/16 financial statements.

— Findings

We reviewed the processes the Council had in place to implement the new financial system and we tested the Council's data transfer procedures from the old financial system closing balances to the opening balances in the new financial systems.

Our testing confirmed that the new system was implemented according to the Council's plan, and that the balances were completely and accurately transferred to the new system.

Significant audit risks (cont)



We have worked with the Council throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, we identified the significant risks affecting the Council's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The tables below sets out our detailed findings for each of the risks that are specific to the Council.

Impairment of PPE due to flooding (Council only)

— Risk

The flooding in December 2015 caused a high degree of damage in North Yorkshire and this might impact in the 2015/16 financial statements. The damage may have caused significant material impairment to some Council assets.

The Council's assessment of the impairment value involves significant judgement and estimation, and will likely involve the use of a valuation expert. This impairment could have a material impact on the financial statements.

— Findings

The Council has identified that there are impairments required to the 2015/16 asset values for the flooding. In particular the damage, and respective repair to Tadcaster Bridge. The Council has estimated that the capital cost of repair is £3 million.

In calculating the impairment required, the Council has, consistent with its annual impairment assessment, discounted the repair costs using the infrastructure (FOCOS) indices. This has determined that the overall infrastructure impairment, which includes the flooding damage, to be £1.1 million.

We are content that the Council has evaluated the need for impairments, has calculated them in a consistent manner with its normal infrastructure impairment assessments, and made appropriate accounting entries to impair the assets.

In addition we have confirmed that the estimate of the repair value was based on professional valuer estimates, is consistent with that reported to the Council, and that the current cost of the work to the end of August provides further evidence that the cost estimate, and hence the value of the impairment is materially correct.

Significant audit risks (cont)



We have worked with the Council throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2015/16* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Accounts production and audit process



This is our first year of the Council's audit and we have used this year's audit to establish our knowledge of the Council's accounts and accounting practices.

We have worked closely with Council and Pension Fund officers to try and ensure a smooth transition from your previous auditors.

Officers provided good working papers to support our audit, and dealt efficiently with our audit queries.

We will discuss improvements to the audit process and the Council's closedown process as part of our early planning for 2016/17 at the conclusion of this year's audit.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Council's and the Fund's accounting practices and financial reporting. We also assessed the Council's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	Our first year audit has not identified any significant weaknesses with the Council's financial reporting process. We consider that accounting practices are generally appropriate, although we have reported some elements of the cash flow statement were not compliant with the Code requirements, and the consideration of related party transactions needs to consider whether transactions are material from both the Council and the related party perspective.
Completeness of draft accounts	We received a complete set of draft accounts on 29 June 2016. The Whole of Government Accounts submission was delayed, and we received this on 2 September 2016. The guidance and reporting pack from DCLG was delayed in being issued, and this contributed to the Council not being able to provide this earlier.
Group audit	To gain assurance over the Council's group accounts, we carried out work on the consolidation process. There are no specific matters to report pertaining to the group audit.

Element	Commentary
Quality of supporting working papers (continued)	Our <i>Accounts Audit Protocol</i> sets out our working paper requirements for the audit. We issued this on 8 th June and discussed with finance officers before the start of the audit. Given that this was the first year of our audit, and we had no cumulative knowledge to inform our approach, the impact on Council officers has understandably been considerable. It is pleasing to report that the relationship we have established has been very positive, and officers have produced good quality supporting working papers to assist us. The quantity of the working papers we have requested has been more than might be necessary in subsequent years when we have significant cumulative knowledge. Consequently, although officers adapted well to our audit requirements, some working papers were only provided later on in the audit process.
Response to audit queries	Officers resolved our audit queries in a reasonable time. In some cases, however, we experienced delays, specifically where staff who prepared the working papers were not available during the audit. These delays did not cause a significant impact on the audit, and is understandable given the audit taking place during July and August.

The challenge for the Council in future years is to ensure that it can produce its accounts earlier to meet the requirements of the Accounts & Audit Regulations in 2017/18, while maintaining a focus on appropriate and compliant accounting practices.

As part of our audit completion processes we will provide finance officers with our observations on improvements that can be made to deliver improvements in financial reporting in the shorter timeframe.



We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of North Yorkshire County Council and North Yorkshire Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the Council and the Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix Three in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Strategic Director – Corporate Resources for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (for example significant deficiencies in internal control, issues relating to fraud, compliance with laws and regulations, subsequent events, non-disclosure, related parties, public interest reporting, questions or objections, or opening balances).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.



Section four: Value for Money



Our VFM conclusion considers whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We follow a risk based approach to target our audit work on the areas of greatest audit risk. We have concluded that the Council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the Council ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

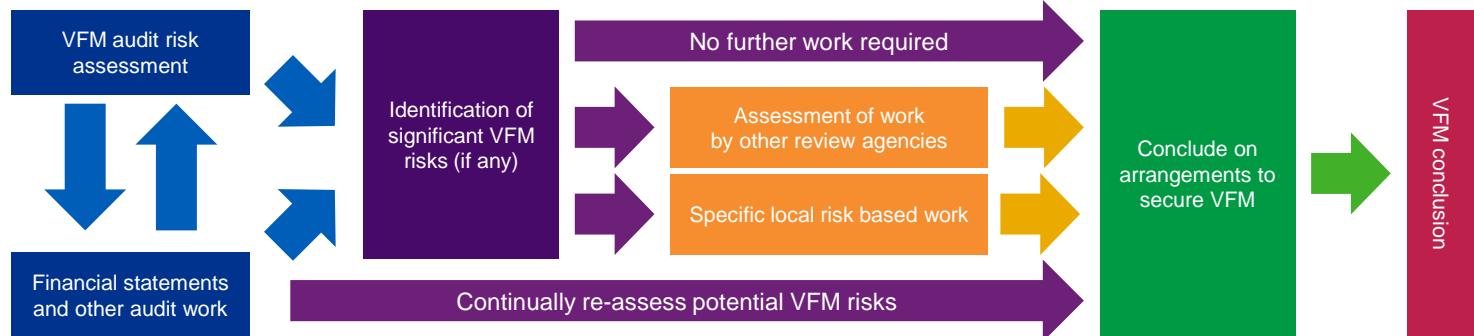
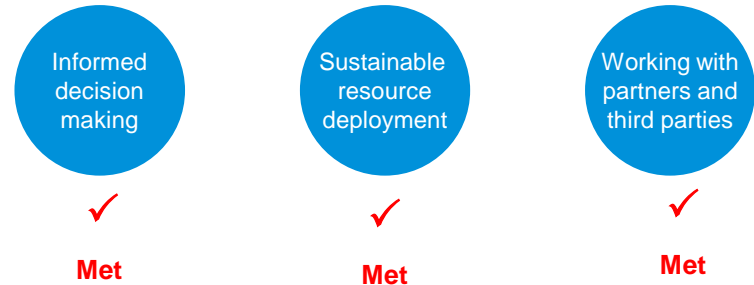
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Council.

Conclusion

We have concluded that the Council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Specific VFM Risks



Having carried out our detailed planning work, we did not identify any significant VFM conclusion risks.

Our detailed planning work considered, among other areas, the Council's approach to medium term financial planning, its partnership working with other public services, and the findings from the LGA Peer Challenge review.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Council's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- Considered the results of relevant work by the Council, inspectorates and review agencies in relation to these risk areas.

Key findings

Having completed our detailed planning work, we reported in our Control Environment Report 2015/16 in June 2016, that we had not identified any significant risks to our VFM conclusion.

In concluding this, we considered the following key elements:

- The Council's approach to medium term financial planning. The 2020 North Yorkshire Council Plan sets out the Council's strategy for delivering against the significant financial challenges. These challenges are reported and monitored in the corporate risk register and the Council is clearly devoting significant resources to putting in place mitigating arrangements to manage those risks. From our review we are satisfied that the Council has arrangements in place to respond to these challenges, and we have no issues to report.

- The Council's approach to partnership working. This year has seen the start of the Better Care Fund, with the required close working between the Council and local NHS organisations. Governance arrangements. The Council has understood the challenges, and has managed the risks and issues related to the close partnership working through the year. While there are significant challenges for the Council in 2016/17 and beyond, particularly in dealing with a wide range of NHS commissioners and providers, we are satisfied that the Council's arrangements to manage these challenges are appropriate and adequate.
- LGA Peer Review. In March 2015/16 the Local Government Association carried out a Corporate Peer Challenge for the Council. The findings from this review confirmed that the Council delivers highly regarded services with examples of excellence throughout its operations. The report is positive and although it identifies a number of considerations for the Council, these are all areas that it is already focusing on, such as developing the partnership arrangements across other public services, focusing beyond 2020, and developing its business development/commercial strategy. We are satisfied from our review of the findings that this work confirms that the Council has adequate arrangements in place to deliver value for money in its use of resources.

Section four - VFM

VFM - 2015/16 outturn

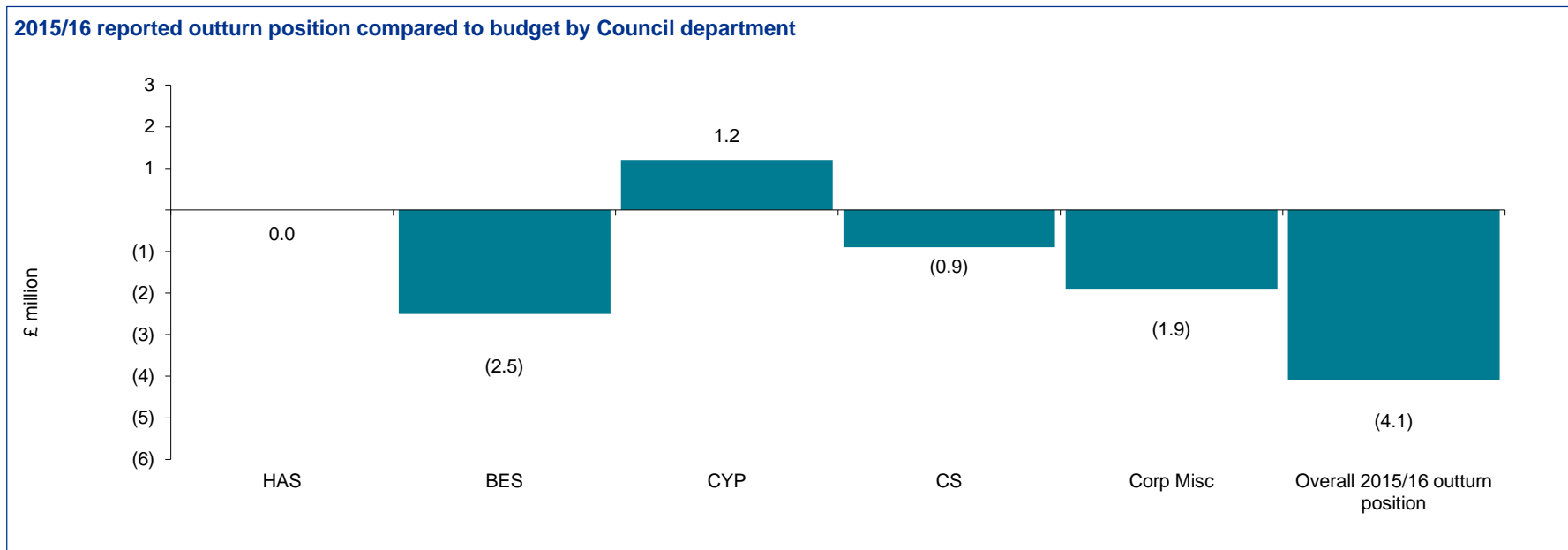


2015/16 outturn

In considering the Council's arrangements for securing financial resilience, we reviewed the outturn position against original plans, as well as identifying any specific one-off transactions to identify the normalised position 2015/16.

The Council set an overall net revenue expenditure budget for 2015/16 of £389.86 million. This represented a £10 million reduction from the respective budget in 2014/15. The operational budget for the Council departments, excluding the 'Pending Issues Provisions', was £365.52 million. The Council delivered an underspend against this budget of £4.1 million. This Council has reported that the underspend was predominantly achieved through one-off savings and windfalls of £3.4 million, with a significant amount of early achievement of savings planned for future years. Within the actual spending were some reported overspends, for example, Children and Young People's Services continues to experience financial challenges relating to demand pressures and the costs of an increasing number of complex cases, along with pressures on home to school transport, and despite delivering some early savings in some areas, the service reported an overspend of £1.1 million. The financial impact of the flooding in the county December 2015 has fallen on the 2015/16 financial year and this unbudgeted revenue cost was reported to be £0.8 million.

The Council's approach to its General Fund balance is to plan to maintain a level of 2% of net revenue budget plus £20 million. In 2015/16 this level was achieved, and the Council has transferred £36 million in 2015/16 to a newly established Strategic Capacity Reserve. This reserve is to support the medium term financial strategy in 2016/17 and future years, and the Council's financial plans indicate that this reserve will be predominantly utilised in the period up to 2019/20.



Section four - VFM

VFM – Planned 2016/17 budget



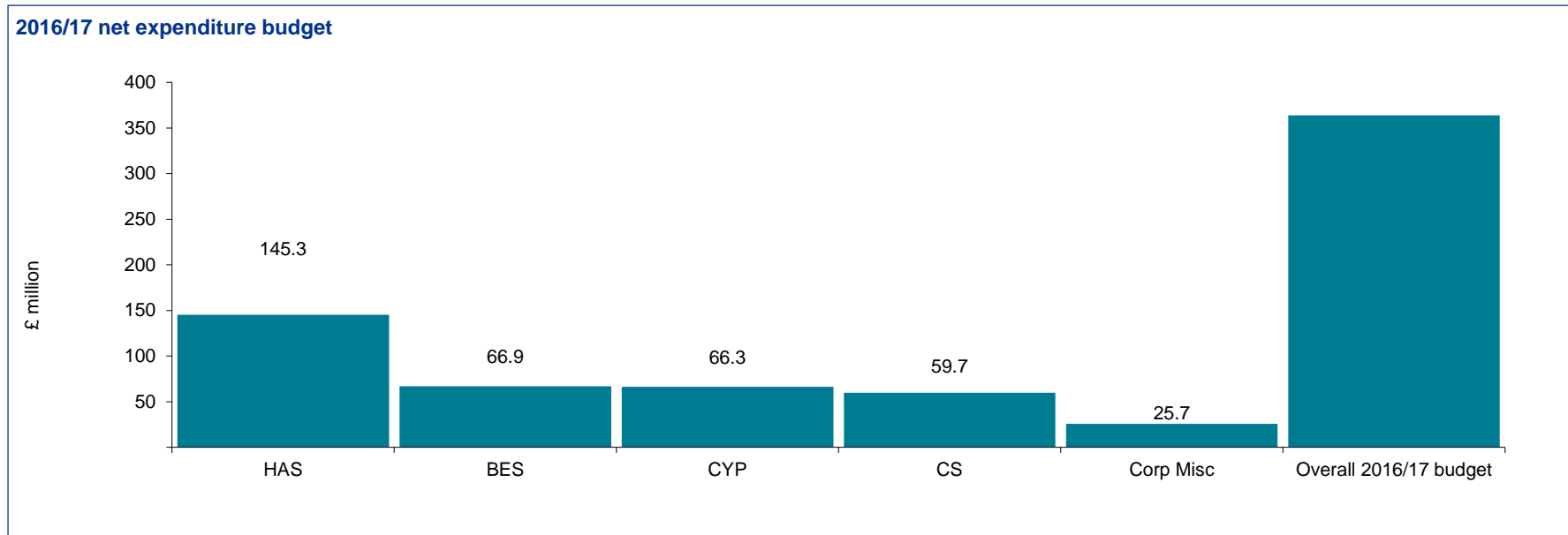
Planned 2016/17 budget

The Council's net expenditure budget for 2016/17 is £360.57 million. The budget for 2016/17 includes the use of £3.3 million of General Fund working balances.

The first quarter monitoring report shows that the Council is projecting an underspend against this budget of £5 million, but within this projection are some significant service cost pressures. In particular there are pressures being reported in:

- Children and Young People's Service, as in 2015/16, with demand-led pressures and home to school transport
- Health & Adult Services, with demand-led pressures across care and support budgets

Offsetting these pressures are underspends in corporate and centrally held budgets, which, if achieved at the year end, will enable the Council to supplement its reserves to assist in delivering the financial challenges for 2017/18 and beyond.





Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Audit differences

Appendix 3: Materiality and reporting audit differences

Appendix 4: Independence and objectivity

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations

1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.
----------	--	----------	--	----------	---

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	<p>Cash flow statement – capital debtors and creditors</p> <p>The Council has updated its ledger coding structure in 2015/16 and has not retained separate capital ledger codes. Consequently it has been unable to identify the capital debtors and creditors, required for compliant completion of the cash flow statement. As the cash flow requires the movement on capital debtors and creditors from the prior year, this omission will impact on 2015/16 and 2016/17.</p> <p>Recommendation</p> <p>Include a method of identifying capital debtors and creditors in the 2016/17 closedown process to enable compliance with cash flow requirements from 2017/18.</p>	<p>Management Response</p> <p>Agreed. The specific capital debtors and creditors balance sheet codes were consolidated as part of the review of the Authority’s Chart of Accounts during the upgrade of the financial ledger, which has impacted on the detail of the analysis available. As a result the report’s recommendation is accepted and the specific codes will be re-instated for use during 2016/17.</p> <p>Responsible Officer</p> <p>Senior Accountant, Capital & Treasury Management</p> <p>Due Date</p> <p>30 June 2017</p>

Key issues and recommendations (cont)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	2	<p>Assets under construction</p> <p>As part of the year-end closedown processes the Council omitted to transfer an asset from Assets under Construction to Operational Land & Building.</p> <p>Assets under Construction are measured at Historical Cost, whereas Operational Assets are measured at either Existing Use Value or Depreciated Replacement Cost.</p> <p>Recommendation</p> <p>Include a process to identify the operational date of any Assets under Construction as part of the year-end closedown, and ensure that the value of any operational assets transferred in year is on the correct basis.</p>	<p>Management Response</p> <p>Agreed. The report's recommendation is accepted and a full review of any Assets Under Construction will be undertaken as part of the year end closedown process.</p> <p>Responsible Officer</p> <p>Senior Accountant, Capital & Treasury Management</p> <p>Due Date</p> <p>30 June 2017</p>
3	3	<p>Related party transactions</p> <p>In applying the applicable financial standard, the CIPFA Code allows Councils to apply a consideration of materiality in disclosing related party transactions. It does however require that Councils consider materiality from both its own perspective and that of the related party. This might mean that a low level of transaction should be disclosed where it relates to an individual or a small business. Although it has disclosed some related party transactions of a low value, the transactions with Other Related Parties are only disclosed where they are greater than £1 million.</p> <p>Recommendation</p> <p>Include a consideration of materiality from both the related party and the Council's perspective in the closedown processes for all related party transactions and disclose all transactions that are considered material from either party.</p>	<p>Management Response</p> <p>Agreed. In line with the reports recommendation, a review of the materiality thresholds regarding related party disclosures will be undertaken in advance of the 2016/17 closedown process.</p> <p>Responsible Officer</p> <p>Senior Accountant, Statutory Accounts</p> <p>Due Date</p> <p>30 June 2017</p>

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for most of the errors identified through the audit process.

There is no net impact on the General Fund or the Comprehensive Income & Expenditure as a result of the amendments.

None of the adjustments to the Pension Fund statement of accounts were significant and none of the adjustments impacted on the Fund Account or Net Assets Statement.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities. As this is our first year of our audit, we have also reported the non-material audit differences which have been corrected, to assist you in fulfilling your governance responsibilities.

All the differences reported in this appendix relate to the Council's accounts and not the Pension Fund accounts. The adjustments made to the Pension Fund accounts, and the uncorrected differences in their accounts were not significant and have not been reported here.

Uncorrected audit differences

The cash flow statement contains an uncorrected difference relating to the treatment of capital debtors and creditors. Within the statement the Council should identify the movement on creditors and debtors which relate to capital transactions and present them in the 'Investing' section of the statement. In 2014/15 the Council had separate ledger codes to enable these transactions to be easily identified. However, in implementing the new ledger from 2015/16 the Council has rationalised the ledger codes, and capital codes are no longer used. The Council reports that it would require a significant amount of manual input to identify the capital debtors and creditors retrospectively, and will ensure that for 2016/17 separate codes are again used. We are satisfied based on our review of the 2014/15 transactions and the overall movement on 2015/16 debtors and creditors, that the difference would not materially affect the Council's financial statements.

Corrected audit differences

Material misstatements

Our audit did not identify any material misstatements.

Non material audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them except for the cash flow statement difference noted above.

- Assets under Construction. An adjustment was made to move the value of Bentham New School (£6 million) from Assets under Construction to Operational Land & Buildings. The school opened in February 2016 and was therefore operational at the 31 March 2016. This adjustment did not impact on the overall Property, Plant & Equipment balance, but was a movement within Note 20 to the accounts.
- Accumulated absences. The liability relating to Accumulated Absences (£7.6 million) was included in short term Provisions as it had been in previous years. The accounting requirement for this liability is that it should be included in Short Term Creditors, and this adjustment has been made. This has not increased the overall liabilities of the Council but has increased the Creditors balance and decreased the Provisions balance in the Balance Sheet.

Audit differences (cont.)

This appendix sets out the audit differences.

The financial statements have been amended for most of the errors identified through the audit process.

There is no net impact on the General Fund or the Comprehensive Income & Expenditure as a result of the amendments.

- Cash Flow Statement. Two adjustments have been made to the Cash Flow Statement to ensure it reflects the CIPFA code reporting requirements. The first of the adjustments was to reclassify the £71.8 million of new Short Term Investments from 'Proceeds from short term investments' to 'Purchase of short term investments'. The second adjustment was to reclassify capital grants which had been received in advance (£3.4 million) from the 'Movement in Creditors' to 'Other receipts for investing activities'. These adjustments have not impacted on any other statement and only reclassifies amounts within the cash flow statement.
- The Council identified a small number of non-significant adjustments required during our audit. These include an adjustment wholly within the Long Term Debtors balance, an adjustment to reclassify a Short Term Creditor from General Creditors to Central Government Creditors, and an adjustment to the Council loans provided to NYNet Ltd included in the disclosures of Long Term Investments. None of these adjustments impact on any balances reported on the balance sheet or other statements.

In addition to these adjustment, following our audit, the finance team made a number of minor amendments focused on presentational improvements to the draft financial statements.

Materiality and reporting audit differences

For 2015/16 our materiality is £15 million for the Council's accounts. For the Pension Fund it is £25 million.

We have reported all audit differences over £750,000 for the Council's accounts and £1.25 million for the Pension Fund, to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Council following receipt of the draft financial statements, but following that reassessment, the level of materiality remained the same as we reported in our External Audit Plan 2015/16, presented to you in February 2016.

Materiality for the Council's accounts was set at £15 million which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision, set at £10 million for 2015/16.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £750,000 for the Council.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £25 million which is approximately 1 percent of net assets.

We design our procedures to detect errors at a lower level of precision, set at £15 million for 2015/16.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of North Yorkshire County Council and North Yorkshire Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the Council and Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix four

Audit Independence

Audit Fees

Our scale fee for the audit was £94,490 plus VAT for the Council and £24,943 for the Pension Fund in 2015/16). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in February 2016. During the year Public Sector Audit Appointments Ltd (PSAA) have approved additional fees of:

- £2,991 to the Council relating to the additional work we were required to carry out relating to the Council's new financial ledger system; and
- £4,996 to the Pension Fund, relating to the additional work we were required to carry out for other auditors of admitted bodies for IAS19 reporting purposes, under arrangements put in place by PSAA.

Non-audit services

We have been engaged to provide an assurance report to the Department for Transport relating to the Council's 2014/15 Major Scheme expenditure one piece of non-audit work during the year, and have summarised the fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these below.

In addition we understand the Council will engage us to provide assurance on the 2015/16 Teachers' Pension Return, and the 2015/16 Major Scheme expenditure for Department for Transport. These are also included below for completeness.

Description of non-audit service	Fee	Potential threat to auditor independence and associated safeguards in place
Provide assurance report to Department for Transport on 2014/15 Major Scheme expenditure	£3,500	The assurance report was provided having delivered a programme of work prescribed by Department for Transport. This work does not impact on the accounting in the financial statements, does not provide any assurance as part of our financial statements audit and does not involve us providing any advice to, or taking any decisions for, the Council.
Provide assurance report to Teachers' Pensions on the 2015/16 Teachers' Pensions return	£3,500 (estimated)	The assurance report will be provided having delivered a programme of work prescribed by Teachers' Pensions. This work does not impact on the accounting in the financial statements, does not provide any assurance as part of our financial statements audit and does not involve us providing any advice to, or taking any decisions for, the Council.
Provide assurance report to Department for Transport on 2015/16 Major Scheme expenditure	£2,500 (estimated)	The assurance report was provided having delivered a programme of work prescribed by Department for Transport. This work does not impact on the accounting in the financial statements, does not provide any assurance as part of our financial statements audit and does not involve us providing any advice to, or taking any decisions for, the Council.
Total estimated fees	£9,500	
Total estimated fees as a percentage of the external audit fees	9%	



kpmg.com/uk



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

KPMG LLP is multi-disciplinary practice authorised and regulated by the Solicitors Regulation Authority. For full details of our professional regulation please refer to ‘Regulatory Information’ at www.kpmg.com/uk

The KPMG name and logo are registered trademarks or trademarks of KPMG International. | Create KGS: CRT064379A

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

29 SEPTEMBER 2016

NORTH YORKSHIRE PENSION FUND ANNUAL REPORT 2015/16

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF REPORT

- 1.1 To note the North Yorkshire Pension Fund Annual Report for the financial year 2015/16.

2.0 ANNUAL REPORT

- 2.1 The County Council's Statement of Final Accounts (SOFA) for 2015/16 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 LGPS regulations 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 reviewed by the Pension Fund Committee (PFC) on 15 September 2016. Other than a small number of minor amendments to wording, no changes have been made to the Annual Report since that date.
- 2.3 The Annual Report for 2015/16 including the Auditor's Statement expressing an unmodified opinion is attached as **Appendix 1.**

3.0 RECOMMENDATIONS

- 3.1 Members are asked to note the North Yorkshire Pension Fund Annual Report for 2015/16.

GARY FIELDING
Corporate Director – Strategic Resources
Central Services
County Hall
Northallerton

20 September 2016



North Yorkshire Pension Fund

Annual Report and Accounts

2015/16



CONTENTS

	Item	Page No
PART 1	MANAGEMENT AND FINANCIAL PERFORMANCE	3
PART 2	SCHEME ADMINISTRATION	6
PART 3	INVESTMENT POLICY AND PERFORMANCE	9
PART 4	PENSION ADMINISTRATION ACTIVITY	14
PART 5	MEMBERSHIP CONTRIBUTIONS AND SCHEME BENEFITS	16
PART 6	GOVERNANCE DOCUMENTATION	22
PART 7	TRAINING	24
PART 8	GLOSSARY AND CONTACT DETAILS	25
Appendices		
Appendix A	Statement of Financial Accounts 2015/16	28
Appendix B	Auditors Report	56
Appendix C	Statement of Investment Principles	57
Appendix D	Governance Compliance Statement	63
Appendix E	Funding Strategy Statement	72
Appendix F	Communications Policy Statement	92
Appendix G	Actuarial Rates and Adjustment Certificate	98
Appendix H	Pensions Administration Strategy	99

Part 1 – Management And Financial Performance

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 2016 was as follows:

Members	Position	Voting Rights
John Weighell (Chairman)	Councillor, NYCC	Yes
Roger Harrison-Topham (Vice-Chairman)	Councillor, NYCC	Yes
Bernard Bateman MBE	Councillor, NYCC	Yes
John Blackie	Councillor, NYCC	Yes
Margaret-Ann deCoursey-Bayley	Councillor, NYCC	Yes
Patrick Mulligan	Councillor, NYCC	Yes
Helen Swiers	Councillor, NYCC	Yes
Jim Clark	Councillor, District Councils' representative of Local Government North Yorkshire and York	Yes
Chris Steward	Councillor, City of York Council	Yes
David Portlock	Chairman of the Pension Board	No
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	Carolán Dobson (Investment Adviser & Trustee Services)
Independent Professional Observer	Peter Scales (AllenbridgeEpic)
Actuary	Aon Hewitt
Legal Services	Ward Hadaway Head of Legal Services, NYCC
Auditor	KPMG
Banker	Barclays Bank
Custodian	Bank of New York Mellon
Custodian Monitoring	Thomas Murray
Shareholder Voting	PIRC
Performance Measurement	BNY Mellon Asset Servicing
Fund Managers	Baillie Gifford Life Dodge & Cox 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 Veritas YFM Venture Finance
AVC Provider	Prudential

1.4 Risk Management

Risk management is the process by which the Fund identifies and addresses the risks associated with its activities. Risk management is a key part of the North Yorkshire Pension Fund's governance arrangements, and the Pension Fund has its own dedicated risk register. Risks are identified and assessed, and controls are in place to mitigate risks. The Fund's risk register is reviewed every year, and the latest review highlighted:

- (a) Pension Fund solvency remains a high risk due to the unpredictable and volatile nature of global financial markets on which both investment returns and certain market based actuarial assumptions used to value liabilities are based. The potential consequence of the risk occurring is a significant increase in contribution rates for the Fund's employers and/or an extension to the deficit recovery period. The slight fall in solvency over the last year is primarily due to falling Gilt yields and that financial markets provided very little return. Since then, markets have been volatile particularly following the outcome of the EU referendum. However, it is believed that no remedial action is presently required in order to deliver the deficit recovery plan.
- (b) A new risk has been added to the risk register which relates to the LGPS Pooling Arrangements (see paragraph 1.5). This is a major change to the way in which the Pension Fund will be managed so should be considered a significant risk.

In addition, the approach to managing third party risk such as late payment of contributions is contained in the Pension Administration Strategy (Appendix H). Contributions received from employers are monitored, and the date of receipts is recorded and appropriate action is taken for late payments. For persistent material breaches of this protocol, the employer may be reported to the Pensions Regulator.

Further detail about how the Fund manages other risks can be found in **Note 17 Nature and Extent of Risks Arising from Financial Instruments** in the Statement of Accounts in Appendix A.

1.5 LGPS Pooling Arrangements

On 15 July 2016 the Fund and the twelve other LGPS funds in the Border to Coast Pensions Partnership (BCPP) sent a proposal to DCLG describing in detail how investment pooling arrangements could work. This proposal can be found [here](#). This followed a summary proposal published by the BCPP on 19 February 2016. Both documents were responses to the Government's requirement for pooling described in [guidance published on 25 November 2015](#), which followed [a consultation in 2014](#).

All LGPS funds are required to enter pooling arrangements. The PFC decided that NYPF should join the BCPP as it represents a group of "like-minded" Funds where significant cost efficiencies are achievable.

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, Head of Commercial & Investments.

Staff within the Pension Administration team 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 team 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 the main point of contact with the Fund's managers, advisers and auditors.

2.2 Disputes Process

The North Yorkshire Pension Fund deals with disputes under the statutory Internal Dispute Resolution Procedure (IDRP). This is a two stage process and further information is available on the Fund's website with details of the procedure and the form to be completed. <https://www.nypf.org.uk/formsandguides/publications.shtml>

However as part of the Pension Section's customer care policy all questions raised are dealt with via an internal process with the aim of resolving issues to the satisfaction of the Scheme member as quickly as possible. In 2015/16 only one case was received via the IDRP process and the outcome was in favour of the Fund, confirming that regulatory requirements have been followed and the appropriate action had been taken.

2.3 Pensions Administration

The introduction of the LGPS 2014 has made it more important than ever that the relationships between the Pension Fund and Scheme employers are strengthened, and that clear guidelines are provided on the respective roles under the Scheme. The data requirements have become far more complex under the LGPS since April 2014 and it has been necessary to provide additional information alongside the Pensions Administration Strategy document to ensure that Scheme employers understand the revised responsibilities. The Pension Fund strives to support employers in carrying out their function under the Scheme with a number of methods being offered for employers to obtain guidance and information. This included 'hands on' training sessions on dedicated areas and provision of a project plan to help employers manage their year-end project efficiently.

The focus on training in the year has been on both Pensions staff and Scheme employers as it has been recognised that the employer role in providing effective administration is now an essential element as there is far less opportunity for the Pension Fund to recognise and resolve discrepancies under the Career Average Scheme. Much work has been done to encourage employers to capture data accurately via electronic methods; it is encouraging that despite setbacks relating to payroll system specifications, employers have worked hard to meet their responsibilities.

The Pension Fund continues to use a range of modules offered by the software provider, Heywood, in order to provide effective administration, communicate with employers and members electronically, and provide a self-service function for members.

2.4 Member Self-Service (MSS)

This is a web-based self-service facility which allows members to update their details and perform calculations. This facility has also been used to allow electronic communication with members for the retirement and estimates process. As at 31 March 2016 there were 11,672 registered users.

A small number of staff from employers within the fund have direct upload access to the pensions database (with access to their employees only). This allows them to carry out basic pensions administration processes (creating new starter records, updating hours and personal information) and upload associated documents. Work is monitored via a 'task' which is created on the member record by the employer detailing what they have done. All changes can be tracked through an Audit report which is run by the NYPF Systems team.

2.5 Electronic Annual Benefit Statements

Active and deferred Scheme members may view their Annual Benefit Statement online. The majority representing 98% of all statements are delivered in this way with only 1,060 being posted to members in 2015/16.

2.6 NYPF Website

All essential information and guides are held on the website along with links to further national guidance. Employees and employers are able to use the website to refer questions to a generic pensions email address which is specifically resourced each day to provide a speedy response to member and employer queries. An 'Employers Only' area provides a central location to access forms and guides with the facility to securely submit forms electronically.

2.7 Data Quality

The Pensions Regulator guidelines on data collection and security have been applied by the Pension Fund and validation checks are carried out across all areas of activity. Periodic checks have been carried out across the database for the last six years to ensure that data gaps or queries are caught in 'real-time'. Other validation checks are carried out at each year end and queries are sent to the employer to resolve. This has become more complex with the introduction of the CARE Scheme as NYPF cannot validate CARE pay provided by employers. Support is sought where appropriate from the Internal Audit Service in order to encourage Scheme employers to maintain a consistent level of data accuracy including validating any data before it is supplied. Data is only accepted from named authorised signatories after the appropriate validation checks have been made.

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 LGPS 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 2016 the following investment management arrangements were in place.

- ➔ Baillie Gifford managed two active global (i.e. 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 used for 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
- ➔ 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 IPD Other Balanced Property Funds index
- ➔ Threadneedle and Legal & General both managed active UK Property portfolios during the year through pooled funds with the objective of outperforming the All Balanced Property Funds index
- ➔ Standard Life and Newton both managed 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
- ➔ Veritas and Dodge and Cox managed active global equity portfolios in the form of a pooled vehicle against the MSCI All Country World index

The Fund also has a small investment in the Yorkshire & Humber Equity Fund. The residual cost of this investment at the year-end was £0.08m.

The agreed asset class structure for the investment portfolio as at 31 March 2016 was as follows:-

	<i>Minimum %</i>	<i>Maximum %</i>
Equities	50	75
Alternatives	10	20
Fixed Income	15	30

(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 Level 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 was provided until 31 March 2016 by State Street Global Services for the purpose of assessing comparisons with the 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 +0.4% compared to the benchmark return of +1.1% and the local authority average (as measured by State Street) of +0.5%.

Performance for the North Yorkshire Pension Fund compared with the benchmark for 5 Years is shown below.

Periodic Performance	1 Year	5 Years (p.a.)
North Yorkshire Pension Fund	0.4%	9.3%
Benchmark	1.1%	8.3%
Performance against benchmark	-0.7%	+1.0%

For the year ending 31 March 2016, NYPF was ranked 39th of out 100 Local Authorities within the State Street Universe. For the 3 and 5 year periods to 31 March 2016 NYPF was ranked 4th.

The performance of the Fund as a whole and of the individual fund managers for the year to 31 March 2016 compared with their defined benchmarks is shown in the following table:

Fund Manager	Share of Fund @ March 2016	Fund Performance	Customised Benchmark	+/-
	%	%	%	%
Baillie Gifford Life Ltd - Global Alpha	18.4	-0.2	-0.5	0.3
Baillie Gifford Life Ltd - LTGG	12.5	4.1	-0.5	4.6
Fidelity International	10.7	-2.9	-2.8	-0.1
Veritas	5.0	2.5	-3.5	6.0
Dodge and Cox	4.3	-10.9	-3.5	-7.4
Standard Life Investments - Equities	11.6	-4.6	0.9	-5.5
ECM Asset Management	5.4	-0.5	0.5	-1.0
M&G Investment Management Ltd	14.2	3.8	2.6	1.2
Hermes Investment Management Ltd	1.3	12.9	11.0	1.9
Legal & General	2.5	10.4	10.6	-0.2
Threadneedle	3.5	12.4	10.6	1.8
Standard Life (GARS)	5.7	-4.5	0.5	-5.0
Newton Investments (RR)	4.5	0.9	0.5	0.4
Internally Managed Cash	0.4	-	-	-
Total Fund	100.0	0.4	1.1	-0.7

(b) Analysis of Accounts

The Statement of Accounts for the year 2015/16 is shown at Appendix A.

The value of the Fund's assets at 31 March 2015 was £2,400m, and this increased by £18m during the year to give a value of £2,418m at 31 March 2016.

Analysis of Fund Account over three years to 2015/16

	2015/16 £000	2014/15 £000	2013/14 £000
Net additions/(withdrawals) from dealings with members	15,840	(8,299)	26,665
Net investment return	8,705	16,610	17,059
Change in market value of investments	(6,581)	308,342	198,759
Net increase/(decrease) in the Fund	17,964	316,653	242,483

Analysis of Net Asset Statement over three years to 2015/16

	2015/16 £000	2014/15 £000	2013/14 £000
Fixed Interest Securities	341,598	161,287	71,424
Equities	488,055	701,918	742,593
Pooled Funds	1,391,947	1,335,586	1,141,317
Pooled Property	176,463	150,011	98,592
Private Equity	82	82	258
Cash Deposits	8,339	27,437	12,185
Other	2,813	4,204	3,158
Total Investment Assets	2,409,297	2,380,525	2,069,527

Current Assets and Current Liabilities	8,536	19,344	13,689
Net Assets of the Fund	2,417,833	2,399,869	2,083,216

(c) Accounting and Cash Flow

Prior to the start of the 2015/16 financial year, a Budget was prepared for NYPF which expressed the expected levels of expenditure (i.e. pensions, lump sums, administrative expenses) and income (i.e. 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 2015/16 forecast a net cash surplus of £5.4m. The actual surplus for the year was £6.5m, resulting in an overall cash flow of £1.1m above expectations.

	Budget 2015/16 £m	Actual Income / Expenditure £m	Variance £m
Expenditure			
Benefits	100.0	98.8	-1.2
Administration	1.5	1.5	0
Investment Expenses	6.6	7.6	1.0
Total Expenditure	108.1	107.9	-0.2
Income			
Employer and Employee contributions	110.5	110.4	-0.1
Transfers	3.0	4.0	1.0
Total Income	113.5	114.4	0.9
Net Surplus	5.4	6.5	1.1

The main reasons for the variances were:

- Benefits – the budget was prudent, being based on limited forecast information being available from employers
- Investment expenses - some managers on performance related fees outperformed
- Transfers - the budget is largely based on past experience as transfer payments/receipts cannot be accurately forecast.

This analysis of expenditure was reported to the PFC as part of the quarterly Fund management arrangements and has been analysed differently in the Statement of Accounts to comply with accounting requirements and guidance.

Part 4 – Pension Administration Activity

The number of staff (in FTE terms) at the Council involved in Pension Administration was 23.62.

(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 2016 is shown below.

Performance Indicator	LGPC Target	Achieved (%)
Letter detailing transfer <i>in</i> quote	10 days	98.46
Letter detailing transfer <i>out</i> quote	10 days	99.45
Process and pay refund	5 days	99.73
Letter notifying estimate of retirement benefits	10 days	94.97
Letter notifying actual retirement benefits	5 days	77.25
Process and pay lump sum retirement grant	5 days	77.25
Initial letter acknowledging death of active/deferred/pensioner member	5 days	84.73
Letter notifying amount of dependant's benefits	5 days	84.73
Calculate and notify deferred benefits	10 days	90.85

(b) Benefit Calculation Activity

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

Task	Number
Retirements	1,678
Transfers In	80
Refunds	511
Frozen Refunds	827
Preserved Benefits	2,540
AVCs/ARCs	6
Divorce cases	218
Deaths in Service	24
Deaths of Pensioners	516

(c) Administration

The total numbers of joiners and leavers during 2015/16 were:

Joining	6,716
Retiring	1,496
Deaths	583
Other Leavers	3,499

The performance and activity reflect the efforts the Pension Administration team goes to in providing 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 2015/16 include:

- Continued use of the self-service provision, with particular emphasis on encouraging members to check their Career Average Benefits via the online Annual Benefit Statement
- Developed the use of the self-service provision to members with 'deferred benefits' so that online calculations can be done
- Encourage the use of electronic communications via the online self-service provision for members going through the retirement process.
- Practical training sessions for employers
- Dedicated page for pension board pensioner representative on the NYPF website

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 which separate statutory arrangements exist.

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

Employees therefore have various options to provide a pension in addition to the New State Pension:-

- to be a member of the NYPF
- 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 2012	31 March 2013	31 March 2014	31 March 2015	31 March 2016
Current Contributors	27,770	29,036	31,501	35,056	31,748
Deferred Pensions	25,534	27,503	29,490	30,591	32,079
Pensioners receiving Benefits	15,839	16,755	17,668	18,444	19,793

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).

The total contributions received for 2015/16 on an accruals basis were £111.7m, and North Yorkshire County Council being the main employer in the Fund contributed £49.2m.

5.3 Employer Analysis

At 31 March 2016 there were 125 contributing employer organisations within NYPF including the County Council itself. Full details of all employers can be found in the Statement of Accounts (Appendix A). The following table summarises the number of employers in the fund analysed by scheduled bodies and admitted bodies which

are active (with active members) and ceased (no active members but with some outstanding liabilities).

	Active	Ceased	Total
Scheduled	77	9	86
Admitted Body	48	17	65
Total	125	26	151

5.4 Employee Rates

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 2015 as follows:

Band	Range	Contribution rate
1	£0 to £13,600	5.5%
2	£13,601 to £21,200	5.8%
3	£21,201 to £34,400	6.5%
4	£34,401 to £43,500	6.8%
5	£43,501 to £60,700	8.5%
6	£60,701 to £86,000	9.9%
7	£86,001 to £101,200	10.5%
8	£101,201 - £151,800	11.4%
9	Over £151,801	12.5%

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 2013 Valuation for the financial years 2014/15, 2015/16 and 2016/17 are shown at https://www.nypf.org.uk/Documents/Triennial_Valuation_Report_March_2013.pdf

5.5 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 Long Guide to the Local Government Pension Scheme for Employees in England and Wales*, can be found on the North Yorkshire Pension Fund (NYPF)

website at <https://www.nypf.org.uk/formsandguides/schemeguides.shtml>. A paper copy can be requested by ringing the NYPF at County Hall, Northallerton on 01609 536335.

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 for early payment). However, some members have a protected Normal Pension Age of 65 years.

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 $\frac{1}{49}^{\text{th}}$ 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 full time equivalent pensionable pay received in 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 have a reduction in their pensionable pay in the last 10 years (up to date of retirement) can base benefits on the average of any 3 consecutive years in the last 13 years. Pensions are calculated on a fraction of $\frac{1}{80}^{\text{th}}$ for each year of membership of the scheme for service up to 31 March 2008 and on $\frac{1}{60}^{\text{th}}$ for service after 1 April 2008.

Pension (Ill Health)

An ill health pension is based on the full time equivalent pensionable pay received in 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 $\frac{1}{49}^{\text{th}}$ 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 $\frac{1}{49}^{\text{th}}$ 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 $\frac{3}{80}$ ^{ths} 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.

If a member has a deferred benefit and / or a pension in payment from a previous period of membership of the scheme, the lump sum death grant will be any lump sum death grant payable in respect of those benefits or the death in service lump sum death grant of three times your **assumed pensionable pay**, whichever is the greater.

(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.

If a member was an active member of the LGPS (with North Yorkshire or any other fund) and died in service the death grant payable will be the higher of the death in service lump sum or the combined total of any deferred pensions or pensions already in payment.

Spouses, civil partners and nominated cohabiting partner's pension

Any surviving spouse, cohabiting partner or civil partner is entitled to a pension based on $\frac{1}{160}$ 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, cohabiting partner or civil partner is entitled to a pension based on $\frac{1}{160}$ th 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 $\frac{1}{320}$ th of member's service, multiplied by the pensionable pay plus a pension equal to $\frac{1}{160}$ 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.

Partner with more than one child:

Child's pension is $\frac{1}{160}$ th of the member's service, multiplied by the pensionable pay plus a pension equal to $\frac{1}{160}$ 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 $\frac{1}{240}$ th of the member's service, multiplied by the pensionable pay plus a pension equal to $\frac{1}{160}$ th 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 $\frac{1}{120}$ th of the member's service, multiplied by the pensionable pay plus a pension equal to $\frac{1}{160}$ 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.

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.

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 032 6674.

Part 6 – Governance Documentation

The main governance documentation is as follows:

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

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 Regulations 2013 (as amended), 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
- 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 2013 Actuarial Valuation

A revised Funding Strategy Statement will be issued following the 2016 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.

(e) Pension Administration Strategy

This document sets out the administration protocols that have been agreed between the Fund and its employers. It includes the responsibilities and duties of the Employer and NYPF, performance levels, and communications. The latest Pension Administration Strategy is shown at Appendix H.

Part 7 – Training

7.1 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 and 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.

7.2. Training for Pension Fund Committee Members and Officers

(i) Internal

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

During the year 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 2015/16 were:

Event	Place	Date
NAPF Local Authority Conference	Gloucestershire	18 – 20 May 2015
LGC Investment Summit	Newport	10 – 11 September 2015
NAPF Annual Conference	Liverpool	14 – 16 October 2015
NAPF Investment Conference	Edinburgh	9 – 11 March 2016

Part 8 – Glossary And Contact Details

ACTIVE MEMBER:

Current employee who is contributing to a pension scheme.

ACTUARY:

An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC):

An option available to active scheme members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider.

ADMINISTERING AUTHORITY:

North Yorkshire County Council as Administering Authority is responsible for the administration of the North Yorkshire Pension Fund (NYPF).

ADMITTED BODY:

An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

ALTERNATIVES:

An alternative investment is an asset that is not one of the conventional investment types, such as stocks, bonds and cash. Alternative investments include private equity, hedge funds, managed futures, real estate, commodities and derivatives contracts

ASSET ALLOCATION:

The apportionment of a fund's assets between different types of investments (or asset classes). The long-term strategic asset allocation of a Fund will reflect the Fund's investment objectives.

BENCHMARK:

A measure against which the investment policy or performance of an investment manager can be compared.

CARE (Career Average Revalued Earnings)

From 1 April 2014, the LGPS changed from a final salary scheme to a CARE scheme. It is still a defined benefit scheme but benefits built up from April 2014 are worked out using a member's pay each scheme year rather than the final salary. The pension earned each scheme year is added to the member's pension account and inflation is then added to the pension built up in the account so it keeps its value.

DEFERRED MEMBERS:

Scheme members, who have left employment or ceased to be an active member of the scheme whilst remaining in employment, but retain an entitlement to a pension from the scheme.

DEFINED BENEFIT SCHEME:

A type of pension scheme, where the pension that will ultimately be paid to the employee is fixed in advance, and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

DIVERSIFIED GROWTH FUNDS (DGF):

An alternative way of investing in shares, bonds, property and other asset classes.

EMPLOYER CONTRIBUTION RATES:

The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

EQUITIES:

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

FIXED INTEREST SECURITIES:

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

INDEX:

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

POOLED FUNDS:

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

RETURN:

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

SCHEDULED BODY:

An organisation that has the right to become a member of the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

THE PENSIONS ADVISORY SERVICE (TPAS)

TPAS is an independent non-profit organisation that provides information and guidance on all areas of the pensions industry. They also help any member of the public who has a problem, complaint or dispute with their occupational or private pension arrangement

UNREALISED GAINS/LOSSES:

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

Contact Information

North Yorkshire Pension Fund

County Hall
Northallerton
North Yorkshire
DL7 8AL

Telephone: Pensions Help & Information Line on 01609 536335

Email: pensions@northyorks.gov.uk

website: www.nypf.org.uk

The Pensions Advisory Service (TPAS)

TPAS
11 Belgrave Road
London
SW1V 1RB

Telephone: The Pensions Helpline: 0845 601 2923

Email: enquiries@pensionsadvisoryservice.org.uk.

website: www.pensionsadvisoryservice.org.uk

Statement of responsibilities for the financial statements

Responsibility for the Financial Statements, which form part of this Annual Report, is set out below.

a) The Administering Authority

The Administering Authority is North Yorkshire County Council. The Administering Authority is required to:

- make arrangements for the proper administration of the financial affairs of the Fund and to secure that an officer has the responsibility for the administration of those affairs. In this Authority, that officer is the Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

b) Treasurer

The Treasurer is responsible for the preparation of the Fund's Financial Statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom Based on International Reporting Standards (the Code). This document includes the financial statements for the Pension Fund only. The financial statements of North Yorkshire County Council are published separately.

In preparing these financial statements, the Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Treasurer has also:

- kept proper accounting records, which were up to date; and
- taken responsible steps for the prevention and detection of fraud and other irregularities.

Certificate

I hereby certify that the following Annual Report and Accounts give a true and fair view of the financial position of the North Yorkshire Pension Fund as at 31 March 2016 and its income and expenditure for the financial year then ended.

Gary Fielding
Treasurer
North Yorkshire Pension Fund
September 2016

NORTH YORKSHIRE PENSION FUND
FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2016

2014/15 £000		2015/16 £000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions		
56,902	Employers - Normal	57,626	
35,822	- Deficit	25,765	
2,444	- Early Retirement Costs Recharged	2,572	
25,075	Employees - Normal	25,492	
248	- Additional Voluntary	233	
120,491	Total Contributions Receivable (Note 7)		111,688
6,663	Transfers In (Note 8)		8,680
	Less		
	Benefits		
(69,996)	Pensions	(73,274)	
(20,491)	Commutation and Lump Sum Retirement Benefits	(23,176)	
(1,874)	Lump Sums Death Benefits	(2,282)	
(92,361)	Total Benefits Payable (Note 9)		(98,732)
	Leavers		
(138)	Refunds to Members Leaving Service	(364)	
0	Payments for Members Joining State Scheme	0	
(40,840)	Transfers Out	(3,603)	
(40,978)	Total Payments on Account of Leavers (Note 10)		(3,967)
(2,114)	Management Expenses (Note 11)		(1,829)
(8,299)	Net Additions From Dealings With Members		15,840
	RETURNS ON INVESTMENTS		
21,943	Investment Income (Note 12)		16,963
(390)	Taxation (Note 13)		(290)
(4,943)	Investment Management Cost (Note 11)		(7,968)
308,342	Change in market value of investments (Note 14a)		(6,581)
324,952	Net Returns On Investments		2,124
316,653	Net Increase in the Fund During the Year		17,964
2,083,216	Opening Net Assets of the Fund		2,399,869
2,399,869	Closing Net Assets of the Fund		2,417,833

NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31 March 2015 £000		31 March 2016 £000
	INVESTMENT ASSETS (Notes 15 & 16)	
161,287	Fixed Interest Securities	341,598
701,918	Equities	488,055
1,335,586	Pooled Investments	1,391,947
150,011	Pooled Property Investments	176,463
82	Private Equity	82
2,348,884		2,398,145
27,437	Cash Deposits	8,339
5,327	Investment Debtors	13,584
2,381,648	TOTAL INVESTMENT ASSETS	2,420,068
	INVESTMENT LIABILITIES (Notes 15 & 16)	
0	Derivative Contracts - Forward Currency Contracts	0
(1,123)	Investment Creditors	(10,771)
(1,123)	TOTAL INVESTMENT LIABILITIES	(10,771)
2,380,525	NET INVESTMENT ASSETS	2,409,297
	CURRENT ASSETS	
9,841	Contributions due from employers	7,612
242	Other Non-Investment Debtors	903
12,049	Cash	3,780
22,132	TOTAL CURRENT ASSETS	12,295
	CURRENT LIABILITIES	
(2,788)	Non-investment creditors	(3,759)
(2,788)	TOTAL CURRENT LIABILITIES	(3,759)
2,399,869	TOTAL NET ASSETS (Note 16)	2,417,833

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 2016

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 2015/16 and the statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Scheme is governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

It is a contributory 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 area. Teachers, police officers and fire fighters are not included as they come 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 2016 there were 125 contributing employer organisations within NYPF including the County Council itself, these are detailed below

77 Scheduled Bodies

Ainsty 2008 Internal Drainage Board
Archbishop Holgate's School
Askham Bryan College
Chief Constable - North Yorkshire Police Force
City of York Council
Craven College
Craven District Council
Easingwold Town Council
Filey Town Council
Foss Internal Drainage Board
Fulford Parish Council
Glusburn Parish Council
Great Ayton Parish Council
Hambleton District Council
Harrogate Borough Council
Haxby Town Council
Hunmanby Parish Council
Knaresborough Town Council
Malton Town Council
North Yorkshire Moors National Park
North Yorkshire County Council
North Yorkshire Fire & Rescue Authority
North Yorkshire Police & Crime Commissioner
Northallerton / Romanby Burial Board
Northallerton Town Council
Norton on Derwent Town Council
Pickering Town Council
Riccall Parish Council
Richmond Town Council
Richmondshire District Council
Ripon City Council
Ryedale District Council
Scarborough Borough Council
Scarborough Sixth Form College
Selby College
Selby District Council
Selby Town Council
Skipton Town Council
Sutton in Craven Parish Council
Tadcaster Town Council
Thornton (Vale of Pickering) IDB
Whitby Town Council
York College
Yorkshire Dales National Park

Great Smeaton Academy Primary School
Huntington Primary Academy
Norton College
Outwood Academy
Rossett School
Stokesley School Academy
The Grove Academy
The Woodlands Academy
Thomas Hinderwell Primary Academy

ACADEMY TRUSTS

Craven Education Trust
- The Skipton Academy
Bishop Wheeler Academy Trust Bodies
- Mary's RC School
- St Stephen's RC School
- St. Joseph's School
Ebor Academy Trust
- Brotherton and Byram School
- Haxby Road Academy
- Robert Wilkinson Primary Academy
Enquire Learning Trust
- Roseberry Academy
Hope Learning Trust
- Manor Academy
- Poppleton Ousebank School
Northern Star Academy Trust
- Harrogate High
- New Park Academy
- Skipton Girls High School
Red Kite Learning Trust
- Harrogate Grammar
- Oatlands Junior School
- Western CP School
South Craven Academy Trust
- South Craven School
YA Collaboration Trust
- Askwith School
- Bilton Grange School
- Lothersdale Schools
Yorkshire Causeway Trust
- All Saints CE School
- Richard Taylor School
- St Aidan's CE School
- St Peter's CE Primary School

48 Admitted Bodies

Be Independent	Mellors
Betterclean Services	Northern Care
Bulloughs Cleaning Ltd	NYBEP
Catering Academy Ltd	OCS Group UL Ltd
Chartwells Compass	Premier Support Services
Churchill Security	Richmondshire Leisure
Community Leisure	Ringway
Consultant Services Group	Sanctuary Housing Association
Craven Housing	Sewell Facilities Management
Dewent Facilities Management	Sheffield International Venues
Dolce Ltd	Sports and Leisure Management
Elite	Springfield Home Care
Enterprise	Streamline Taxis
Explore York Libraries and Archives	Superclean
Grosvenor Facilities Management	University of Hull
Housing and Care 21	Veritau Ltd
Human Support Group	Veritau North Yorkshire Ltd
Hutchison Catering	Welcome to Yorkshire
Interserve	Wigan Leisure & Culture Trust
ISS Mediclean Ltd	York Archaeological Trust
Jacobs UK Ltd	York Museums & Gallery Trust
Joseph Rowntree Trust	York St John University
Lifeways Community Care Ltd	Yorkshire Coast Homes
Make It York	Yorkshire Housing Ltd

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

	31 March 2016	31 March 2015
	No	No
Number of Employers with Active Members	125	107
Employees in the Fund		
NYCC	20,497	21,931
Other employers	13,493	13,125
Total	<u>33,990</u>	<u>35,056</u>
Pensioners		
NYCC	10,623	9,961
Other employers	9,087	8,483
Total	<u>19,710</u>	<u>18,444</u>
Deferred pensioners		
NYCC	19,560	18,829
Other employers	12,409	11,762
Total	<u>31,969</u>	<u>30,591</u>

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2016. 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

Prior to 1 April 2014 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 1/80th 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 1/60th 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.

From 1 April 2014 the scheme became a career average scheme whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually 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 on the Fund's website.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its year end position as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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.

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.

Employer deficit funding contributions are accounted for in the period in which they are payable under the schedule of contributions set by the Actuary or on receipt if earlier than the due date.

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 (see notes 8 and 10).

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 and are included in Transfers In (see note 8).

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 and Oversight and Governance Costs

All administrative expenses, oversight and governance costs are accounted for on an accruals basis. All associated staff costs are charged to the Fund. Management, accommodation and other overheads borne by NYCC 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

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
- the value of assets held within limited partnerships are based on periodic valuations provided by those controlling the partnership

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.

Derivative contract assets are valued at bid prices and liabilities at offer prices. Changes in the value of derivative contracts are included as a change in market value.

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 and includes amounts held by the Fund's external managers.

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 changes in value.

l) 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 the Code, 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 2016 was £82k (31 March 2015, £82k).

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 require management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the for revenue and expenses during the year. Estimates are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from those based on these assumptions and estimates.

The item in the Net Assets Statement as at 31 March 2016 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 1.8%, a 0.1% increase in inflation would increase liabilities by 1.8%, and an increase in life expectancy of one year would increase liabilities by 2.8%.

6. Events After the Reporting Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved. They can be either those that provide evidence of conditions that existed at the end of the reporting period or those that are indicative of conditions arising after the end of the reporting period.

7. Contributions Receivable

	2015/16	2014/15
	£000	£000
Contributions Receivable		
North Yorkshire County Council	49,156	48,239
Other Scheduled Bodies	55,521	65,235
Admitted Bodies	7,011	7,017
	<u>111,688</u>	<u>120,491</u>

8. Transfers In from Other Pension Funds

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

9. Benefits Payable

	2015/16	2014/15
	£000	£000
Benefits Payable		
North Yorkshire County Council	42,069	39,268
Other scheduled bodies	49,115	47,440
Admitted bodies	7,548	5,653
	<u>98,732</u>	<u>92,361</u>

10. Payments To and On Account of Leavers

All payments were in relation to individual members. There were no group transfers during the year.

11. Management Expenses

	2015/16	2014/15
	£000	£000
Administrative Costs	1,412	1,519
Investment Management Costs	7,968	4,943
Oversight and Governance Costs	417	595
	<u>9,797</u>	<u>7,057</u>

Investment Management Costs includes £3,947k (2014/15: £1,177k) in respect of performance related fees payable to the Fund's investment managers and £644k in respect of transaction costs (2014/15: £725k).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of acquisitions and in the proceeds from the sales of investments (see **Note 14a**).

12. Investment Income

	2015/16	2014/15
	£000	£000
Fixed Interest and Index Linked Securities	2,301	2,094
Dividends from Equities	12,683	18,186
Pooled Property Investments	1,265	1,066
Pooled Investments - Other Managed Funds	63	0
Interest on Cash Deposits	81	50
Other	570	547
	<u>16,963</u>	<u>21,943</u>

13. Taxes on Income

	£000	£000
Withholding Tax on Dividends	<u>290</u>	<u>390</u>

14. Investments

a) Reconciliation of Movements in Investments and Derivatives

	Value at 31 March 2016	Change in market value at 31 March 2016	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2015
	£000	£000	£000	£000	£000
Fixed Interest	341,598	14,473	(660,265)	826,103	161,287
Equities	488,055	(24,619)	(418,664)	229,420	701,918
Pooled Funds	1,391,947	(14,349)	(270,622)	341,332	1,335,586
Pooled Property	176,463	17,914	0	8,538	150,011
Private Equity	82		0	0	82
Derivative Contracts	0				0
Total Invested	<u>2,398,145</u>	<u>(6,581)</u>	<u>(1,349,551)</u>	<u>1,405,393</u>	<u>2,348,884</u>
Cash Deposits	8,339				27,437
Net Investment Debtors	2,813	(1,391)			4,204
Net Investment Assets	<u>2,409,297</u>	<u>(7,972)</u>			<u>2,380,525</u>

	Value at 31 March 2015	Change in market value at 31 March 2015	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2014
	£000	£000	£000	£000	£000
Fixed Interest	161,287	36,090	(482,958)	536,731	71,424
Equities	701,918	48,328	(434,593)	345,590	742,593
Pooled Funds	1,335,586	204,266	(30,997)	21,000	1,141,317
Pooled Property	150,011	19,724	0	31,695	98,592
Private Equity	82	(66)	(110)	0	258
Derivative Contracts	0	0	23	0	(23)
Total Invested	<u>2,348,884</u>	<u>308,342</u>	<u>(948,635)</u>	<u>935,016</u>	<u>2,054,161</u>
Cash Deposits	27,437				12,185
Net Investment Debtors	4,204	1,023			3,181
Net Investment Assets	<u>2,380,525</u>	<u>309,365</u>			<u>2,069,527</u>

Transaction costs incurred during the year amounted to £644k (2014/15 £725k). In addition to these costs, indirect costs are incurred through the bid-offer spread on investment purchases and sales.

b) Analysis of Investments (excluding derivative contracts)

	2015/16	2014/15
	£000	£000
Fixed Interest Securities		
UK Public Sector Quoted	<u>341,598</u>	<u>161,287</u>
Equities		
UK Quoted	274,721	347,559
Overseas Quoted	<u>213,334</u>	<u>354,359</u>
	<u>488,055</u>	<u>701,918</u>
Pooled Investments		
UK Equity	65,403	51,806
UK Property	176,463	150,011
UK Fixed Income	-	210,996
Overseas Equity	950,427	700,624
Overseas Fixed Income	<u>129,395</u>	<u>172,333</u>
	<u>1,321,688</u>	<u>1,285,770</u>
Diversified Growth Funds - UK	<u>246,722</u>	<u>199,827</u>
Private Equity - UK	<u>82</u>	<u>82</u>
Total Investments (excl Derivatives)	<u>2,398,145</u>	<u>2,348,884</u>
Cash Deposits	8,339	27,437
Net Investment Debtors	2,813	4,204
Net Investment Assets	<u>2,409,297</u>	<u>2,380,525</u>

c) Investments analysed by Fund Manager

	£000	%	£000	%
Baillie Gifford & Co. - Global Alpha	445,906	18.4	412,227	17.2
Baillie Gifford & Co. - LTGG	303,055	12.5	273,839	11.4
Fidelity International	259,850	10.7	430,200	17.9
Standard Life Investments - Equities	279,634	11.6	357,560	14.9
Standard Life Investments - DGF	137,312	5.7	91,376	3.8
ECM Asset Management	129,394	5.4	130,081	5.4
Amundi Asset Management	0	0.0	253,248	10.6
Hermes Property Unit Trust	32,113	1.3	29,574	1.2
Legal & General	60,029	2.5	54,398	2.3
Threadneedle	84,911	3.5	66,628	2.8
M&G Investments	342,475	14.2	172,862	7.2
Newton Investments	109,409	4.5	108,451	4.5
Dodge & Cox	104,730	4.3	0	0.0
Veritas	120,397	5.0	0	0.0
Currency Hedging	(1)	0.0	(1)	0.0
Yorks & Humber Equity Fund	82	0.0	82	0.0
Internally Managed (cash and net debtors)	8,537	0.4	19,344	0.8
	<u>2,417,833</u>	<u>100.00</u>	<u>2,399,869</u>	<u>100.00</u>

The investments with Baillie Gifford, ECM Asset Management and Standard Life Investments- DGF 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.

d) 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.

15. Analysis of Derivatives

The Fund does not hold derivatives.

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.

31 March 2015			31 March 2016		
Designated as fair value through profit & loss	Loans & Receivables	Financial liabilities amortised at cost	Designated as fair value through profit & loss	Loans & Receivables	Financial liabilities amortised at cost
£000	£000	£000	£000	£000	£000
			Assets		
161,287			Fixed Interest Securities	341,598	
701,918			Equities	488,055	
1,135,759			Pooled Investments	1,145,224	
150,011			Pooled Property	176,463	
199,827			Diversified Growth Funds	246,722	
82			Private Equity	82	
			Derivative contracts		
	39,486		Cash		12,120
5,327			Investment Debtors	13,584	-
	10,083		Non Investment Debtors		8,515
<u>2,354,211</u>	<u>49,569</u>	<u>-</u>	<u>2,411,728</u>	<u>20,635</u>	<u>-</u>
			Liabilities		
-			Derivative Contracts	-	
1,123			Investment Creditors	10,771	
		2,788	Non Investment Creditors		3,759
<u>1,123</u>	<u>-</u>	<u>2,788</u>	<u>10,771</u>	<u>-</u>	<u>3,759</u>
<u>2,353,088</u>	<u>49,569</u>	<u>(2,788)</u>	<u>2,400,957</u>	<u>20,635</u>	<u>(3,759)</u>

b) Net Gains and Losses on Financial Instruments

	2015/16	2014/15
	£000	£000
Fair Value Through Profit & Loss	(6,581)	308,342
Loans and Receivables	(20,489)	16,275
	<u>(27,070)</u>	<u>324,617</u>

c) 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 2016	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Assets				
Fair Value through Profit & Loss	2,411,646		82	2,411,728
Loans and Receivables	20,635			20,635
	<u>2,432,281</u>	<u>-</u>	<u>82</u>	<u>2,432,363</u>
Liabilities				
Fair Value through Profit & Loss	10,771			10,771
Liabilities at Amortised Cost	3,759			3,759
	<u>14,530</u>	<u>-</u>	<u>-</u>	<u>14,530</u>
Net Assets	<u>2,417,751</u>	<u>-</u>	<u>82</u>	<u>2,417,833</u>

Values at 31 March 2015	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Assets				
Fair Value through Profit & Loss	2,354,129		82	2,354,211
Loans and Receivables	49,569			49,569
	<u>2,403,698</u>	<u>-</u>	<u>82</u>	<u>2,403,780</u>
Liabilities				
Fair Value through Profit & Loss	1,123			1,123
Liabilities at Amortised Cost	2,788			2,788
	<u>3,911</u>	<u>-</u>	<u>-</u>	<u>3,911</u>
Net Assets	<u>2,399,787</u>	<u>-</u>	<u>82</u>	<u>2,399,869</u>

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.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

Asset Type	Potential Market Movements (+/-) %
Cash and Cash Equivalents	1.0
UK Bonds	9.0
UK Equities	19.0
Overseas Equities	20.0
UK Pooled Equity	19.0
Overseas Pooled Equity	20.0
UK Pooled Bonds	9.0
Overseas Pooled Bonds	9.0
Pooled Property Investments	12.5
Diversified Growth Funds	11.5
Private Equity	27.5
Derivatives	0.0
Non Investment Debtors/Creditors	0.0

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset Type	Value as at 31 March 2016	Potential Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and Cash Equivalents	8,339	83	8,422	8,256
UK Bonds	341,598	30,744	372,342	310,854
UK Equities	274,721	52,197	326,918	222,524
Overseas Equities	213,333	42,667	256,000	170,666
UK Pooled Equity	65,403	12,427	77,830	52,976
Overseas Pooled Equity	950,428	190,086	1,140,514	760,342
UK Pooled Bonds	0	0	0	0
Overseas Pooled Bonds	129,395	11,646	141,041	117,749
Pooled Property Investments	176,463	22,058	198,521	154,405
Diversified Growth Funds	246,722	28,373	275,095	218,349
Private Equity	82	23	105	59
Derivatives	0	0	0	0
Non Investment Debtors/Creditors	4,756	0	4,756	4,756
Total Assets	2,411,240		2,801,544	2,020,936

Asset Type	Value as at 31 March 2015	Potential Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and Cash Equivalents	27,437	0	27,437	27,437
UK Bonds	161,287	10,322	171,609	150,965
UK Equities	347,559	35,799	383,358	311,760
Overseas Equities	354,359	31,892	386,251	322,467
UK Pooled Equity	51,806	5,336	57,142	46,470
Overseas Pooled Equity	700,624	63,057	763,681	637,567
UK Pooled Bonds	210,996	13,504	224,500	197,492
Overseas Pooled Bonds	172,333	11,029	183,362	161,304
Pooled Property Investments	150,011	3,150	153,161	146,861
Diversified Growth Funds	199,827	8,393	208,220	191,434
Private Equity	82	3	85	79
Derivatives	0	0	0	0
Non Investment Debtors/Creditors	7,295	0	7,295	7,295
Total Assets	2,383,616		2,566,101	2,201,131

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 2016 and 31 March 2015 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2015/16	2014/15
	£000	£000
Cash and Cash Equivalents	8,339	27,437
Fixed Interest Securities	341,598	161,287
	<u>349,937</u>	<u>188,724</u>

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 £3,499k and for 2014/15 asset values, £1,887k.

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 +/-9.1%. 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 9.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset Type	Value as at 31 March 2016	Value on 9.1% Increase	Value on 9.1% Decrease
	£000	£000	£000
Overseas Equities	1,163,761	1,269,663	1,057,859
Overseas Bonds	129,395	141,170	117,620
Total Assets	<u>1,293,156</u>	<u>1,410,833</u>	<u>1,175,479</u>

Asset Type	Value as at 31 March 2015	Value on 6.1% Increase	Value on 6.1% Decrease
	£000	£000	£000
Overseas Equities	1,054,983	1,119,337	990,629
Overseas Bonds	172,333	182,845	161,821
Total Assets	<u>1,227,316</u>	<u>1,302,182</u>	<u>1,152,450</u>

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 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. The banks and institutions 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 2016 was £3.8m (31 March 2015, £12m) and was held with the following institutions:

	Credit Rating	31 March 2016 £000	31 March 2015 £000
Call Accounts			
Barclays	A/F1	569	3,119
Santander UK	A/F1	15	249
Fixed Term Deposit Notice Accounts			
Bank of Scotland	A+/F1	1,208	4,759
Barclays	A/F1		280
Leeds BS	A-/F1	71	560
Nationwide	A/F1	569	1,820
Svenska Handelsbanken	AA-/F1+	114	280
Santander UK	A/F1	554	
Goldman Sachs	A/F1	426	
Lancashire County Council	-	142	280
Leicester FRA	-		84
London Borough of Enfield	-	71	280
Salford City Council	-		336
Falkirk Council	-	71	
		<u>3,810</u>	<u>12,047</u>

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 2016 the value of illiquid assets was £82k, which represented less than 0.1% of total Fund assets (31 March 2015, £82k, which represented less than 0.1% of total Fund assets).

All liabilities at 31 March 2016 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, Aon Hewitt, 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 they 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 2015/16 the common rate (determined at the 2013 Valuation) is 13.8% of pensionable pay.

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 2016 is based on 2012 CMI projections subject to a long-term improvement trend of 1.5% per annum.

Commutation Assumption

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 service and for post-April 2008 service.

50:50 Option

It is assumed that no active members (evenly distributed across the age, service and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

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

	2015/16	2014/15
	£000	£000
Debtors		
Investment Debtors		
Investment Transactions	9,676	1,499
Accrued Dividends	2,122	2,542
Withholding Taxes Recoverable	1,786	1,286
	<u>13,584</u>	<u>5,327</u>
Other Debtors		
Contributions due from Scheduled (Government) Bodies	7137	9,361
Contributions due from Admitted Bodies	475	480
Pensions Rechargeable	253	11
Interest on Deposits	107	0
Other	543	231
	<u>8,515</u>	<u>10,083</u>
Total Debtors	<u>22,099</u>	<u>15,410</u>

21. Current Liabilities

	2015/16	2014/15
	£000	£000
Creditors		
Investment Creditors	10,771	1,123
Sundry Other Creditors	3,759	2,788
	<u>14,530</u>	<u>3,911</u>

Within Sundry Other Creditors, £1,320k relates to government entities and £2,439k to non-government entities and individuals.

22. Additional Voluntary Contributions

	Market Value 31 March 2016	Market Value 31 March 2015
	£000	£000
Prudential	<u>19,644</u>	<u>21,180</u>

AVC contributions of £2,036k were paid directly to Prudential during the year (£2,261k in 2014/15).

23. Agency Services

The North Yorkshire Pension Fund does not operate Agency Service contracts.

24. 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 £1,136k (£1,136k in 2014/15) 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 £49.2m to the Fund in 2015/16 (£48.2m in 2014/15). All monies owing to and due from the Fund were paid in the year.

Part of the Fund's cash holdings are invested with banks and other institutions by the treasury management operations of NYCC, through a service level agreement. During the year to 31 March 2016 the Fund had an average investment balance of £16.8m (£6m during 2014/15) receiving interest of £107.5k (£39k paid in 2014/15) on these funds.

Governance

As at 31 March 2016 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.

Key Management Personnel

The Code exempts local authorities from the key management personnel disclosure requirements of IAS 24. This exemption applies in equal measure to the accounts of the Fund. The disclosures required by The Accounts and Audit (England) Regulations can be found in the main accounts of NYCC.

25. Contingent Liabilities and Contractual Commitments

The Fund had no material contingent liabilities or contractual commitments at the year end (£nil in 2014/15).

26. Contingent Assets

Three 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.

27. Impairment Losses

The Fund had no material impairment losses at the year-end (£nil in 2014/15).

North Yorkshire Pension Fund

Statement of the Actuary for the year ended 31 March 2016

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the North Yorkshire Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Mercer Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

Actuarial Position

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £1,841M) covering 73% of the liabilities in respect of service prior to the valuation date allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 was:
 - 13.8% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure effective from 1 April 2014.

Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 27 years, amounting to £28M in 2014/15, and increasing by 4.1% p.a. thereafter.

Allowance was made for post valuation market changes to 31 August 2013. On average across the Fund, the updated deficit would be eliminated by a monetary amount of £21M in 2014/15, and increasing by 4.1% p.a. thereafter.

3. In practice, each individual employer's position is assessed separately and contributions are set out in the certificate attached to Mercer Limited's report dated March 2014 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.
4. The funding plan adopted in assessing the contributions for each individual employer was in accordance with the Funding Strategy Statement in force at the time.
5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for past service liabilities (funding target)	4.8% p.a.
Discount rate for future service liabilities	5.6% p.a.
Rate of inflationary pay increases (long term)*	4.1% p.a.
Rate of increase to pension accounts	2.6% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% p.a.

* allowance was also made for short-term public sector pay restraint over a 5 year period in calculating the past service liabilities.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date (other than the allowance for post valuation market changes as mentioned above).

7. The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 28 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

The actuarial valuation of the Fund as at 31 March 2016 is currently underway. The Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions for the period from 1 April 2017 to 31 March 2020 to be signed off by 31 March 2017.

8. This Statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out by Mercer Limited as at 31 March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, North Yorkshire County Council, the Administering Authority of the Fund, in respect of this Statement.

9. The actuarial valuation report is available on the Fund's website at the following address:
<https://www.nypf.org.uk/nypf/valuationreports.shtml>

Aon Hewitt Limited

19 August 2016

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 2015, 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 2014/15.

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 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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

25 September 2015

NORTH YORKSHIRE PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

TABLE OF CONTENTS

Section		Page
1	INTRODUCTION	2
2	INVESTMENT DECISION MAKING PROCESS	2
3	TYPES OF INVESTMENTS TO BE HELD	2
4	BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS	3
5	RISK	4
6	EXPECTED RETURN ON ASSETS	4
7	REALISATION OF INVESTMENTS	4
8	SOCIALLY RESPONSIBLE INVESTMENTS	5
9	SHAREHOLDER GOVERNANCE	5
10	STOCK LENDING	5
11	COMPLIANCE WITH GUIDANCE FROM THE SECRETARY OF STATE	5

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.
- 2.3 LGPS pooling arrangements are due to be implemented from April 2018. NYPF has joined the Border to Coast Pensions Partnership (BCPP) which sent a proposal to DCLG on how pooling arrangements could work, including describing the changes to the investment decision making process thought necessary. No specific changes have been agreed to date, but it is intended that an FCA regulated entity, established and controlled by 12 of the 13 administering authorities of BCPP, will be responsible for implementing investment strategy decisions, including the selection of appropriate investment managers. The PFC of each administering authority will continue to be responsible for its own investment strategy. However, the powers and information available to a PFC to assist it in fulfilling its overall responsibilities are likely to be considerably less than has hitherto been the case.
- 2.4 The [full proposal](#) is available on NYPF's website, which includes sections on pooling assets, decision making and manager selection.

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 issued 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; the next review will take place alongside the 2016 Valuation. This Review 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
Alternatives	10	20
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 out-performance target over liabilities and 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 www.nypf.org.uk.
- 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 2015/16 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.

July 2016

NORTH YORKSHIRE PENSION FUND**GOVERNANCE COMPLIANCE STATEMENT****TABLE OF CONTENTS**

Section		Page
1	INTRODUCTION	2
2	GOVERNANCE ARRANGEMENTS	2
3	REPRESENTATION AND MEETINGS	4
4	OPERATIONAL PROCEDRES	5
5	KEY POLICY / STRATEGY DOCUMENTS	6
5	ASSESSMENT OF COMPLIANCE WITH BEST PRACTICE PRINCIPLES	6

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 Regulations 2013.
- 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 pension scheme (LGPS) under the regulations.

Pension Board

- 2.2 The Pension Board is responsible for assisting the Council in securing compliance with the regulations, and to ensure the efficient and effective governance and administration of the LGPS. The Pension Board has an oversight role in the governance of the Fund.
- 2.3 The key points from the terms of reference are:
- there are 9 members of the Pension Board, being 4 scheme member representatives (voting), 4 employer representatives (voting) and 1 independent chair (non-voting)
 - there are 4 meetings each year
 - the Pension Board has its own policies on conflicts of interest and training
 - costs of the Pension Board are met by the Fund

Independent Professional Observer

- 2.4 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

- 2.5 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.
- 2.6 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, subject to any specific instructions that might be given from time to time by the PFC
 - 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

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.

LGPS Pooling Arrangements

- 2.8 LGPS pooling arrangements, which are due to be implemented from April 2018 will require changes to the governance arrangements of the Fund. NYPF has joined the Border to Coast Pensions Partnership (BCPP) which has sent a proposal to DCLG on how pooling arrangements could work, including describing the changes to governance thought necessary. No specific changes have been agreed to date, but to facilitate the further development of arrangements two informal bodies have been created. The Member Steering Group comprises the Chairs of 12 of the 13 administering authorities in BCPP. This Group oversees the work of officers of the administering authorities who make up the Officer Operations Group.
- 2.9 The [full proposal](#) is available on NYPF's website, which includes the terms of reference of these two bodies and how the BCPP members intend to work together.

3.0 REPRESENTATION AND MEETINGS

Representation

- 3.1 The current membership of the PFC is as follows (as at July 2016)
- (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 Pension Board is invited to attend all PFC meetings, in a non-voting capacity
 - (f) the quorum required for Committee Meetings is three

Meetings

- 3.2 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.
- 3.3 Papers for all meetings of the PFC are provided to all the Members identified in **paragraph 3.1** above, including substitute members and union representatives. 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.
- 3.4 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.
- 3.5 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. At least four 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 and a Committee Clerk (NYCC).
- 3.6 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.

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 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.

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 required 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 www.nypf.org.uk 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

a	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. It is assumed that the Pension Board fulfils the role of a secondary panel and these stakeholder groups are all eligible to be represented
c	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Fully compliant. It is assumed that the Pension Board fulfils the role of a secondary panel
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

a	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	Fully compliant

	opportunity to contribute to the decision making process, with or without voting rights	
--	---	--

6.3 Selection and Role of Lay Members

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

6.4 Voting

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

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

a	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)

a	That an administering authority's main committee or committees meet at least quarterly	Fully compliant
b	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
c	That administering authorities who do not include lay	Fully compliant

	members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	
--	--	--

6.7 Access

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

6.8 Scope

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

6.9 Publicity

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

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 on page 80.

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 pages 77-80, 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 out-performance 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.

7. 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 out-performance 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%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	156% / 109%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	109% / 99%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	97% / 96%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	97% / 96%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	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

3.1 With effect from 26 May 2011 the NYPF will apply the above principles to the admission of new bodies into the Fund.

3.2 The above methodology for the assessment of a termination payment will apply to all admission bodies on cessation of each body's participation in the NYPF.

Transferee admission bodies (TABs)

3.3 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.

- 3.4 On termination of a TAB admission, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.
- 3.5 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.
- 3.6 Deficit recovery periods for TABs will be set in line with the Fund's general policy as set out in the FSS.
- 3.7 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 guarantor.

Community admission bodies (CABs)

- 3.8 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.
- 3.9 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.

- 3.10 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.

3.11 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.

Notification of Termination

3.12 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

3.13 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

3.14 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.

- 3.15 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.
- 3.16 Any unfunded liability that cannot be reclaimed from the outgoing body will be underwritten by the group and not all employers in the Fund.
- 3.17 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

- 3.18 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.
- 3.19 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.
- 3.20 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.

Communications Policy Statement July 2016

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

INDEX

Section Content

- 1 Background
- 2 Objectives
- 3 Stakeholders
- 4 Methods of Communication
- 5 Annual Communications Strategy
- 6 Key Policy / Strategy documents
- 7 Review of this Policy Statement
- 8 Further information

COMMUNICATIONS POLICY STATEMENT

1.0 BACKGROUND

1.1 Each of the Local Government Pension Scheme (LGPS) Funds in England and Wales is required to publish a Statement of policy under Regulation 61 of the Local Government Pension Scheme Regulations 2013 relating to the Communications Strategy for the Fund.

1.2 The key requirements for preparing the Statement are summarised as follows:

- (a) *An Administering Authority must prepare, maintain and publish a written statement setting out its policy concerning communications with members, representatives of members, prospective members and Scheme employers*
- (b) *In particular the statement must set out its policy on the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers, the format, frequency and method of distributing such information or publicity, and the promotion of the scheme to prospective members and their employers*
- (c) *The statement must be revised and published following 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
- **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 (i.e. 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 (e.g. Investment Strategy)
- third party training sessions – details are circulated to all Members on a regular basis

Scheme Employers

4.4 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 online 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

4.5 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)* - available on the Fund website or 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 and deferred members 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
- electronic satisfaction surveys – conduct surveys for qualitative assessments on such matters as payment of retirement benefits, satisfaction with call-handling etc. A hard copy is available on request.
- pay advice (sent to pensioners when they first retire and thereafter when gross pension changes by £1 or more per month)
- 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. A generic email address is available with resulting queries being delivered to an Inbox which is dealt with on a daily basis during office hours by assigned staff members

Prospective Scheme Members

4.6 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 NYFFOG, 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

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 **paragraphs 4.5 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
<http://www.nypf.org.uk>

APPENDIX G

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 2014 should be at the rate of 13.8 per cent of Pensionable Pay (including those in respect of members of the LGPS under the 50:50 option).

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 2014, as set out above, should be individually adjusted as set out in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in Appendix H or in a separate agreement with an individual employer, and the contributions in the attached schedule take account of any such agreements.

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.

MERCER

32

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of zero.

The individual employer 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 with a third party or parties including where the third party or parties participate in the Fund.

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 H, 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 so that the total payments remain the same overall.

The Administering Authority and employer with advice from the Fund's Actuary can agree that contributions payable under this certificate can be sourced under an alternative financing arrangement which provides the Fund with equivalent cash contribution or increased security.

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:



Date of signing:

28 March 2014

Name:

Ian Kirk

Qualification:

Fellow of the Institute and Faculty of Actuaries

MERCER

33



North Yorkshire Pension Fund

Pensions Administration Strategy

February 2016

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



Index

Section	Content
1	Purpose of Strategy
2	Regulatory Background
3	Review of the Strategy
4	Performance Levels
5	Responsibilities and duties of the Employer
6	Responsibilities and duties of NYPF
7	Contribution Rates and Administration Costs
8	Communications
9	Agreement

Pensions Administration Strategy

1.0 Purpose of Strategy

- 1.1 This Strategy sets out the administration protocols between employers and the North Yorkshire Pension Fund (NYPF). The protocols aim to ensure the cost effective running of the Local Government Pension Scheme (LGPS) and the best service possible for LGPS members. The protocols ensure that the statutory requirements and timescales can be met and therefore must be followed at all times.
- 1.2 For the purpose of this Strategy no practical distinction is drawn between the statutory role of North Yorkshire County Council as the Administering Authority for the NYPF, its Pension Fund Committee, the Pension Administration Section or other sections of the Central Services Directorate all of whom play a role in the administration of NYPF – the term NYPF is used collectively to reflect all of the above roles within NYCC. The Pension Board also exists to assist the Administering Authority in ensuring that the NYPF is managed and administered effectively and efficiently and complies with pensions' legislation and requirements imposed by the Pensions Regulator.

2.0 Regulatory Background

- 2.1 The protocols cannot override any provision or requirement in the Regulations outlined below or in any other relevant legislation.
- 2.2 This Strategy is made under regulation 59 of the Local Government Pension Scheme (LGPS) Regulations 2013. The principal Regulations underpinning this document are:
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
 - The Local Government Pension Scheme Regulations 2013
 - The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (and any amendments thereto)
 - The Local Government Pension Scheme (Administration) Regulations 2007
 - The Local Government Pension Scheme (Transitional Provisions) Regulations 2007
 - The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (and any amendments thereto)
 - The Local Government Pension Scheme Regulations 1997 (and any amendments thereto)
 - The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (and any amendments thereto)
 - The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (and any amendments thereto)
 - the Occupational Pension Schemes (Preservation of Benefit) Regulations 1991
 - the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (“the Disclosure Regulations”)
 - the Pensions Act 1995
 - the Pensions Act 2004
 - the Pensions Act 2008
 - the Data Protection Act 1998
 - the Finance Act 2004
 - the Automatic Enrolment (Miscellaneous Amendment) Regulations 2013
 - the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 including amendments to any of these Regulations

3.0 Review of the Strategy

- 3.1 This Strategy will be kept under review by NYPF.
- 3.2 Employers may submit suggestions to improve any aspect of this Strategy at any time.
- 3.3 The Pension Fund Committee and the Pension Board will be asked by NYPF to formally review the Strategy on an annual basis.

4.0 Performance Levels

- 4.1 Performance level agreements are set out in this document for both employers and NYPF. These will be reviewed annually, any changes will be communicated to employers and can be discussed at NYPF OG meetings.
- 4.2 This Strategy is the agreement between NYPF and employers about the levels of performance and associated matters to ensure that the statutory requirements and timescales can be met at all times.

5.0 Responsibilities and Duties of the Employer

5.1 Contact Person

The employer will nominate a person to act as the primary contact with NYPF. The employer will notify the NYPF Management team who that person is and ensure that changes of nominated person are notified to NYPF immediately.

5.2 Authorised Signatories

Each employer is required to provide a list of nominated individuals to act as authorised signatories whose names and specimen signatures are held by the NYPF. In signing a document an authorised officer is certifying that the form comes from the employer stated and also that the information being provided has been validated and is correct. Consequently if an authorised signatory is certifying information that someone else has completed, for example, leaving information including a final salary pay, career average pay, assumed pay, they should be satisfied that the correct validation process has been completed and the information is correct.

- 5.3 It is the employer's responsibility to ensure that details of the nominated contact and authorised signatures are correct and to notify the NYPF of any changes immediately. Failure to update authorised signatories will result in delays in carrying out pensions administration processes affecting individual scheme members, including payment of pension benefits.

5.4 Disclosure and Pensions Regulator Requirements

The Pensions Regulator sets out specific requirements for public sector pension schemes set out in the '[Code of Practice No.14](#)'. Paragraphs 128 – 130 refer to the need for employers to understand and comply with the scheme manager's processes to ensure that the statutory requirements and timescales can be met at all times.

5.5 Member details – Employer performance levels

The employer must forward notifications to NYPF using the forms on the employer pages of the NYPF [website](#) as follows:

Event	Timescale for employer notifying the NYPF
New starters (Employer Pen11 form)	Within one month of the employee joining Where an electronic Employer Pen11 has been submitted, the Employee Pen11 should be sent as soon as possible.
Change in member's details (Change of Members Personal Details form)	Within 6 weeks of the event
Leavers (SU5 form) There are two SU5s, one for members who have had an absence in their final year and one for members without absences	Within 6 weeks of the employee leaving
Advanced Notification of Retirement (ADNOT form)	At least 30 days before the last day of employment
Retirements (SU5 form) There are two SU5s, one for members who have had an absence in their final year and one for members without absences	No later than 2 weeks following retirement Disclosure Regulations require that when a retirement takes place before Normal Pension Age (NPA) NYPF receives the SU5 no later than one month after the date of retirement. Where a retirement takes place on or after NPA, NYPF receives the SU5 no more than 20 days after the date of retirement.
Death in Service	Within 3 working days of the employer being notified of the death of the member

5.6 Employee's Guide

Under the Occupational Pension Schemes (Disclosure of Information) Regulations 2013 the employer must ensure that all new employees eligible to join the LGPS receive a copy of the Employees' Guide to the Scheme as follows:

- Where you have received jobholder information, the Guide must be given within one month of the date that information was received.
- Where you have not received jobholder information, the Guide must be given within two months of the date the person became an active member of the scheme.

Year-end information

- 5.4 The employer (or their payroll contractor/agency for which the employer is responsible) shall provide NYPF with final salary (where applicable) and Career Average Revalued Earnings (CARE) year-end information as at 31 March each year in a notified format no later than 30 April or the next working day.
- 5.4.1 The Council's Integrated Finance Team also requires separate information. After completion of the March contribution sheets, employers are required to review their full year contribution summary (contained within the same Excel document). All contributions for the year should be reconciled back to the organisational payroll and the relevant declaration is to be signed and dated before being returned to pension.contributions@northyorks.gov.uk.

Contribution deductions

- 5.5 The employer will ensure that member and employer contributions are deducted at the correct rate, including contributions due on leave of absence with reduced or no pay, maternity, paternity and adoption leave and any additional contributions NYPF request the employer to collect.

Payment of contributions to NYPF

- 5.6 Contributions (but not Prudential Additional Voluntary Contributions) should be paid each month to NYPF.

Payment dates

- 5.7 All funds due to the NYPF in respect of employees and employers contributions must be cleared in the NYPF bank account by 19th of the month (or the last working day before where the 19th is not a working day) following the month the contributions relate to. Any employer wishing to pay by cheque must therefore ensure the cheque is received by NYPF by the 14th of the month (or the last working day before where the 14th is not a working day).

Late Payment

- 5.8 A penalty system will apply for employers failing to meet the deadlines, as stated in **paragraph 5.7** with a one month grace period for a 'first offence'. The penalty will be based on the number of days after the 19th of the month that the payment due is received in the NYPF bank account. This will take the form of a fixed penalty (£50) plus a daily interest surcharge for the period the amount is outstanding. The interest rate to be used will be 1% above the bank base rate as prescribed in the Regulations. For persistent breaches of this protocol, the employer would be reported to the Pensions Regulator.

Payment method

- 5.9 The employer can choose to pay either by cheque, payable to "North Yorkshire Pension Fund" or preferably by BACS direct to NYPF's bank account subject to the payment date guidance outlined above.

Remittance Advices

- 5.10 The employer must email a monthly return to pension.contributions@northyorks.gov.uk, in advance of their payment. The monthly return is in a prescribed format and is provided by the Integrated Finance team. The form must state the employers name and reference number, the period and the amount of the payment split between employees and employers contributions. In addition, it should include the total pensionable pay, details of added-years contributions, Additional Regular contributions, Additional Pension Contributions and any other payroll related adjustments.

AVC Contributions

- 5.11 The employer will pay additional voluntary contributions to the AVC Provider within one week of them being deducted. Under the Pensions Act 1995 the Pensions Regulator may be notified if contributions are not received before the 19th of the month following that in which they were deducted. The employer will submit the schedule of AVCs in an agreed format directly to Prudential ahead of the actual remittance.

Discretionary Powers

- 5.12 It is a mandatory requirement that each employer is responsible for exercising the discretionary powers given to them by the Regulations. These Regulations extend to requiring the employer to publish its policy in respect of the key discretions as described by the Regulations to its employees. Copies of the relevant employer policies should also be lodged with the NYPF.

Employer Decisions

- 5.13 Certain aspects of the Regulations require an employer decision. The employer is responsible for implementing such areas correctly, (e.g. deduction of contributions at the correct rate

Independent Medical Practitioner

- 5.14 The employer is responsible for determining and employing their own appropriately qualified independent medical practitioner and providing details of those practitioners to the NYPF (see also **paragraph 6.9**).

Employer responsibility for information provided to NYPF and/or work undertaken internally

- 5.15 NYPF is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests solely with the employer.
- 5.16 Any over payment made by NYPF resulting from inaccurate information supplied by the employer shall be recovered by NYPF from the employer.
- 5.17 The employer is responsible for any work carried out on its behalf by another section of their organisation or by a contractor appointed by that organisation (e.g. Pay or Human Resource sections).

Data Protection

- 5.18 Under the Data Protection Act 2003, the employer will protect from improper disclosure any information about a member contained (where applicable) on any item sent from NYPF. It will also only use information supplied or made available by NYPF for the operation of the Local Government Pension Scheme.

Internal Dispute Procedure

- 5.19 The employer must identify a 'nominated person' for any instances where an Internal Dispute Resolution Procedure (IDRP) application is submitted against the employer and meet the associated costs.

Fines imposed on NYPF

- 5.20 In the event of NYPF being fined by the Pensions Regulator, this fine will be passed on to the relevant employer where that employer's action or inaction (e.g. the failure to notify a retirement within the time limits described above), caused the fine.

Charges to the employer

- 5.21 NYPF may give written notice to employing authorities under regulation 70 in respect of the employers unsatisfactory performance in carrying out its Scheme functions, including but not limited to those detailed in **paragraph 5.5** above, and the amount due from employers. The written notice may include charges imposed by NYPF for chasing employers for outstanding information such as detailed in **paragraph 7.5**.

6.0 Responsibilities and Duties of NYPF

Regulatory Issues

- 6.1 NYPF will administer the Pension Fund in accordance with the LGPS Regulations and any overriding legislation including employer discretions.
- 6.2 NYPF will issue a membership certificate to members; this provides notification to members that they have joined NYPF.
- 6.3 NYPF is responsible for exercising the discretionary powers given to it by the regulations. NYPF is also responsible for publishing its policy in respect of the key discretions as required by the regulations.

NYPF Performance Levels

- 6.4 NYPF agrees to meet the following performance targets in relation to the day to day administration of the fund:

Letter detailing transfer in	10 days
Letter detailing quote of transfer out value	10 days
Letter notifying estimated retirement benefit amount	10 days
Letter notifying actual retirement benefit amount	10 days

Support to Employers

- 6.5 NYPF will support employers in running the Local Government Pension Scheme by:
- providing information, advice and assistance on the scheme and its administration
 - distributing regular technical information

See the **Communications Policy Statement** and **Annual Communications Strategy** for full details.

- 6.6 NYPF will supply any information to employers necessary to ensure the smooth running of the pension fund.
- 6.7 NYPF will work with employers to ensure that retirement is as smooth a process for the member and employer as possible.

Independent Medical Practitioner

- 6.8 NYPF will verify the individuals nominated by the employer (in accordance with **paragraph 5.14**) as independent medical practitioners are appropriately qualified to deal with ill health retirement cases.

Services to Members

- 6.9 NYPF will produce benefit statements for members each year where the employer has submitted useable and accurate year-end financial data.
- 6.10 NYPF will provide a service to members that meets the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 2013.
- 6.11 In addition, NYPF will communicate with members through appropriate media and encourage at all times the development and use of self-service facilities. Full details are provided in the **Communications Policy Statement** and **Annual Communications Strategy**.

Multiple Language Literature

- 6.12 The process for providing multiple language literature has been established and certain NYPF documents have been amended to include reference to how to obtain an alternative version. In response to the need to work towards achievement of the Local Government Equalities Standard additional documents used by the NYPF will be amended to refer to the availability of alternative versions.

Data Protection

- 6.13 Under the Data Protection Act 2003, NYPF will protect from improper disclosure any information held about a member. Information held will only be used by NYPF for the operation of the Local Government Pension Scheme.

Internal Dispute Resolution

- 6.14 NYPF must identify a 'nominated person' for any instances where an Internal Dispute Resolution Application (IDRP) application is submitted against the Administering Authority and meeting the associated costs.

7.0 Contribution Rates and Administration Costs

- 7.1 The Members' contribution rates are fixed within bands by the Regulations.
- 7.2 Employers contribution rates are determined by a triennial valuation process. Employers are required to pay whatever is necessary to ensure that the portion of the Fund relating to that employer is sufficient to meet its liabilities over the agreed term.
- 7.3 NYPF is valued every 3 years by the Fund Actuary. The Actuary balances the assets and liabilities in respect of each employer and assesses the necessary contribution rate for each employer. Employer contribution rates apply for 3 years except that an Admission Agreement may determine that reassessment should take place on a more frequent basis.
- 7.4 The administrative costs of running NYPF are charged by NYCC directly to the Fund and the Actuary takes these costs into account in assessing the employer contribution rate.
- 7.5 If NYPF undertakes work specifically on behalf of the employer, the employer will be charged directly for the cost of that work e.g.

- non receipt of new entrant documentation requiring NYPF to set up temporary data and/or complete documentation on behalf of the employer
- non receipt of leaver details requiring NYPF to interrogate payroll or other systems on the employers behalf
- chasing outstanding information following one reminder
- FRS17/IAS19 valuations
- ad hoc actuarial & legal advice (e.g. TUPE transfer)
- ad hoc technical advice, (where re-charging is deemed appropriate because the advice is not of general benefit to the Fund overall)

8.0 **Communications**

8.1 In accordance with the Fund's Communications Policy Statement and its Annual Communications Strategy, NYPF will work with employers to communicate relevant information to members.

NORTH YORKSHIRE COUNTY COUNCIL**AUDIT COMMITTEE****29 September 2016****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:
- i. 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 2015/16 in advance of the Audit Committee being asked to approve them.

2.0 Background

- 2.1 On 23 June 2016 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 draft 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 29 September 2016.
- 2.2 The Members Working Group was agreed as consisting of the Chairman of the Audit Committee, Councillor Helen Grant and Mr David Portlock.
- 2.3 On 14 July 2016 the Audit Committee considered the draft Statements of Final Accounts (SoFA) for 2015/16. Again, a number of issues were identified at the meeting and it was agreed that they would be pursued outside of the meeting and fed into the review by the Members Working Group.
- 2.4 This report provides a summary of the Members Working Group review of the SoFA for 2015/16 which incorporates the AGS. Wider information has been used in order to form the views contained in this report, notably the

Directorate Statements of Assurance 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 2015/16, 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 2015/16

1. Issue – a number of areas identified in the draft Directorate Statements of Assurance required update to provide specific actions and completion dates rather than statements of intention. It was felt that the early drafts were not as SMART as could or should be the case.

Action taken – Statements of Assurance have been further reviewed and revised where appropriate. Actions have been improved to make them SMARTer but some areas will require more precision when reporting on subsequent actions at directorate themed reports.

2. Issue – a number of suggestions and observations were provided in respect of the Annual Governance Statement.

Action taken – the suggestions and observations have been taken into account through minor amendments to the Annual Governance Statement where appropriate, together with the completion of section 7.3.

Statements of Final Accounts 2015/16

1. Issue – a number of detailed questions were submitted and explanations were provided.

Action taken – explanations provided and no further action required.

2. Issue – An inconsistency in reporting of the Loans to Subsidiary Companies and Other Organisations within the Statement of Accounts was identified within the Long Term Debtors and Financial Instruments Notes to the Accounts.

Action taken – The Statement of Accounts has been amended to ensure the corrected position. The loan facility to NYnet increased during 2015/16 by £2.1m during to £7.3m. The Long Terms Debtors (Note 32 on page 83)

and Financial Instruments (Note 44 on page 100) have been amended to consistently report this position.

3. Issue – "Risks and Uncertainties" identified in the Narrative Statement within the Statement of Accounts should, where appropriate, be reflected in the Directorate Statements of Assurance and the Annual Governance Statement.

Action taken – amendments have been made to the "Risks and Uncertainties" section of the Narrative Statement in order to align with the Annual Governance Statement.

4. Issues - a number of typos / simple errors were identified.

Action taken – these have now been corrected and are incorporated within the SoFA presented to the Audit Committee on this agenda.

4.0 Conclusions of the Member Working Group regarding the Statements of Account and the Annual Governance Statement for 2015/16

- 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 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 finalised position on the findings of the County Council's External Auditors.
- 4.3 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 2015/16 are approved.

Members Working Group
19 September 2016

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

29 September 2016

STATEMENT OF FINAL ACCOUNTS for 2015/16 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 2015/16 following completion of the external audit of those Accounts.
- 1.3 To approve the Annual Governance Statement (AGS) for 2015/16.

2.0 **BACKGROUND**

- 2.1 A draft Statement of Final Accounts (SOFA) for 2015/16 was considered by this Committee on 14 July 2016 in advance of these accounts being audited by the External Auditor during July and August 2016. This SOFA incorporates the accounts of the North Yorkshire Pension Fund.
- 2.2 A number of issues identified following the meeting on 14 July 2016 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 2015/16 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 by the time the Audit Committee meets.
- 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 2015/16 Accounts by the required statutory date of 30 September 2016), 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 14 July 2016 (see **paragraph 4**), and
- (iii) approve the Final SOFA and authorise the Chairman to sign the Accounts on that basis (see **paragraph 5**)

2.7 The report also asks Members to approve a final Annual Governance Statement for 2015/16 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 Letter of Representation is attached as Appendix A. The Letter should be reviewed 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 The Letter applies to the financial statements of both the County Council and North Yorkshire Pension Fund.

3.4 Members are therefore asked to consider and approve this Letter and then authorise the Chairman to sign 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 14 July 2016.

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 14 July 2016 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 14 July 2016.

5.0 APPROVAL OF THE FINAL SOFA

5.1 The audited final SOFA is attached as a separate booklet. This incorporates all the changes to the draft version considered by Members on 14 July 2016, as set out in **paragraph 4** and **Appendix B**. These accounts will be re-signed by the Corporate Director – Strategic Resources and the Chief Executive on 29 September 2016.

5.2 Members are therefore asked to approve the Final SOFA for 2015/16 following completion of the audit and authorise the Chairman to sign the accounts on behalf of the Audit Committee. A copy of the Statement of Responsibilities for the Statement of Accounts (page 33 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 29 September 2016.’

5.3 A copy of the Balance Sheet (pages 41 and 42 of the SOFA) is also attached as Appendix D.

5.4 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 (updated 2012) 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 23 June 2016.

6.4 A Members Working Group was established following the Audit Committee meeting on 23 June 2016 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.

6.5 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 2015/16 and to authorise the Chairman to sign the AGS on its behalf.

7.0 RECOMMENDATIONS

- 7.1 That Members authorise the Chairman to sign the Letter of Representation set out in **Appendix A** on behalf of the Audit Committee.
- 7.2 That in relation to the Statement of Final Accounts 2015/16
- (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 2015/16 (**paragraph 5.2**), and
 - (iii) recommend that the Chairman sign the Statement of Responsibilities for the Statement of Accounts as attached at **Appendix C**
- 7.3 That Members approve the Annual Governance Statement 2015/16 and authorise the Chairman to sign the AGS on its behalf (**paragraph 6.5**).

GARY FIELDING

Corporate Director – Strategic Resources

County Hall,
Northallerton
09 September 2016

There are no background documents



Our Ref: GF/

Gary Fielding
Corporate Director
Strategic Resources
County Hall
Northallerton
North Yorkshire
DL7 8AD
Tel: 01609 533304
Fax: 01609 778199
Email: gary.fielding@northyorks.gov.uk

KPMG LLP
Public Sector Audit
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

Dear Mr Khangura

This representation letter is provided in connection with your audit of the financial statements of North Yorkshire County Council ("the Council"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Council and the Group as at 31 March 2016 and of the Council's and the Group's expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2016, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Council and Group Movement in Reserves Statements, the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Council confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Council confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Council has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Council and the Group as at 31 March 2016 and of the Council's and the Group's expenditure and income for the year then ended;
 - ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2016, other than liabilities to pay pensions and other benefits after the end of the scheme year;
 - iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. The only uncorrected misstatement is the impact on the cashflow statement of the movement in capital debtors and creditors as it has not been possible to identify these balances separately.

Information provided

5. The Council has provided you with:

- access to all information of which it is 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 the Council for the purpose of the audit; and
- unrestricted access to persons within the Council and the Group from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Council confirms the following:

- i) The Council has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

ii) The Council has disclosed to you all information in relation to:

- a) Fraud or suspected fraud that it is aware of and that affects the Council and the Group and involves:
- management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
- b) allegations of fraud, or suspected fraud, affecting the Council's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Council acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Council acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Council has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Council has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions*,

Contingent Liabilities and Contingent Assets, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Council has disclosed to you the identity of the Council's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Council confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Council's and the Group's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Council and the Group to continue as a going concern.

12. On the basis of the process established by the Council and having made appropriate enquiries, the Council is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) *Employee Benefits*.

The Council further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 29 September 2016.

Yours faithfully,

Cllr Mike Jordan
Chair of the Audit Committee

Gary Fielding
Corporate Director, Strategic
Resources

cc: Audit Committee

**CHANGES TO THE 2015/16 STATEMENT OF FINAL ACCOUNTS
SINCE AUDIT COMMITTEE ON 14 July 2016.**

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 14 July 2016.

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 14 July 2016 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 14 July 2016.

2.0 Changes made as a result of the final accounts audit

2.1 KPMG commenced their auditing of the SOFA in early July 2016 and concluded their auditing process in early September 2016. During the audit process, the following amendments have been agreed with the auditor.

- amendment to Cash Flow Statement and Group Cash Flow Statement to reflect changes in allocation of Capital Grants received in Advance;
- amendment to Balance Sheet and Group Balance Sheet to reflect change in classification of assets from Assets Under Construction to Property, Plant and Equipment;
- amendment to the Balance Sheet/Cash Flow Statement and Group Balance Sheet/Cash Flow Statement regarding the reclassification of specific creditor provisions;
- addition of a new Accounting Policy to clarify the accounting treatment for schools;
- small minor changes to disclosures and notes to the accounts; and
- various amendments to Pension Fund Main Statements and supporting notes, including; a small number of amendments to Pension Fund Main Statements and supporting notes;

3.0 Internally initiated refinements, together with queries raised by Members of the Audit Committee on 14 July 2016 and subsequently the Members Working Group on Governance

- amendments to Disclosures on the reporting of Loans to Subsidiary Companies and Other Organisations ;
- various presentational adjustments to the supporting notes 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.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The County Council is required to:

- (a) make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director – Strategic Resources;
- (b) manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- (c) approve the Statement of Accounts.

The Corporate Director – Strategic Resources is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Corporate Director – Strategic Resources has:

- (a) selected suitable accounting policies and then applied them consistently;
- (b) made judgements and estimates that were reasonable and prudent; and
- (c) complied with the local authority Code.

The Corporate Director – Strategic Resources has also:

- (a) kept proper accounting records which were up to date; and
- (b) taken reasonable steps for the prevention and detection of fraud and other irregularities.

CERTIFICATE OF THE CORPORATE DIRECTOR – STRATEGIC RESOURCES

I certify that the Statement of Accounts 2015/16 presents a true and fair view of the financial position of the County Council and the North Yorkshire Pension Fund at the accounting date and their income and expenditure for the year ended 31st March 2016.

Gary Fielding
Corporate Director – Strategic Resources
September 2016

Co-signed by,
Richard Flinton
Chief Executive
September 2016

CERTIFICATE OF THE AUDIT COMMITTEE

I confirm that these Accounts were approved by the Audit Committee on 29th September 2016 following completion of the External Audit

Chair of the Audit Committee

BALANCE SHEET AS AT 31ST MARCH 2016

31st March 2015 £000		31st March 2016 £000
1,552,763	Property, Plant and Equipment (note 20)	1,507,699
36,699	Investment Property (note 27)	34,731
10,055	Intangible Assets (note 26)	9,763
3,518	Long Term Investments (note 31)	3,518
14,150	Long Term Debtors (note 32)	21,420
1,617,185	Long Term Assets	1,577,131
155,491	Short Term Investments (note 44a)	227,383
1,400	Inventories (note 33)	1,081
73,872	Short Term Debtors (note 34)	64,137
80,186	Cash and Cash Equivalents (note 30)	69,013
2,125	Assets held for sale (note 29)	170
313,074	Current Assets	361,784
(53,026)	Short Term Borrowing (note 44a)	(57,566)
(79,963)	Short Term Creditors (note 35)	(83,904)
(250)	PFI Liability repayable within 12 months (note 14)	(273)
(7)	Finance Lease repayable within 12 months (note 15)	(8)
(2,247)	Provisions to be used within 12 months (note 36)	(1,996)
(3,568)	Capital Grant Receipts in Advance (note 10)	(3,025)
(139,061)	Current Liabilities	(146,772)
(40)	Long Term Creditors (note 25)	(3,073)
(4,453)	PFI Liability repayable in excess of 12 months (note 14)	(4,180)
(1,085)	Finance Lease repayable in excess of 12 months (note 15)	(1,077)
(6,842)	Provisions to be used in excess of 12 months (note 36)	(5,750)
(484,059)	Pensions Liability (note 11)	(436,923)
(311,585)	Long Term Borrowing (note 44a and 44d)	(308,975)
(941)	Capital Grant Receipts in Advance (note 10)	(4,889)
(809,005)	Long Term Liabilities	(764,867)
982,193	Net Assets	1,027,276

31st March 2015 £000		31st March 2016 £000
	Usable Reserves	
91,711	General Working Balance (note 37a)	27,270
115,878	Earmarked Reserves (note 37b)	192,543
0	Capital Receipts Reserve (note 37c)	0
10,632	Capital Grant Unapplied Reserve (note 37d)	27,304
<u>218,221</u>	Total Usable Reserves	<u>247,117</u>
	Unusable Reserves	
270,666	Revaluation Reserve (note 38a)	260,831
4,574	Collection Fund Adjustment Account (note 38b)	4,675
0	Financial Instruments Adjustment Account (note 38c)	
(8,739)	Accumulated Absences Account (note 38d)	(7,606)
(484,059)	Pension Reserve (note 38e)	(436,923)
981,530	Capital Adjustment Account (note 38f)	959,182
<u>763,972</u>	Total Unusable Reserves	<u>780,159</u>
<u>982,193</u>	Total Reserves	<u>1,027,276</u>

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.

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

29 SEPTEMBER 2016

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 2016, 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 Mike Jordan, Chair of the Audit Committee

County Hall
Northallerton

1 September 2015

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 2016. 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 effectively¹. 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 2016, 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, the internal auditors, Veritau and the external auditors, KPMG. 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:

External Audit

- 1 Welcomed the appointment of KPMG as the County Council's new external auditors. The Committee met with the new auditors to discuss their approach;

¹ CIPFA – Practical Guidance for Local Authorities and Police, 2013

- 2 Received and considered the external auditor's plan for the audit of the 2015/16 financial statements and the review of the County Council's arrangements for securing value for money;
- 3 Received and considered the results of KPMG's interim work in relation to the audit of the 2015/16 financial statements of the County Council and the North Yorkshire Pension Fund. The Committee was pleased to note that the auditors consider the control environment is generally well designed and effective although improvements to the bank reconciliation process and the authorisation of journals were recommended;
- 4 Received and considered the external auditor's report on the 2015/16 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. The Committee was pleased to note that the external auditors had issued unqualified audit opinions for both the County Council and the North Yorkshire Pension Fund. KPMG had also issued an unqualified value for money conclusion and an unqualified opinion on the Whole of Government Accounts return;

Internal Audit

- 5 Continued to oversee the internal audit arrangements for the County Council and North Yorkshire Pension Fund. This has included approving changes to the Internal Audit Charter;
- 6 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;
- 7 Received and approved the Internal Audit Plan for 2016/17. The plan ensures that limited internal audit resources are prioritised towards those systems and areas which are considered to be the most risky or which contribute most to the achievement of the County Council's corporate objectives;
- 8 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;
- 9 Considered the County Council's overall counter fraud arrangements in the light of emerging risks (both national and local) and approved changes to the County Council's whistleblowing policy;
- 10 Received and considered the outcome of the annual 2015/16 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;
- 11 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 framework of governance, risk management and control 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 issues related to information security and the systems used to manage children's direct payments;

- 12 Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2015/16, and considered the performance targets for 2016/17. 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 established professional standards. 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

- 13 Continued to oversee the County Council's risk management arrangements and strategy;
- 14 Reviewed the progress made by the County Council to identify and address corporate risks. This included consideration of the updated Corporate Risk Register. The Committee recognised that many of the risks identified were complex in nature and/or had potentially significant financial implications particularly given the increasingly complex nature of potential governance models (eg integration with health and combined authorities);
- 15 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;
- 16 Considered the outcome of the annual insurance renewals;

Corporate Governance

- 17 Considered and approved the Annual Governance Statement for 2015/16 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 2014/15 Annual Governance Statement;
- 18 Considered some limited changes to the Local Code of Corporate Governance prior to approval;
- 19 Considered a number of recent developments to strengthen and improve corporate governance arrangements as well as future plans. The Committee was pleased to note the very positive outcomes of the recent Peer Review;

- 20 Considered the annual report on 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 remains effective and the existing arrangements are proportionate and commensurate to the risks;
- 21 Received reports on the progress made to update strategic plans and develop policies and procedures to reflect latest guidance and best practice on corporate governance, 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 updating the corporate information policy framework, identifying new or emerging risks, sharing best practice, and monitoring compliance with corporate information governance standards. **The Committee shares the view that information governance remains a key corporate risk;**
- 22 Received a report outlining the progress made to implement improved business continuity arrangements across the County Council. The Committee was pleased to note that good progress continues to be made to develop effective systems and processes to reduce the risks of disruption. The Committee noted that, during May 2016, the County Council had faced unprecedented protests against fracking proposals in North Yorkshire. The planning for the protests had identified the need to activate directorate and corporate business continuity plans. This approach had allowed a large number of staff to work remotely to great effect during the actual period of the protests;
- 23 Received reports outlining the future strategic direction of contract management and the associated risks and challenges facing the County Council. The Committee also considered the strategic and operational management arrangements for overseeing procurement activity. The County Council currently has contracts valued over £300m for the supply of goods, services and works. A revised Corporate Procurement Strategy for the period 2014 to 2020 has been developed together with a series of action plans. The Strategy recognises that early engagement with suppliers and contract management are two areas which need to be strengthened. Future priorities include providing further support to contract managers, completing a skills audit, improving commercial awareness and focusing on relationship management (for strategic contracts). The Committee expressed support for improving the skills of contract managers, sharing contract management practices and experiences across directorates and challenging contracts which are not delivering;

Value for Money

- 24 Considered the arrangements adopted by the County Council to achieve value for money;

Financial Statements

- 25 Considered and approved the Statement of Accounts for 2015/16 of the County Council and the North Yorkshire Pension Fund;**

- 26 Received and considered proposed amendments to the County Council's Accounting Policies. A revised Code of Practice on Local Authority Accounting was issued by CIPFA in March 2015 which updated the definition of the fair value measurement of assets. The new definition needed to be incorporated in the Accounting Policies but in practice resulted in only minimal changes to the valuation of the County Council's portfolio of surplus property and investment property (County Farms). The Committee also noted a number of potential future changes to the Code of Practice including the need to prepare a narrative statement to describe the County Council's financial performance and use of resources, and changes to the treatment of transport infrastructure assets. The Committee also recognised that changes to the timetable for completing and publishing the financial statements from 2017/18 onwards would have an impact on the County Council. The 2017/18 financial statements will need to be published by 31 July 2018, two months earlier than currently. The Committee is expected to receive further details of the actions being taken to meet this more challenging timetable;

Other

- 27 Received and considered proposed changes to the Contract 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 and regulation. The main changes included increases in the financial thresholds, new rules on the allocation of grants, improved transparency and measures to help engage small and medium enterprises (SMEs) and voluntary and community sector organisations;
- 28 Continued to scrutinise the County Council's treasury management arrangements. This included reviewing the Treasury Management policy statement and the annual Treasury Management and Investment Strategy for 2016/17. The Strategy incorporates a minimum revenue provision policy and a policy to cap capital financing costs as a proportion of the annual net revenue budget.
- 29 Received briefings from officers on issues facing the County Council including the measures being taken to reduce the risk of fraud and the arrangements for securing value for money;
- 30 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee;
- 31 Considered the options for the future appointment of the County Council's external auditors. The County Council is required to appoint new external auditors by 31 December 2017 in time for the audit of the 2018/19 accounts. The options include the local appointment of auditors with the process overseen by an independent auditor panel, a joint appointment with one or more other councils or appointment via a sector led body set up by the Local Government Association (LGA) for this purpose. The Committee expressed clear support for the option of using the sector led body as there would be economies of scale and improved transparency. The LGA also had knowledge and experience acquired through the setting up of the current transitional arrangements;
- 32 Reviewed the Committee's Terms of Reference. We concluded that no changes were required.

Councillor Mike Jordan
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.
- 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

29 SEPTEMBER 2016

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 2016 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), as well as receiving a copy of the latest directorate risk register and the relevant Statement of Assurance.
- 2.2 This agenda item is considered in two parts. This first 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 2016

- 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 has included special investigations that have either been communicated via the Whistleblowers' hotline or have arisen from issues and concerns referred to Veritau by HAS management. We held a one day workshop with the Quality and Engagement team and provided training and advice to members of staff involved in the day to day running of Amenity Fund accounts. Finally, we have provided support to directorate management in respect of a number of safeguarding alerts and other matters.
- 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)¹ should provide an annual report to the board². 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 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.

¹ The PSIAS refers to the Chief Audit Executive. This is taken to be the Head of Internal Audit.

² 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 2016

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.

FINAL AUDIT REPORTS ISSUED IN THE YEAR ENDED 31 AUGUST 2016

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Visits to seven care providers: <ul style="list-style-type: none"> • Dunollie Nursing Home (Scarborough) • Ellershaw House (Grewelthorpe) • Combehay Scarborough • The Orchards Wistow • Henshaws Harrogate • Conroy Close Easingwold • Craegmore Priory (The Whitby Scheme) 	Various	We completed a programme of audit visits to care providers to ensure: <ul style="list-style-type: none"> • financial transactions of service users are recorded correctly and in accordance with the care provider's policies and procedures; • all expenditure relating to service users is appropriate and properly evidenced; • financial arrangements ensure that the property of service users is protected. 	Various	<p>Overall arrangements were found to be good with effective controls operating in the homes visited. Four of the seven homes were given a high assurance opinion. Three homes were given substantial assurance.</p> <p>We found one provider had allowed one of the residents to accumulate a debt (to the provider) on two separate occasions by failing to deal with the residents finances in an appropriate manner. Those debts totalled £13.5k.</p> <p>We also found some instances where providers were not fully complying with their own policies in that they were failing to carry out sufficient checks of the cash held by residents and were not completing reconciliations of accounts.</p>	<p>One P2 and four P3 actions were agreed</p> <p>Responsible Officer Assistant Director – Quality and Engagement</p> <p>The Quality and Engagement Team discussed the issues identified with the homes in question and worked as necessary to ensure any required improvements were made.</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
B	Community Support Budget spreadsheets	No opinion	<p>We were asked to look at the Community Support Budget (CSB) spreadsheets which are used by HAS as a budget and forecasting tool. The Council uses approximately 55 of these spreadsheets.</p> <p>Some concerns had been expressed about the robustness of some of the processes, data and calculations contained within some of the spreadsheets. The spreadsheets involve a number of different departments of the Council working together effectively.</p>	December 2015	We provided detailed feedback to relevant officers to highlight the issues found. We also made recommendations to help improve arrangements for the future.	<p>Officers used our feedback to improve the procedures and controls operating in respect of the CSB spreadsheets.</p> <p>In the future, the Council plans to use the Controc system to replace these spreadsheets. It should therefore be possible to produce the required budget information automatically.</p>
C	Public Health	Substantial Assurance	<p>The audit reviewed the procedures and controls in place to ensure:</p> <ul style="list-style-type: none"> a public health budget was produced for 2015/16 in line with the council's financial regulations, with clear links to each public health contract and supported by sound and documented 	January 2016	<p>The audit found good progress has continued to be made in developing the required systems and procedures.</p> <p>The council's new budget procedures provide an opportunity for the designated budget managers within the Public Health Service to take full responsibility for the preparation and monitoring of their budgets.</p> <p>We looked at the Living Well (formerly Targeted Prevention) and the Stronger</p>	<p>Two P2 and two P3 actions were agreed</p> <p>Responsible officer: The Director of Public Health</p> <p>Public Health budget holders have received targeted training. Measures were taken to ensure the 2015/16 budget setting processes addressed all of the weaknesses identified.</p> <p>Work will be undertaken with the</p>

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
		<p>assumptions</p> <ul style="list-style-type: none"> robust performance management arrangements were in place for the substance misuse contract all actions arising from the previous 2014/15 Public Health audit had been completed new schemes were being planned and delivered to maximise public health outcomes. 		<p>Community Projects. Both projects have progressed since last year. There is still some further work to be completed by both the Living Well and Stronger Communities teams to improve reporting procedures and to help evidence the achievement of desired public health outcomes.</p> <p>Weight management programmes have been developed with the district councils. There may be scope for these programmes to be extended so as to help address a number of other related outcomes.</p>	<p>Living Well and Stronger Community teams to agree ways of measuring public health outcomes.</p> <p>After 12 months of the weight management programmes there will be a period of consultation with the district councils. Teesside University will also be carrying out a formal evaluation of the programmes. Once this work is completed the Public Health Team will develop a service specification for procurement.</p>
D	Amenity funds	No opinion	April 2016	<p>We found only a relatively small number of the funds had been completed to a good standard.</p> <p>Spreadsheet income and expenditure records were not being completed in line with expected practice. Information was incomplete and/or was not to the necessary standard. For certain transactions it was unclear whether the expenditure was appropriate. A number of other weaknesses were identified in individual funds.</p>	<p>Three P2 and one P3 actions were agreed</p> <p>Responsible officer: Directorate Finance Manager (HAS) & Head of Provider Services (HAS)</p> <p>There will be a full review of the present policy.</p> <p>Formulas within the spreadsheet will be locked so that they cannot be altered. A new spreadsheet will be used for each year (October to September).</p>

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken	
		in accordance with the agreed policy and procedures. In each case we checked to see that income and expenditure statements and balance sheets had been properly completed.			<p>A programme of training will be delivered to managers and administration staff and will cover the level of accounting detail that is necessary.</p> <p>Action will be taken to ensure the accounts are only used for the intended purposes and not used for cheque cashing purposes.</p> <p>The existing cash limit may be increased from £100 to £250.</p>	
E	Scarborough and District Mencap	No opinion	Scarborough and District Mencap provides a range of services to people with learning disabilities (including day care, respite care and flexible support). The County Council has a contract with the charity for the provision of support to 127 service users.	April 2016	<p>Scarborough and District Mencap had requested short-term financial support from the County Council as it was suffering some cash flow difficulties.</p> <p>The County Council provided the short term advance funding on condition that Veritau were given access to examine the charity's management arrangements and financial procedures. We provided the County Council with a comprehensive governance report. A number of weaknesses in procedures were identified and improvements recommended.</p>	<p>A number of recommendations were raised.</p> <p>Council officers have been using the report as part of the ongoing management of the contracts with Scarborough and District Mencap.</p> <p>The report was also shared with Scarborough and District Mencap to help them to introduce changes to address the weaknesses highlighted in the report.</p>
F	Domiciliary Care	Substantial Assurance	At the end of 2014, the County Council had contracts with over 100	May 2016	<p>The lessons learnt from phase 1 were being used to inform phase 2.</p>	<p>One P2 and six P3 agreed findings:</p>

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
		<p>separate providers of domiciliary care services. The Council had completed an initial 'phase 1' of re-procuring some of these contracts and at the time of the audit was about to commence 'phase 2'.</p> <p>The purpose of the audit was to review progress and to consider whether:</p> <ul style="list-style-type: none"> The authority had gained an understanding of the current care market conditions and was using that knowledge during 'phase 2'. The lessons learnt document compiled after phase 1 was being used to inform phase 2. The procured contracts included effective contract management arrangements 		<p>A number of other areas / factors were highlighted for further consideration, including:</p> <ul style="list-style-type: none"> The increasing number of new Direct Payments. The lack of a comprehensive communications plan prior to the procurement process. Delays in commissioning care and support for clients. The likelihood of TUPE applying and its implications. Improving data quality to develop accurate forecasts of domiciliary care requirements. 	<p>Responsible officer: Assistant Director, Commissioning Locality Head of Commissioning (Scarborough and Ryedale)</p> <p>The implications of increasing Direct Payments will be considered before procurement in that area starts.</p> <p>A Communication Lead has been appointed to the team.</p> <p>Arrangements will be made within HAS to provide sufficient resources at the time of future procurements.</p> <p>More empowerment will be offered to Brokerage officers.</p> <p>There will be a better understanding of how and when TUPE will apply in future.</p> <p>The Head of Business Change will lead the 'phase 2' procurement.</p>
G	Care Act (Implementation and Service Changes)	Substantial Assurance	The purpose of this audit was to provide assurance to management that:	May 2016	<p>We reviewed a sample of carers and clients applications to determine if the assessments carried out complied with the Care Act eligibility criteria.</p> <p>One P2 agreed finding:</p> <p>Responsible Officer: Benefits, Assessments and</p>

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
		<ul style="list-style-type: none"> The eligibility criteria for both clients and carers have been implemented The criteria within the universal deferred payments scheme are being adhered to 		<p>Deferred payment agreements should be provided to clients before their 12 week disregard period has finished. We found a number of deferred payment applications that had not resulted in an agreement by the time the applicants 12 week disregard had ended. However, these cases were outside the control of the Council.</p> <p>The Council uses spreadsheets for deferred payments monitoring. We found the spreadsheet included the incorrect equity limit.</p>	<p>Charging Manager.</p> <p>The deferred payments monitoring spreadsheets will be amended to reflect the correct equity limit.</p>
H	Better Care Fund	Reasonable Assurance	June 2016	<p>We noted that the priority schemes did not achieve the savings targets for 2015/16. A review was being undertaken to help identify the causes and any areas of best practice. This review will lead to the development of a new policy document / plan for 2016/17, including savings targets.</p> <p>At the time of the audit (end of April 2016) the policy document had not been finalised but was expected to be presented to the Health and Wellbeing Board during summer 2016. Work was to be carried out with the assistance of an NHS Consultant to evaluate the success or failure of all the schemes. It was unclear whether the under-performance could have</p>	<p>One P2 agreed finding: Responsible Officer Assistant Director – Integration.</p> <p>A new plan for the BCF has been developed for 2016/17. Where best practice is identified, there will be a mechanism for disseminating such practice, so groups of professionals are not seen to be operating independently. This should assist in savings targets being achieved.</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<ul style="list-style-type: none"> Good practice is promptly identified and disseminated across all CCGs. 		been highlighted earlier and what the causes were.	

Audit Opinions and Priorities for Actions

Audit Opinions	
<p>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.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
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.
Reasonable 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 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**

29 SEPTEMBER 2016

**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 **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 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 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 six month update review of the register will take place in December 2016/January 2017.
- 3.6 One risk has been deleted from the Directorate risk register since September 2015 namely Targeted Prevention. This is because the risk related to developing, recruiting and implementing a targeted prevention service and this has been completed.
- 3.7 The risk description for Partnership and Integration with the NHS has been comprehensively reworded to reflect changes in the risk. However this is not classed as a new risk because it continues to be around the original subject area.
- 3.8 The significant actions that were achieved include the following:
- Major Failure due to Quality and/or Economic Issues in the Care Market risk – the heat map exercise has been completed and has moved on to the related action plan being implemented, whilst ensuring inclusion of the NHS and Partners.
 - Financial Pressures risk – negotiations to achieve full protection of the Adult Social Care Better Care Fund spend for this year were successfully completed. A review of HAS 2020 including the benefits profiles for all savings lines was completed. Phase 2 of the data quality model for the Directorate has also been completed.
 - Managing Effective Outcomes for Individuals risk – The anticipated demand due to changes such as the Care Act and demographic changes was assessed. This has led to various actions including an implementation of the Care and Support pathway service redesign, and delivery of social care mental health services.
 - Partnership and Integration with the NHS risk – The completed action ‘negotiations to achieve full protection of the Adult Social Care Better Care Fund spend for this year’ as mentioned above, has a positive impact on this risk. There has also been a lot of work done on agreeing and implementing new models of care in preparation of the 2017 Integration Plans in all Clinical Commissioning Group localities. This work continues along with contribution to the Sustainability and Transformation Plans (STPs).
 - Safeguarding Arrangements risk – New policies and procedures reflecting the Care Act have been completed and training on these policies and procedures is ongoing.
 - Culture Change and Workforce Planning and Development risks – There has been much work done within the Directorate such as staff engagement

and training programmes but it is recognised that as services such as the Care and Support pathway is redesigned alongside Modern Council new ways of working, further work will continue.

- 3.9 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 RECOMMENDATION

- 4.1 That the Committee note the Risk Register for the Health and Adult Services Directorate and provide feedback or comments thereon.

RICHARD WEBB
Corporate Director – Health & Adult Services
September 2016

Report prepared by Paul Cresswell – Assistant Director- Resources
Tel no. 01609 532141

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – summary**

Report Date: 8th September 2016 (pw)

Identity			Person		Classification												Fallback Plan			
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Pre						RR		Post						FBPlan	Action Manager
					Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat		
◀▶	3/162 - Major Failure due to Quality and/or Economic Issues in the Care Market.	Major failure of provider/key providers results in the Directorate being unable to meet service user needs. This could be caused by economic performance or resource capabilities including recruitment and retention. The impact could include loss of trust in the Care Market, increased budgetary implications and issues of service user safety.	CD HAS	HAS AD Q&E	H	M	M	M	H	1	14	30/06/2016	H	M	M	M	M	2	Y	HAS AD Q&E
◀▶	3/229 - Financial Pressures	Financial pressures arising from difficulties in delivering HAS2020 Savings requirements, managing in year financial overspends, Better Care Fund contributions, market pressure and complexity of client needs leading to service impact or additional savings needing to be identified within HAS or corporately.	CD HAS	AD SR (HAS) & Proc	H	H	H	M	M	1	15	31/03/2016	M	H	H	M	M	2	N	
◀▶	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 C&S HAS AD Q&E	M	H	H	H	H	2	5	30/09/2016	M	H	H	H	H	2	Y	HAS AD C&S
◀▶	3/164 - Information Governance and Health and Safety	Failure to ensure that good and safe governance arrangements in respect of data security and health and safety are in place throughout the Directorate	CD HAS	AD SR (HAS) & Proc	M	L	M	L	H	2	8	31/12/2016	M	L	M	L	H	2	Y	AD SR (HAS) & Proc
◀▶	3/180 - Partnership and Integration with the NHS	Failure to agree outline integration plans by 2017 leading to full integration plans by 2020 with the NHS, and in the context of managing 3 ST Plans. This could result in a negative impact on Devolution proposals, fragmentation of NY partnership planning and delivery arrangements and inconsistency in service delivery to local people	CD HAS	HAS AD Integration HAS AD C&S Dir Public Health HAS AD Q&E	M	M	H	M	H	2	15	31/03/2016	M	M	H	M	H	2	Y	CD HAS



Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – summary**

Report Date: 8th September 2016 (pw)

Identity			Person		Classification												Fallback Plan			
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Pre						RR		Post						FBPlan	Action Manager
					Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat		
▼	3/218 - Managing effective outcomes for individuals	Failure to meet targets in line with the Care Act resulting in poor outcomes for individuals and internal and external criticism, reputational issues.	CD HAS	HAS AD C&S	M	H	H	H	H	2	11	31/05/2016	L	H	M	M	H	3	Y	HAS AD C&S
◀▶	3/226 - Transformation	Failure to carry out transformation of the care and support offer in a timely way such that savings are made, significant change and improvement is implemented and personal independence is maximised	CD HAS	HAS AD C&S	M	H	H	H	H	2	9	31/03/2016	L	M	H	M	M	3	Y	HAS AD C&S
◀▶	3/27 - Safeguarding Arrangements	Failure to have an effectively monitored, robust, Safeguarding regime and partnership arrangements in place and ensure that we fulfil our wider lead authority role (under the Care Act) results in risk to service users, inability to reach required standard on CQC and adverse effect on Directorate reputation.	CD HAS	HAS AD C&S HAS AD Q&E	M	H	H	M	H	2	12	31/12/2015	L	H	H	M	H	3	Y	HAS AD C&S
◀▶	3/228 - Extra Care Housing	Failure to effectively deliver the Extra Care Programme and EPH reprovion resulting in suboptimal financial savings, potential challenge to EPH reprovion proposals, poor project management of Extra Care Scheme Development	CD HAS	HAS AD Com	M	M	H	M	H	2	8	31/08/2016	L	L	H	L	M	3	Y	HAS AD Com
◀▶	3/184 - Workforce Planning and Development	Failure to appropriately plan and fulfil 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	M	M	H	H	M	2	10	31/08/2016	M	M	M	M	L	4	Y	CD HAS

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – summary**

Report Date: 8th September 2016 (pw)

Identity			Person		Classification												Fallback Plan			
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Pre						RR		Post						FBPlan	Action Manager
					Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat		
▼	3/220 - Cultural Change	Failure to change the Directorate culture at the same time as implementing the HAS Vision and the 2020 Transformation Programme for HAS by 2020 resulting in financial challenges and unmet savings, staff unclear about their roles and an inability to implement new ways of working	CD HAS	HAS HoHR	M	M	H	M	M	2	10	31/08/2016	L	M	M	M	M	5	Y	CD HAS
◀▶	3/167 - Public Health	Failure to deliver a distinctive public health agenda for North Yorkshire and carry out the statutory public health functions resulting in failure to maximise health gain in the County, inability to effectively commission public health services, develop and implement strategies and manage the Public Health grant	CD HAS	Dir Public Health	L	M	H	M	M	3	10	31/12/2016	L	M	M	M	M	5	Y	Dir Public Health

Key	
▲	Risk Ranking has worsened since last review.
▼	Risk Ranking has improved since last review
◀▶	Risk Ranking is same as last review
- new -	New or significantly altered risk

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 1 - Identification											
Risk Number	3/162	Risk Title	3/162 - Major Failure due to Quality and/or Economic Issues in the Care Market.				Risk Owner	CD HAS	Manager	HAS AD Q&E	
Description	Major failure of provider/key providers results in the Directorate being unable to meet service user needs. This could be caused by economic performance or resource capabilities including recruitment and retention. The impact could include loss of trust in the Care Market, increased budgetary implications and issues of service user safety.					Risk Group	Legislative	Risk Type	Q&E 2/159		
Phase 2 - Current Assessment											
Current Control Measures		Regular review and monitoring contracts; standard contract terms; approvals process; regular meetings to share best practice; experienced staff; regular communication with providers; bulletins; customer feedback; Engagement Group; legal services; CQC; Financial Services & insurance consultation; market analysis; capacity planning; alerts system including brokerage; Service Unit & provider BCPs; QA Framework developed; guidance and ongoing training for purchasing staff; engage with AD ASS; reg meetings with Q&M, Health Commissioner and police; robust comms with CCGs; quality monitoring embedded in Dir perf monitoring; market position statement						Effectiveness			
Probability	H	Objectives	M	Financial	M	Services	M	Reputation	H	Category	1
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed		
Reduction	2/388 - Consider and implement the recommendations from the actual cost of care exercise; interim payment made awaiting acceptance. Carry out a formal consultation with providers and make decision with HAS Executive Member					HAS AD Q&E		Mon-31-Oct-16			
Reduction	2/434 - 2020 Market shaping/development project					HAS AD Com HAS AD Q&E		Sat-31-Mar-18			
Reduction	2/435 - Workforce group to develop and support workforce across the sector					HAS AD Q&E HAS HoHR		Sat-31-Mar-18			
Reduction	2/436 - Begin scoping an intervention team					HAS AD Q&E		Wed-31-May-17			
Reduction	3/153 - Develop and implement new model for personal care and support at home					HAS AD Com HAS AD Q&E		Fri-31-Mar-17			
Reduction	3/247 - Continue to revise and update a market position statement					HAS AD Com		Thu-31-Aug-17			
Reduction	3/253 - Re-establish quarterly Partnership and Partner Liaison meetings (market development board), market analysis and mapping and information sharing					HAS AD Q&E		Wed-31-May-17			
Reduction	3/254 - Jointly with Health continue to monitor baseline assessments QA framework and risk profiles of providers; targets are reviewed at quarterly officer meetings and info fed into engagement group					HAS AD Q&E		Wed-31-May-17			
Reduction	3/371 - Continue with regular engagement meetings with CQC locally and engage with CQCs national programme of identifying providers where there is significant risk of failure					HAS AD Q&E		Wed-31-May-17			
Reduction	3/472 - Implement action plan following outcome of heat map exercise and ensure inclusion of NHS and Partners					HAS HoHR		Fri-31-Mar-17			

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Reduction	3/1954 - Complete heat map action plan.	HAS HoHR	Thu-30-Jun-16	Thu-30-Jun-16								
Reduction	3/1963 - Continue to engage in ADASS work to manage major problems occurring, such as financial issues in the care provider market and ensure robust contingency planning and to learn lessons from serious case reviews at a national level	HAS AD Q&E	Wed-31-May-17									
Reduction	47/186 - Introduction of the Q&M database and planning for electronic solutions; awaiting provider list renewal	HAS AD Q&E	Sat-30-Sep-17									
Reduction	47/221 - Work with Veritau on audits of individual suppliers (ongoing)	HAS AD Q&E	Wed-31-May-17									
Phase 4 - Post Risk Reduction Assessment												
Probability	H	Objectives	M	Financial	M	Services	M	Reputation	M	Category	2	
Phase 5 - Fallback Plan												
										Action Manager		
Fallback Plan	3/523 - Make client safe, crisis meeting, implement relevant steps, consultation with senior staff and relevant organisations (e.g. Police CQC). Effective communication to relevant parties, utilise established failure plan.										HAS AD Q&E	

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**
 Report Date: 8th September 2016 (pw)

Phase 1 - Identification											
Risk Number	3/229	Risk Title	3/229 - Financial Pressures				Risk Owner	CD HAS	Manager	AD SR (HAS) & Proc	
Description	Financial pressures arising from difficulties in delivering HAS2020 Savings requirements, managing in year financial overspends, Better Care Fund contributions, market pressure and complexity of client needs leading to service impact or additional savings needing to be identified within HAS or corporately.					Risk Group	Financial	Risk Type	Dir Only		
Phase 2 - Current Assessment											
Current Control Measures			Fortnightly performance and governance HAS LT meetings, Corp PMO resources applied to projects and programme management, regular monitoring of in year financial performance and reporting to portfolio Members, corp provision for financial pressures in HAS available for drawdown,				Effectiveness				
Probability	H	Objectives	H	Financial	H	Services	M	Reputation	M	Category	1
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed			
Reduction	2/388 - Consider and implement the recommendations from the actual cost of care exercise; interim payment made awaiting acceptance. Carry out a formal consultation with providers and make decision with HAS Executive Member					HAS AD Q&E	Mon-31-Oct-16				
Reduction	3/153 - Develop and implement new model for personal care and support at home					HAS AD Com HAS AD Q&E	Fri-31-Mar-17				
Reduction	3/247 - Continue to revise and update a market position statement					HAS AD Com	Thu-31-Aug-17				
Reduction	3/379 - Carry out fundamental budget review which models cost drivers, demand and complexity of cases					AD SR (HAS) & Proc	Fri-31-Mar-17				
Reduction	3/383 - Negotiations to achieve full protection of adult social care BCF spend 2016/17 onwards					AD SR (HAS) & Proc HAS AD Integration	Thu-31-Mar-16	Wed-31-Aug-16			
Reduction	3/421 - Complete separate review of complexity of client needs					HAS AD C&S	Fri-30-Sep-16				
Reduction	3/422 - Complete performance dashboard project for iwswini programme (phase 1)					AD SR (HAS) & Proc	Fri-30-Sep-16				
Reduction	3/423 - Complete the Financial assessments, billing and contracts project to improve market and cost information and service standards					AD SR (HAS) & Proc	Fri-31-Mar-17				
Reduction	3/424 - Review of HAS 2020 including completion of benefits profiles for all savings lines					HAS LT	Thu-31-Mar-16	Thu-30-Jun-16			
Reduction	3/425 - Roll out phase 2 of HAS data model					AD SR (HAS) & Proc	Thu-31-Mar-16	Thu-30-Jun-16			
Reduction	3/460 - Negotiations to achieve full maintenance of adult social care BCF spend 2017/18 and beyond					AD SR (HAS) & Proc HAS AD Integration	Fri-31-Mar-17				
Reduction	3/461 - Complete performance dashboard project for iwswini programme (phase 2)					AD SR (HAS) & Proc	Sat-31-Dec-16				

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Reduction	3/463 - Develop new approaches to personal care at home	HAS AD C&S	Sat-31-Mar-18								
Reduction	3/472 - Implement action plan following outcome of heat map exercise and ensure inclusion of NHS and Partners	HAS HoHR	Fri-31-Mar-17								
Reduction	3/1954 - Complete heat map action plan.	HAS HoHR	Thu-30-Jun-16	Thu-30-Jun-16							
Phase 4 - Post Risk Reduction Assessment											
Probability	M	Objectives	H	Financial	H	Services	M	Reputation	M	Category	2
Phase 5 - Fallback Plan											
										Action Manager	
Fallback Plan											



Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 1 - Identification											
Risk Number	3/217	Risk Title	3/217 - Deprivation of Liberty (DoLs) Supreme Court Ruling				Risk Owner	CD HAS		Manager	HAS AD C&S HAS AD Q&E
Description	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					Risk Group	Legislative		Risk Type	C&S 1/219	
Phase 2 - Current Assessment											
Current Control Measures		Resources and capacity have been increased; action plan in place in line with ADAS recommendations; regular quarterly report on activity, performance and finance provided to Leadership Team; statutory process implemented; action plan reviewed and updated following external review; Corporate funding draw down						Effectiveness			
Probability	M	Objectives	H	Financial	H	Services	H	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed		
Reduction	1/100 - Ensure the In-House registered providers adhere to the DoLS supreme court judgement					HAS AD C&S		Wed-31-May-17			
Reduction	3/191 - Continue to monitor and appropriately manage resources and capacity issues					HAS AD C&S		Wed-31-May-17			
Reduction	3/193 - Continue to provide regular briefings to HASLT, staff and providers					HAS AD C&S		Wed-31-May-17			
Reduction	3/255 - Maintain horizon scanning for future developments					HAS AD C&S		Wed-31-May-17			
Reduction	3/320 - Maintain communication with key partners					HAS AD C&S		Wed-31-May-17			
Phase 4 - Post Risk Reduction Assessment											
Probability	M	Objectives	H	Financial	H	Services	H	Reputation	H	Category	2
Phase 5 - Fallback Plan											
									Action Manager		
Fallback Plan	3/556 - A further review of the action plan, with external support may be sought. Escalation to senior management with potential options for mitigation.							HAS AD C&S			

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 1 - Identification											
Risk Number	3/164	Risk Title	3/164 - Information Governance and Health and Safety				Risk Owner	CD HAS	Manager	AD SR (HAS) & Proc	
Description	Failure to ensure that good and safe governance arrangements in respect of data security and health and safety are in place throughout the Directorate					Risk Group	Legislative	Risk Type	SR&Proc 6/193		
Phase 2 - Current Assessment											
Current Control Measures			Info Gov - Monitoring of mandatory eLearning for all staff; information management through key messages and intranet; application of Caldicott principles; information governance procedures; Corporate laptop and security encryption; continued use of information asset register; implementation of process if/when data breaches occur including cascading lessons learnt; implementation of secure data transfer methods; developing robust information sharing protocols; Corporate Information Governance Group and Directorate Group (DIGG); Periodic update at HASLT performance board; regular security sweeps, asset owner training completed H & S - Corporate H & S policy, and action plan; wider HAS leadership team H&S training completed;					Effectiveness			
Probability	M	Objectives	L	Financial	M	Services	L	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed		
Reduction	3/147 - Continue to implement Caldicott 2 where possible					AD SR (HAS) & Proc		Thu-31-Aug-17			
Reduction	3/148 - Continue to implement awareness raising campaign for information governance					AD SR (HAS) & Proc		Thu-31-Aug-17			
Reduction	3/159 - Monitor completion of mandatory e-learning courses					AD SR (HAS) & Proc		Fri-31-Mar-17			
Reduction	3/227 - Continue to ensure and promote use of secure methods of data transfer					AD SR (HAS) & Proc		Thu-31-Aug-17			
Reduction	3/364 - Review disposal arrangements of documents following issue of refreshed corporate policy and guidance					AD SR (HAS) & Proc		Wed-31-May-17			
Reduction	3/365 - Ensure 'lessons learned' reports are reviewed following any breach					AD SR (HAS) & Proc		Thu-31-Aug-17			
Reduction	3/366 - Arrange quarterly risk management and health and safety group meetings and include monitoring of action plan					AD SR (HAS) & Proc		Sat-31-Dec-16			
Reduction	6/124 - Progress data sharing issues with Health colleagues to ensure the benefits of this are realised					AD SR (HAS) & Proc		Thu-31-Aug-17			
Phase 4 - Post Risk Reduction Assessment											
Probability	M	Objectives	L	Financial	M	Services	L	Reputation	H	Category	2
Phase 5 - Fallback Plan											
									Action Manager		
Fallback Plan	3/36 - Media management, staff disciplinary, work with Information Commissioner's Office and HSE when necessary							AD SR (HAS) & Proc			

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 1 - Identification											
Risk Number	3/180	Risk Title	3/180 - Partnership and Integration with the NHS				Risk Owner	CD HAS	Manager	HAS AD Integration HAS AD C&S Dir Public Health HAS AD Q&E	
Description	Failure to agree outline integration plans by 2017 leading to full integration plans by 2020 with the NHS, and in the context of managing 3 ST Plans. This could result in a negative impact on Devolution proposals, fragmentation of NY partnership planning and delivery arrangements and inconsistency in service delivery to local people					Risk Group	Partnerships	Risk Type	Corp 20/47		
Phase 2 - Current Assessment											
Current Control Measures			Effective HWB partnership with clear governance providing strategic leadership with a shared performance dashboard; chief Officer representation influencing the development of STPs;. HASLT locality delivery model in place actively shaping local integration plans; Joint leadership in Harrogate delivering a new model of care and in Scarborough developing a new model of care; agreement in 2016/17 to protect social care through the Better Care Fund; agreement with NY Commissioner Forum to develop a joint commissioning strategy that will include CHC and other areas; Health and Well-being Strategy in place					Effectiveness			
Probability	M	Objectives	M	Financial	H	Services	M	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed		
Reduction	3/156 - Ensure new S75 agreement signed by CCGs 2016/17 (ongoing)						AD SR (HAS) & Proc	Fri-30-Sep-16			
Reduction	3/208 - Ensure NHS partners are fully aware of the democratic and political environment they are operating within and liaise with Scrutiny colleagues to ensure a positive outcome (ongoing)						CD HAS	Thu-31-Aug-17			
Reduction	3/209 - Actively monitor relationships, priorities and communications and ensure that HAS managers are fully engaged at appropriate level and review at HAS WLT on a regular basis (ongoing)						CD HAS	Thu-31-Aug-17			
Reduction	3/381 - Implement board development programme for HWB (ongoing)						HAS AD Integration	Wed-31-Aug-16	Wed-31-Aug-16		
Reduction	3/383 - Negotiations to achieve full protection of adult social care BCF spend 2016/17 onwards						AD SR (HAS) & Proc HAS AD Integration	Thu-31-Mar-16	Wed-31-Aug-16		
Reduction	3/384 - Agree and implement new models of care in preparation of 2017 Integration plans in all CCG localities incl. Vanguard (HaRD) Ambitions for Health						CD HAS	Fri-31-Mar-17			
Reduction	3/385 - Engage wider HASLT in testing the implications of different integration models						HAS AD Com HAS AD Integration	Fri-31-Mar-17			
Reduction	3/420 - Develop and implement outline integration plans with CCGs						HAS AD Integration	Fri-30-Jun-17			
Reduction	3/428 - Improve the DToC (Delayed Transfer of Care) performance to avoid financial penalties and reputational issues. Put in place affordable DToC (Delayed Transfer of Care) plans that avoid financial penalties						HAS AD C&SHAS AD Com	Fri-30-Jun-17			

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Reduction	3/429 - Consider the viability of a local Risk Share Agreement with NHS Partners (ongoing)	AD SR (HAS) & Proc HAS AD Integration	Thu-31-Aug-17								
Reduction	3/430 - Review governance arrangements for the Health and Wellbeing Board to ensure delivery of the joint H & W Strategy	HAS AD Integration	Fri-31-Mar-17								
Reduction	3/460 - Negotiations to achieve full maintenance of adult social care BCF spend 2017/18 and beyond	AD SR (HAS) & Proc HAS AD Integration	Fri-31-Mar-17								
Reduction	3/466 - Contribute to 3 STP draft plans	CD HAS	Mon-31-Oct-16								
Reduction	3/467 - Develop and agree the scope for a joint commissioning programme (NYCF)	HAS AD Integration	Fri-30-Sep-16								
Reduction	3/468 - Arrange a HB workshop on the challenges of managing the health and social care economy in N Yorkshire	HAS AD Integration	Wed-30-Nov-16								
Phase 4 - Post Risk Reduction Assessment											
Probability	M	Objectives	M	Financial	H	Services	M	Reputation	H	Category	2
Phase 5 - Fallback Plan											
										Action Manager	
Fallback Plan	3/532 - Escalation to CMB and Executive Members, further engagement with senior tiers in NHS locally, regionally and nationally.										CD HAS

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 1 - Identification											
Risk Number	3/218	Risk Title	3/218 - Managing effective outcomes for individuals				Risk Owner	CD HAS		Manager	HAS AD C&S
Description	Failure to meet targets in line with the Care Act resulting in poor outcomes for individuals and internal and external criticism, reputational issues.					Risk Group	Performance		Risk Type	C&S 1/17	
Phase 2 - Current Assessment											
Current Control Measures		HASLT; C&SLT; embedded performance management; budgetary management; needs assessment questionnaire; individual targets for workers; more direct intervention planned on testing out assessment pathway plan targets and savings							Effectiveness		
Probability	M	Objectives	H	Financial	H	Services	H	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed			
Reduction	1/76 - Develop the care and support pathway and commence consultation					HAS AD C&S		Fri-29-Jul-16	Fri-29-Jul-16		
Reduction	1/78 - Set targets through robust service planning aligned to 2020 Vision					HAS AD C&S		Wed-31-May-17			
Reduction	1/79 - Hold bi-monthly CSM forums					HAS AD C&S		Wed-31-May-17			
Reduction	1/107 - Continue to embed the Dignity and Respect agenda					HAS AD C&S		Wed-31-May-17			
Reduction	1/317 - Ensure effective assessment and review processes are maintained throughout the transformation programme					HAS AD C&S		Wed-31-May-17			
Reduction	1/330 - Model anticipated demand using information from census and carers organisations; activity analysis completed on 15/16 data to assess potential demand under the new model					HAS AD C&S		Tue-31-May-16	Tue-31-May-16		
Reduction	1/331 - Awareness raising of care act responsibilities and engagement with NHS and other partners, including sign posting to National training					HAS AD C&S		Wed-31-May-17			
Reduction	1/333 - Maintain strong links to 2020 projects to ensure duties and requirements are taken into account					HAS AD C&S		Wed-31-May-17			
Reduction	3/206 - Undertake review and staff consultation of management and operational delivery of social care mental health services					HAS AD C&S		Wed-31-Aug-16	Thu-31-Mar-16		
Reduction	3/457 - Implement the care and support pathway service redesign					HAS AD C&S		Fri-31-Mar-17			
Reduction	3/458 - Implement the agreed management and operational delivery of social care mental health services					HAS AD C&S		Mon-31-Oct-16			
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	H	Financial	M	Services	M	Reputation	H	Category	3



Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 5 - Fallback Plan		Action Manager
Fallback Plan	1/15 - Review performance and capacity including access to additional funding	HAS AD C&S



Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 1 - Identification											
Risk Number	3/226	Risk Title	3/226 - Transformation				Risk Owner	CD HAS		Manager	HAS AD C&S
Description	Failure to carry out transformation of the care and support offer in a timely way such that savings are made, significant change and improvement is implemented and personal independence is maximised					Risk Group	Change Mgt		Risk Type		
Phase 2 - Current Assessment											
Current Control Measures			Corporate and HAS 2020 Governance arrangements including reporting to & monitoring by Directorate & Corp Programme Board; dedicated staff; Transformation Board; HAS Programme Briefs Produced; EIAs being developed; Exec members involved in programme development; HAS LT members assigned to specific programme activity; HAS Vision; engagement with NHS commissioners and providers over assessment pathway process; prevention framework and action plan designed; workforce development plan in place;						Effectiveness		
Probability	M	Objectives	H	Financial	H	Services	H	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed			
Reduction	1/155 - Design a Prevention Framework and action plan which models the investment needed and savings to be achieved by shifting to community sustainability and prevention; model out of consultation					HAS AD C&S Public Health Consultant		Thu-30-Jun-16	Tue-31-May-16		
Reduction	1/360 - Develop and deliver the customer service centre work around transformation; pilot complete using to test the new model and ways of working					HAS AD C&S		Wed-31-May-17			
Reduction	1/443 - Ensure suitable transitional management arrangements are made at AD level					CD HAS		Fri-31-Mar-17			
Reduction	1/444 - Engage with customers and staff to develop new practice and ways of working					HAS AD C&S		Wed-31-May-17			
Reduction	1/445 - Implement the governance programme that ensures milestones are clearly understood prior to full launch					HAS AD C&S		Fri-31-Mar-17			
Reduction	1/446 - Develop a performance and trend dashboard to monitor activity and savings					HAS AD C&S		Wed-31-May-17			
Reduction	3/157 - Develop a new enablement and reablement pathway, agreed in principle with NHS partners consultation to commence in April 2017 and also make provision for management of existing cases					HAS AD C&S		Thu-31-Aug-17			
Reduction	3/363 - Support the assessment pathway programme and specifically the Care and Support restructure through workforce planning and development					HAS HoHR HAS LT		Wed-31-Aug-16	Sun-31-Jul-16		
Reduction	3/1951 - Carry out detailed review of 2020 transformation savings that need to be achieved					HAS LT		Thu-31-Mar-16	Thu-31-Mar-16		
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	H	Services	M	Reputation	M	Category	3

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 5 - Fallback Plan		Action Manager
Fallback Plan	1/15 - Review performance and capacity including access to additional funding	HAS AD C&S



Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 1 - Identification											
Risk Number	3/27	Risk Title	3/27 - Safeguarding Arrangements				Risk Owner	CD HAS	Manager	HAS AD C&S HAS AD Q&E	
Description	Failure to have an effectively monitored, robust, Safeguarding regime and partnership arrangements in place and ensure that we fulfil our wider lead authority role (under the Care Act) results in risk to service users, inability to reach required standard on CQC and adverse effect on Directorate reputation.					Risk Group	Partnerships	Risk Type	C&S 1/14		
Phase 2 - Current Assessment											
Current Control Measures			Detailed action plan; Safeguarding review for the County; revised Safeguarding Boards and sub groups linked to new Care Act provisions; Safeguarding Head of Locality and team; strengthening of Safeguarding policy team; case file audit and review; training plan; best interest assessors in post; better understanding & embedding of Mental Capacity Act Forum; independent chair to Safeguarding Board in place; risk enablement panel developed; countywide safeguarding general manager in place; testing of initial performance metrics for Safeguarding Board has taken place; safeguarding procedures reviewed linked to consultation in light of the Care Act; safeguarding board performance framework; protocol for the relationship between Adults Social Care (and Children's Trust) and the Health and Wellbeing Board agreed and implemented; risk assessment tool launched;					Effectiveness			
Probability	M	Objectives	H	Financial	H	Services	M	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
						Action Manager	Action by	Completed			
Reduction	1/357 - Bringing in further experienced staff whenever possible					HAS AD C&S	Wed-31-May-17				
Reduction	2/85 - Implementation of new policies and procedures reflecting new Care Act duties; training to complete					HAS AD Q&E	Thu-31-Dec-15	Thu-31-Dec-15			
Reduction	2/161 - Continued vigilance to ensure our supervisory body role adheres to good practice and national guidance, evidenced by regular reports to HASLT and members					HAS AD Q&E	Wed-31-May-17				
Reduction	2/336 - Carry out the supervisory body role for DoLS to ensure the system works; within priorities agreed					HAS AD Q&E	Wed-31-May-17				
Reduction	3/145 - Continue to ensure partners are fully engaged with Safeguarding boards centrally and locally, particularly new health partners (CCGs) - ongoing, two board development days held					HAS AD C&S HAS AD Q&E	Wed-31-May-17				
Reduction	3/187 - Continue to work with Quality and Engagement team to improve quality assurance; including work with CQC, Health and Healthwatch					HAS AD C&S HAS AD Q&E	Thu-31-Aug-17				
Reduction	3/217 - Complete training in respect of safeguarding policies and procedures and wider awareness training for groups such as elected Members					HAS AD C&S	Sat-31-Dec-16				
Reduction	3/321 - Ongoing joint work with CYPS to carry out review of approach to domestic abuse and Prevent					HAS AD Q&E	Fri-31-Mar-17				
Reduction	3/464 - Revise existing safeguarding policies and procedures in light of operational experience					HAS AD C&S	Fri-31-Mar-17				
Reduction	3/1959 - Develop an information framework for serious incident data, eg drug death etc					AD SR (HAS) & Proc HAS AD Q&E	Sat-31-Dec-16				



Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Reduction	3/1961 - Embedding safeguarding work to deliver the Transforming Care programme incl. embedding the care act role of Principal Social Worker and Safeguarding Board Manager				HAS AD C&S	Wed-31-May-17					
Reduction	47/77 - Revise and implement the Quality Assurance Framework				HAS Q&E Ho Q&M	Sun-31-Jul-16	Sun-31-Jul-16				
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	H	Financial	H	Services	M	Reputation	H	Category	3
Phase 5 - Fallback Plan											
Fallback Plan	3/33 - Escalate to Safeguarding Board / Mgt Board and carry out necessary review and action improvement plans, lessons learned from any serious case reviews						Action Manager		HAS AD C&S		



Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 1 - Identification											
Risk Number	3/228	Risk Title	3/228 - Extra Care Housing				Risk Owner	CD HAS	Manager	HAS AD Com	
Description	Failure to effectively deliver the Extra Care Programme and EPH reprovision resulting in suboptimal financial savings, potential challenge to EPH reprovision proposals, poor project management of Extra Care Scheme Development					Risk Group	Strategic	Risk Type	47/151		
Phase 2 - Current Assessment											
Current Control Measures			Robust needs assessment (independently tested), Programme management structure, use of experienced external advisors in respect of legal, finance and procurement services, governance arrangements, member support, programme manager recruited, procurement of Framework partners outcome completed; call off contract timetable developed and aligned with necessary consultations; reviewed process for EPH reprovision to ensure fit for purpose; process for mini procurements agreed; financial investment and VfM for existing developments reviewed;					Effectiveness			
Probability	M	Objectives	M	Financial	H	Services	M	Reputation	H	Category	2
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed		
Reduction	3/377 - Identify specific issues and requirements for each Scheme						HAS AD Com	Tue-31-Mar-20			
Reduction	3/378 - Develop bespoke programme for each Scheme						HAS AD Com	Tue-31-Mar-20			
Reduction	3/380 - Finance - ongoing close monitoring of financial model to ensure savings are achieved						HAS AD Com	Mon-30-Sep-19			
Reduction	3/426 - Carry out implementation reviews and consider lessons learned for future schemes						HAS AD Com	Mon-30-Sep-19			
Reduction	3/427 - Review impact of benefit (housing) changes and produce bespoke responses for schemes						HAS AD Com	Wed-31-Aug-16	Sun-31-Jul-16		
Reduction	3/459 - Regular review of Schemes within the timetable for the delivery of Extra Care and adjust where necessary to deliver savings						HAS AD Com	Tue-31-Mar-20			
Reduction	47/81 - Look at new and innovative approaches for smaller schemes						HAS AD Com	Tue-31-Mar-20			
Reduction	47/82 - Ensure effective utilisation of an agreed consultation process for procurement in respect of EPHs						HAS AD Com	Tue-31-Mar-20			
Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	L	Financial	H	Services	L	Reputation	M	Category	3
Phase 5 - Fallback Plan											
									Action Manager		
Fallback Plan	557 - Continually review progress and changes in market conditions and Partner circumstances and make appropriate adjustments to the Programme							HAS AD Com			

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 1 - Identification										
Risk Number	3/184	Risk Title	3/184 - Workforce Planning and Development				Risk Owner	CD HAS	Manager	HAS HoHR
Description	Failure to appropriately plan and fulfil workforce requirements and / or develop staff in line with transformation agenda resulting in reduction in quality of service and transformation objectives not achieved					Risk Group	Personnel	Risk Type	Dir Only	
Phase 2 - Current Assessment										
Current Control Measures	Workforce Strategy and OD Plan refreshed and agreed by HAS LT, HR representation on each 2020 programme board, draft staff engagement and communication plan, Care Act training delivered, Directorate restructure complete, Directorate Vision launched via Powerpoint communication, HAS Transformation Board, regular DJCC meetings with Unison, training plan in place, ASYE implemented,							Effectiveness		
Probability	M	Objectives	M	Financial	H	Services	H	Reputation	M	
								Category	2	
Phase 3 - Risk Reduction Actions										
							Action Manager	Action by	Completed	
Reduction	3/164 - Support the independent and voluntary sector to develop its workforce's skills sets (ongoing)						HAS HoHR	Thu-31-Aug-17		
Reduction	3/218 - Continue to implement the Directorate Training Plan which encompasses all the key changes facing Operational Staff and equips Heads of Service and CSMs to ensure delivery (ongoing)						HAS AD C&S HAS HoHR	Thu-31-Aug-17		
Reduction	3/231 - Ensure Directorate Managers are provided with training in people management processes, reorganisation and redundancy processes and change management. (ongoing)						HAS HoHR	Thu-31-Aug-17		
Reduction	3/263 - Ensure use of Insight is embedded with Directorate managers and exceptions and performance issues are identified through quarterly reports to HAS LT and SHRA input to management teams and ensure appropriate action is taken (ongoing)						HAS LT	Thu-31-Aug-17		
Reduction	3/324 - Implement the resourcing strategy to support continuity of staffing in EPHs, reablement and personal care at home including EPH reprovision via the Extra Care programme (ongoing)						HAS AD C&S HAS HoHR	Thu-31-Aug-17		
Reduction	3/325 - Continue to develop and implement a skill mix in assessment teams to meet the additional resource requirements as a result of the Care Act implementation						AD SR (HAS) & Proc HAS AD C&S HAS HoHR	Fri-31-Mar-17		
Reduction	3/340 - Provide HR and WD advice and support to Managers leading Transformation Projects (ongoing)						HAS HoHR	Thu-31-Aug-17		
Reduction	3/363 - Support the assessment pathway programme and specifically the Care and Support restructure through workforce planning and development						HAS HoHR HAS LT	Wed-31-Aug-16	Sun-31-Jul-16	
Reduction	3/1952 - Develop an integrated workforce strategy with the NHS						HAS LT	Fri-31-Mar-17		
Reduction	3/1964 - Continue to engage with and contribute to all 2020 North Yorkshire workstreams (ongoing)						HAS LT	Thu-31-Aug-17		
Phase 4 - Post Risk Reduction Assessment										
Probability	M	Objectives	M	Financial	M	Services	M	Reputation	L	
								Category	4	



Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 5 - Fallback Plan		Action Manager
Fallback Plan	3/531 - Continue to prioritise resources to ensure continuity of service for front line service users	CD HAS



Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 1 - Identification												
Risk Number	3/220	Risk Title	3/220 - Cultural Change				Risk Owner	CD HAS		Manager	HAS HoHR	
Description	Failure to change the Directorate culture at the same time as implementing the HAS Vision and the 2020 Transformation Programme for HAS by 2020 resulting in financial challenges and unmet savings, staff unclear about their roles and an inability to implement new ways of working					Risk Group	Personnel		Risk Type	Dir Only		
Phase 2 - Current Assessment												
Current Control Measures			Leadership Forum, Wider Leadership team, Workforce strategy and OD Plan; Care Act training delivered; Directorate restructure complete and associated development plan delivered; Directorate Vision developed and being implemented; business cases developed and programmes being implemented for assessment pathway and targeted prevention; Make Every Contact Count training developed; comprehensive staff engagement and communication plan developed; activity dashboards developed providing evidence of progress;						Effectiveness			
Probability	M	Objectives	M	Financial	H	Services	M	Reputation	M	Category	2	
Phase 3 - Risk Reduction Actions												
Reduction	3/201 - Leadership to communicate and consult on the transformation programme					Action Manager	HAS AD C&S		Action by	Fri-31-Mar-17	Completed	
Reduction	3/232 - Embed the locality leadership model					Action Manager	HAS LT		Action by	Wed-31-Aug-16	Completed	Wed-30-Sep-15
Reduction	3/233 - Ensure effective liaison with the Stronger Communities team to maximise access to community assets and delay use of mainstream services (ongoing)					Action Manager	HAS LT		Action by	Thu-31-Aug-17	Completed	
Reduction	3/234 - Ensure effective targeted prevention activity to maximise access to community assets and delay use of mainstream services					Action Manager	HAS AD C&S		Action by	Wed-31-Aug-16	Completed	Thu-30-Jun-16
Reduction	3/322 - Review, revise and implement management arrangements for Mental Health services					Action Manager	HAS AD C&S HAS HoHR		Action by	Mon-31-Oct-16	Completed	
Reduction	3/323 - Roll out Make Every Contact Count training to the Directorate workforce					Action Manager	Dir Public Health HAS HoHR		Action by	Sat-30-Sep-17	Completed	
Reduction	3/341 - Implement a comprehensive staff engagement and communication plan (ongoing)					Action Manager	HAS LT		Action by	Thu-31-Aug-17	Completed	
Reduction	3/343 - Ensure development and delivery of staff training programmes to support culture change including identification of appropriate resource					Action Manager	Principal Workforce Development Advisor		Action by	Thu-31-Aug-17	Completed	
Reduction	3/372 - Ensure leadership and management continue to evolve methods of effective communication to enable involvement and feedback from staff and co-production with service users and partners (ongoing)					Action Manager	HAS LT		Action by	Thu-31-Aug-17	Completed	
Reduction	3/465 - Review wider Mental Health team structures					Action Manager	HAS AD C&S HAS HoHR		Action by	Tue-31-Oct-17	Completed	
Phase 4 - Post Risk Reduction Assessment												
Probability	L	Objectives	M	Financial	M	Services	M	Reputation	M	Category	5	



Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 5 - Fallback Plan		Action Manager
Fallback Plan	3/531 - Continue to prioritise resources to ensure continuity of service for front line service users	CD HAS



Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 1 - Identification											
Risk Number	3/167	Risk Title	3/167 - Public Health				Risk Owner	CD HAS	Manager	Dir Public Health	
Description	Failure to deliver a distinctive public health agenda for North Yorkshire and carry out the statutory public health functions resulting in failure to maximise health gain in the County, inability to effectively commission public health services, develop and implement strategies and manage the Public Health grant					Risk Group	Partnerships	Risk Type	PH 5/196		
Phase 2 - Current Assessment											
Current Control Measures			Recruitment to public health team; Secured project management support for major service commissioning; Regular Public Health business and team meetings; Consultant link roles with NYCC Directorates; CCGs and Districts; Public Health service plan developed; Consultation on public health commissioning intentions; MOU for Advice Service with CCGs in place; Joint Contracts group with CYC; Health and Wellbeing Board; H & W Strategy; Link to relevant Em Planning/Health Protection structures in place; Leading work on the Prevention Framework; PH team performance monitoring mechanism in place; updated JSNA in place; development of financial framework; recommissioned most of the Public Health services					Effectiveness			
Probability	L	Objectives	M	Financial	H	Services	M	Reputation	M	Category	3
Phase 3 - Risk Reduction Actions											
							Action Manager	Action by	Completed		
Reduction	5/246 - Continue to ensure Public Health statutory functions are met						Dir Public Health	Fri-30-Jun-17			
Reduction	5/247 - Develop the Public Health Advisory Service for CCGs; held up by inability to recruit to consultant post						Dir Public Health	Sat-31-Dec-16			
Reduction	5/248 - Ensure 2020 Finance considers Public Health needs and that Public Health team are aware of impact on resource and finance risk (development of 5 year indicative framework)						Int Fin Acc	Fri-30-Jun-17			
Reduction	5/249 - Explicitly embed Public Health in the Councils mainstream strategies and policies eg. trading standards, education, children social care, LEP (ongoing) and embed within the HAS locality model						Dir Public Health	Fri-30-Jun-17			
Reduction	5/251 - Continue to ensure sufficient capacity and skills in the Public Health team and in the interim, explore alternative solutions to release more time for consultant level work						Dir Public Health	Fri-30-Jun-17			
Reduction	5/252 - Continue to work closely with CoY Council especially around contracting and professional networks						Dir Public Health	Fri-30-Jun-17			
Reduction	5/254 - Develop more detailed business plan and financial arrangements (5 year indicative framework being developed) for the Public Health budget with sign off by CMB and HAS Exec within new financial framework						AD SR (HAS) & Proc Dir Public Health	Fri-30-Jun-17			
Reduction	5/313 - Ensure good systems are in place for monitoring our performance against the PHOF; reported as part of the Council's performance framework						Dir Public Health	Fri-30-Jun-17			
Reduction	5/314 - Report on quarterly basis to HAS LT and PH Business team						Dir Public Health	Fri-30-Jun-17			
Reduction	5/345 - Ensure partners are aware of implications of grant fund cut						Dir Public Health	Fri-30-Jun-17			

Health and Adult Services Directorate

Risk Register: **Month 0 (August 2016) – detailed**

Report Date: 8th September 2016 (pw)

Phase 4 - Post Risk Reduction Assessment											
Probability	L	Objectives	M	Financial	M	Services	M	Reputation	M	Category	5
Phase 5 - Fallback Plan											
										Action Manager	
Fallback Plan	3/526 - Further develop and implement alternative delivery models taking into account good practice elsewhere									Dir Public Health	



NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

29 SEPTEMBER 2016

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 year to 31 August 2016 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 IT audit plan for 2016/17 were presented to the Committee in June 2016.
- 2.2 This report considers the work carried out by Veritau and Audit North during the period to 31 August 2016. 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 to consider.
- 2.3 The Corporate Risk Register (CRR) is fully reviewed every year and updated by the Chief Executive and Management Board in September / October. A six monthly review is then carried out in April / May. The latest updated Corporate Risk Register was presented to the Committee in June 2016. There have been no significant changes in the County Council's risk profile since that date.

3.0 WORK CARRIED OUT DURING THE YEAR TO 31 AUGUST 2016

- 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	Appendix 1
Corporate assurance	Appendix 2

- 3.2 Internal Audit has also been involved in a number of related areas, including:
- providing advice on corporate governance arrangements and IT related controls;
 - providing advice and support to assist the mobile device encryption project and ICT project and programme management;
 - 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 development of the NYCC procurement strategic action plan, including participation in a number of delivery areas;
 - contributing to the annual review and update of the County Council's Financial, Contract and Property Procedure Rules;
 - 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 investigations into data security incidents and 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 tend to be 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)¹ should provide an annual report to the board². 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.

¹ For the County Council this is the Head of Internal Audit.

² For the County Council this is the Audit Committee.

Max Thomas
Head of Internal Audit

Veritau Ltd
County Hall
Northallerton

11 September 2016

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).

INFORMATION TECHNOLOGY - FINAL AUDIT REPORTS ISSUED IN THE YEAR TO 31 AUGUST 2016

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	In House System Development Controls	Substantial Assurance	The audit reviewed the adequacy and effectiveness of controls at the inception of the system development lifecycle.	October 2015	<p>Good controls were found to be in place.</p> <p>The main issues identified were:</p> <ul style="list-style-type: none"> • Testing plans were not available for the developments examined and the testing process for system development was not always followed. • Technical specification documents were not available, at the time of the audit fieldwork, for both Oracle BAFS Project and the Car Pool Project. 	<p>Two P3 and One P2 actions were agreed.</p> <p>Responsible Officers: Head of Technology Solutions, Development Team Lead</p> <p>It is recognised that services need to improve business process documentation to allow them to create more robust test scripts. The requirements for test scripts are however dependent on the size of the development. This will be reviewed as part of project management.</p> <p>A functional specification now needs to be completed and signed off by the service before any new development commences.</p> <p>Regarding training materials, this is an area under review as to who is responsible and in what form it should be undertaken in. For large development this will be included in project plans.</p>
B	Programme Management	High Assurance	A programme management framework should exist for all IT projects which ensures that	October 2015	Significant progress had been made in addressing the actions raised in the previous audit report:	No further actions required.

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
				<ul style="list-style-type: none"> • A standard approach to benefits management has been introduced. • An approach to risk management for projects and programmes has been agreed with corporate risk management and is being introduced for all projects. • A project management handbook has been developed in Sharepoint providing clear guidance for project managers on not only the stages of the project lifecycle, but the documentation to be used at each stage. • A comprehensive two day Business Case training course was delivered by an external organisation (CIPFA) to senior project mangers to aid their understanding of the purposes and content of a Business Case, and; • The Business Partners presented a session to the Technology and Change senior management team setting out their role and responsibilities together with their expectations of how Technology and Change will support and similarly, how the Business Partner role interfaces with Technology and Change. 	

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
C	IT Risk Management	Substantial Assurance	The audit reviewed the efficiency and effectiveness of the IT risk management process, supporting framework and policies to ensure that IT risks are identified and assessed in accordance with the organisation's overall risk management process.	November 2015	<p>The risk management arrangements were found to be effective with few weaknesses identified.</p> <p>The main issues were:</p> <ul style="list-style-type: none"> Operational IT risks within Technology & Change were monitored in isolation as part of the ISO 27001:2013 accreditation process. The risks had not been reviewed since April 2015. The progress of risk reduction actions is only reviewed as part of the six monthly corporate risk management review. As such, the County Council does not document when risk reduction actions have been completed if they are achieved after the six month review. 	<p>Two P2 and One P3 actions were agreed.</p> <p>Responsible Officers: Head of Technology Solutions, Technology & Change Managing Assistant Director</p> <p>An update of the Action Improvement Register (AIR) will be discussed at the Leadership Team every 6 months. A regular meeting to discuss security issues effecting T&C will be held with members of the leadership team, security officer and operations staff that will be responsible for ensuring the AIR is update and risk mediation is prioritised.</p> <p>Both the Action Improvement Register and Corporate Risk Register will be reviewed at regular T&C Leadership Team Meetings and updates noted.</p> <p>Discussions will be held with the Corporate Risk Management officers with regard to maintaining a record of completed actions, if this is not already available.</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
D	North Yorkshire 2020 Customer Portal Project	Reasonable Assurance	The audit reviewed the project management arrangements to ensure that they were proportionate to the size and complexity of the project, and provided effective governance and control to ensure delivery of the project.	November 2015	<p>The arrangements were found to be satisfactory although a number of areas for improvement were noted:</p> <ul style="list-style-type: none"> • Several documents had not been developed for the customer portal project in line with the Project Management Lifecycle. • Some key decisions for the project were not documented. While decisions are documented for the Customer Theme Board in an action log, we noted that the log for meetings in July and August 2015 did not contain any reference to the customer portal project. 	<p>Two P2 and One P3 Actions were agreed.</p> <p>Responsible Officer: Head of Programme and Projects.</p> <p>A new project will be raised for each business that will utilise the portal functionality and the required project documentation will be produced and will go through a Customer Journey Mapping exercise. Tolerances are to be introduced for time, cost and quality within project plans. Project reporting and governance continues to be improved and key project decisions will be recorded in the relevant Project Governance Board minutes and project action log.</p>
E	Lagan CRM Follow-up	Substantial Assurance	Controls should exist to manage key risks relating to the confidentiality, integrity and availability of information stored and processed by the Lagan CRM system. The audit reviewed the progress made in completing the actions raised in the previous Lagan CRM General Controls audit report.	December 2015	<p>Good progress had been made in addressing the actions raised in the previous audit report. Out of the 11 agreed actions, nine had been implemented, and the remaining two had been partially implemented.</p> <ul style="list-style-type: none"> • A review of the Lagan access groups had not yet been performed. • The latest version of Lagan (V14R2) did have some improved password functionality 	<p>Two P2 actions were agreed</p> <p>Responsible Officer: Senior Systems Officer,</p> <p>These remaining actions will be completed once resources permit.</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					However, the improved functionality did not reference any change to the forced password expiry setting.	
F	Wireless Networking Security	Reasonable Assurance	The audit reviewed the controls in place for managing the wireless network infrastructure to ensure they are adequate to maintain the confidentiality, integrity and availability of network services and information.	January 2016	<p>The controls were found to be satisfactory although a number of issues were noted:</p> <ul style="list-style-type: none"> • Security of the NYCC guest wi-fi could be improved. • Documentation had not been developed detailing the configuration of the wireless network, or to support the day-to-day operational management and maintenance of the wireless network. Relevant responsibilities had also not been defined. • Security monitoring procedures had not been developed for the Aruba wireless network and the Intrusion Detection System (IDS) events are not subject to regular monitoring or review. 	<p>Two P2 and Two P3 actions were agreed.</p> <p>Responsible Officers: Technical Lead Service Manager - Communications and Security</p> <p>Technology & Change have introduced a more robust project methodology which should address these access issues. More robust test plans have also been introduced. More effective daily checks are being carried out to identify failed Access Points. A VIP Alert queue is being created to ensure alerts that absolutely need attention are given priority. Documentation for this is currently being reviewed and improved. A recent audit of our Security Infrastructure has taken place. In line with the findings of this audit we will look to further refine the alert process.</p>
G	Microsoft Exchange (e-mail system)	Substantial Assurance	The audit reviewed the controls in place to maintain	February 2016	Good controls were found to be in place.	Two P2 and Two P3 actions were agreed.

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			the confidentiality, integrity and availability of information stored and processed by the MS Exchange 2010 email system.		<p>The main issues identified were:</p> <ul style="list-style-type: none"> • The latest MS Exchange 2010 updates had not been applied to the environment. • Documentation had not been developed detailing the implemented settings and configuration of the MS Exchange 2010 installation. • Failover testing to the MS Exchange disaster recovery environment had not been performed since the solution went live in 2011. • Email alerting had not been configured within the Microsoft Systems Centre Operations Manager (SCOM) monitoring software to proactively alert support staff of issues with the Exchange 2010 environment 	<p>Responsible Officer: Technical Lead</p> <p>The latest MS Exchange 2010 update was applied at the time of the audit. We will add a task as part of our Daily Checks process to check whether there are any updates to Microsoft Exchange 2010. This will be performed weekly or monthly (to be agreed). We are currently improving our system documentation as a team – including the Exchange documentation. Once this has been created, we can use this as a baseline for all future configuration changes to the system. Technology and Change are currently undergoing an audit on DR and Service Continuity. As part of this it is planned to include a managed DR failover of certain servers and systems. As Exchange is a critical system for the council, this should be included in this test. Work will be carried out to understand and develop email-based alerting from SCOM for the exchange system.</p>
H	NYCC 2020 – Oracle Financials	Substantial Assurance	The audit reviewed the controls in place to maintain the confidentiality, integrity and	April 2016	Good controls were found to be in place.	Two P2 actions and Four P3 actions were agreed.

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			availability of information stored and processed by Oracle eBS.		<p>The main issues identified were:</p> <ul style="list-style-type: none"> The Finance System Support Team had not developed a business continuity plan detailing how the team would manage and communicate Oracle eBS downtime. A formal scheduled patch management process had not been established for the Oracle eBS environments (UNIX operating system Oracle RDBMS or Oracle eBS) Default Oracle RDBMS account configurations had not been changed during the implementation of Oracle eBS R12 	<p>Responsible Officer: Systems Manager Service Manager Infrastructure</p> <p>An Oracle eBS business continuity plan covering both Finance Systems and the Integrated Finance teams will be prepared. The Finance Systems team and the Server team will have quarterly patch update meetings and schedule six monthly patching.</p> <p>The Finance Systems team is working with DBA and Oracle Support staff to investigate and change any default passwords that were identified, whilst monitoring the effect upon the system any changes will produce.</p>
I	NYCC Disaster Recovery	Substantial Assurance	The audit reviewed the arrangements in place to counteract interruptions to business activities and to protect critical business processes from the effects of major failure or disasters.	May 2016	<p>Good controls were found to be in place.</p> <p>Audit testing also identified some weaknesses in controls, as follows:</p> <ul style="list-style-type: none"> The IT Disaster Recovery Plan was still in draft format at the time of audit. The IT Critical Systems list was being reviewed and had not been ratified. Third party hosted system providers had not been 	<p>Two P2 actions and Four P3 actions were agreed.</p> <p>Responsible officers: Head of Technology Services Technology & Change Managing Assistant Director</p> <p>Business Impact Analysis (BIA) has been carried out as part of individual services business continuity plans. Technology & Change recognise that the quality of the BIA data would benefit from</p>

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
				<p>contacted to determine disaster recovery arrangements in place for each system.</p> <ul style="list-style-type: none"> The IT Out of Hours Manual had not been reviewed since 2010 and did not reflect current operational processes or systems. 	<p>validation and sign-off from individual services before being presented to the Corporate Information Governance Group (CIGG). An action plan will be implemented to achieve this.</p> <p>For all externally hosted systems managed by Technology & Change, the Corporate Systems Team will contact the company and establish their DR provision in writing.</p> <p>The ICT Out of Hours Manual has been updated with the up to date critical systems and a 6 monthly review cycle has been scheduled.</p>
J	IT Access by Non-NYCC Staff	Limited Assurance	<p>The audit was carried out following a request by Technology & Change.</p> <p>The audit reviewed the framework for governing access to systems for non-NYCC staff to ensure use is appropriately authorised and controlled. The audit also examined whether access was removed when it was no longer required and users received suitable training.</p>	<p>The council has clearly recognised the need to manage access to data and systems by users who are not its employees, and has taken a number of positive steps. However, the policy framework lacks sufficient clarity.</p> <ul style="list-style-type: none"> The wording of the confidentiality agreement is not user-friendly. Users are not required to sign to confirm that they understand their obligations. Managers are not enforcing the requirement for users to complete information security 	<p>Six P2 actions and Two P3 actions were agreed.</p> <p>Responsible Officer: Head of Technology Solutions</p> <p>The findings of the audit were reported to the Corporate Information Governance Group (CIGG). The Policy will be reviewed and rewritten, taking account of the ongoing work to extend the use of volunteers across the County Council. A review of the training requirements for roles will also be</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					training. <ul style="list-style-type: none"> Individual users are sometimes being granted excessive access rights, and their accounts are not always being disabled and deleted when they leave. 	undertaken. The use of an end date for a System Access Request is to be reviewed; however the accounts are regularly reviewed and suspended if no activity has been recorded for 12 months.
K	Schools ICT Data Centre Security	Limited Assurance	The audit reviewed the physical and environmental controls operating within the computer room for schools ICT, to ensure the availability, confidentiality and integrity of the network and server infrastructure.	August 2016	A number of weaknesses were found, including: <ul style="list-style-type: none"> There is no automated fire suppression system installed within the computer room. With the exception of smoke detectors, there is no other environmental monitoring equipment installed (for example, monitoring water, heat or humidity). Highfield House did not have a backup generator to provide power in the event of a power outage which exceeded the short term cover provided by UPS devices. The floor of the computer room was carpeted with no anti-static mats or wristbands to provide additional protection to either equipment or staff. 	Three P2 actions and One P3 actions were agreed Responsible Officer: Service Manager - Schools ICT Work is now underway to re-locate all relevant IT hardware to dedicated computer room facilities at County Hall. Anti-static wrist band are being purchased.

Appendix 2

CORPORATE THEMES - FINAL AUDIT REPORTS ISSUED IN THE YEAR TO 31 AUGUST 2016

	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. Five reports were finalised during the period covering separate areas of County Hall and other buildings.	Various	<p>Following each visit, a detailed report was sent to the Senior Information Risk Owner (SIRO), as well as to relevant directorate managers. Findings have also been discussed by the Corporate Information Governance Group (CIGG).</p> <p>Working practices were found to be weak in a number of instances. Four visits were classified as Limited Assurance and one visit was classified as High Assurance.</p>	<p>Five P2 and one P3 action were agreed</p> <p>Responsible Officer: Corporate Director - Strategic Resources (and others)</p> <p>Responses have been obtained from relevant directorate managers following each audit. Management have viewed the findings extremely seriously and have taken immediate action where issues have been discovered.</p> <p>Follow up visits have been arranged where significant information risks have been identified.</p> <p>A programme of further visits is currently being prepared.</p>
B	Reorganisation, restructure and redundancy	High Assurance	The audit reviewed the procedures and controls in place to enable the effective management of service reorganisations and restructures. Redundancy payments were also reviewed	April 2016	<p>We found there are clear policies and procedures in place to effectively manage reorganisations, redeployments and redundancies.</p> <p>We found one settlement agreement which had been incorrectly coded as</p>	<p>Two P3 actions were agreed.</p> <p>Responsible Officer: Assistant Chief Executive (Business Support) HR & Organisational</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			to ensure they were being calculated correctly and paid in a timely manner.		a redundancy payment.	Updated guidance has been issued to staff within ESS to ensure future payments are correctly coded.
C	Risk Management	Substantial Assurance	<p>The audit examined whether:</p> <ul style="list-style-type: none"> risks were being appropriately identified risk mitigation was adequate with evidence of improvements the defined process for North Yorkshire 2020 projects had been followed. 	May 2016	<p>We found the arrangements for managing risk were good with few weaknesses identified.</p> <p>Appropriate risks for the projects chosen were identified through consultations with a variety of different stakeholders.</p>	No actions were agreed.

CONTRACTS - FINAL AUDIT REPORTS ISSUED IN THE YEAR TO 31 AUGUST 2016

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Revenue Contracts; Action for Children – (follow up)	<p>The audit reviewed the progress made in respect of the arrangements in place with Action for Children at May Lodge, Scarborough.</p> <p>The previous audit in 2014 had highlighted a number of contractual and operational issues. The report included a number of recommendations for future action.</p>	November 2015	<p>Progress has been in a number of areas. There have been some initiatives implemented to improve arrangements and contract monitoring and so far these seem to be working well. The new Registered Manager had developed an action plan to address a number of operational matters. We also noted signed contracts were now in place for all service users.</p> <p>The Council still has work to complete to ensure future contractual decision making maximises the outcomes for the Council and service users.</p>	<p>Officers in HAS are to seek legal and procurement advice prior to commencing the forthcoming procurement exercise.</p> <p>Any future agreements will include appropriate contract and performance management arrangements.</p>
B	Allerton Waste Recovery Park – Contract Management Healthcheck	The County Council signed an agreement with AmeyCespa for the Allerton Waste Recovery Park (AWRP) project in October 2014. Whilst the facility is not due to become operational until 2018 there is a need for robust contract management to be in place well in advance of the operational commencement of	March 2016	<p>The Council has made good progress in developing the contract management arrangements and managing the risks associated with the AWRP scheme. The AWRP key risks are well known by officers and have also been highlighted through the risk management processes.</p> <p>Officers were aware of the need for a number of areas to progress in the</p>	Officers have integrated the agreed areas into forthcoming planning and work on the AWRP scheme.

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			the contract. The purpose of this review was to provide an initial 'healthcheck' on some of the immediate key contract management risk areas facing the Council with the AWRP contract.	<p>forthcoming months.</p> <p>We provided a summary of findings and recommended actions. We also agreed with officers that the key areas to focus on were:</p> <ul style="list-style-type: none"> • The development of a high level strategy document for the AWRP contract. • Finalising the construction and commissioning sections of the Contract Management Manual. • Preparing a resource plan for the contract with a particular focus on the requirements for the operational phase • Developing the requirements for the Management Information System for the project which will include performance, reporting and financial elements. 	
C	Contracts with the Dalewood Trust	No opinion	Dalewood Trust (Dalewood) is a charitable trust based in Whitby, North Yorkshire. The County Council has two block contracts with Dalewood. The largest contract is for the provision of a day service These contracts have been in place since 1 April 2005. Based upon the current extension period both contracts will expire on 31	<p>August 2016</p> <p>We found a number of weaknesses in the arrangements being operated covering areas such as procurement, contract management and the level and quality of service delivery.</p> <p>A number of recommendations to address these matters were contained in the report.</p>	Senior officers in HAS have agreed an action plan to ensure all of the matters identified in the review are addressed.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>March 2018.</p> <p>We were asked by management to perform a detailed review of the contract, including contract approval, contract monitoring, approval of additional payments and value for money.</p>			

AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

Audit Opinions	
<p>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.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
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.
Reasonable 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 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

29 SEPTEMBER 2016

PROGRESS ON 2016/17 INTERNAL AUDIT PLAN

Report of the Head of Internal Audit

1.0 PURPOSE OF THE REPORT

- 1.1 To inform Members of the progress made to date in delivering the 2016/17 Internal Audit Plan and any developments likely to impact on the Plan throughout the remainder of the financial year.

2.0 BACKGROUND

- 2.1 Members approved the 2016/17 Audit Plan on the 23 June 2016. The total number of planned audit days for 2016/17 is 1,290 (plus 912 days for other work including counter fraud and information governance). The performance target for Veritau is to deliver 93% of the agreed Audit Plan.
- 2.2 This report provides details of how work on the 2016/17 Audit Plan is progressing.

3.0 INTERNAL AUDIT PLAN PROGRESS BY 31 AUGUST 2016

- 3.1 The internal audit performance targets for 2016/17 were set by the County Council's client officer. Progress against these performance targets, as at 31 August 2016, is detailed in **Appendix 1**.
- 3.2 Work is ongoing to complete the agreed programme of work. It is anticipated that the 93% target for the year will be exceeded by the end of April 2017 (the cut off point for 2016/17 audits). **Appendix 2** provides details of the final reports issued in the period. A further seven audit reports have been issued but are still in draft.

Contingency and Counter Fraud Work

- 3.3 Veritau continues to handle cases of suspected fraud or malpractice. Such assignments are carried out in response to issues raised by staff or members of the public via the Whistleblower Hotline, or as a result of management raising concerns. Since the start of the current financial year, 30 cases of suspected fraud or malpractice have been referred to Veritau for investigation. 10 of these are internal fraud cases, 5 social care and 2 external fraud. A further 13 cases relate to applications for school places. A number of these investigations are still ongoing. Work is also progressing with the North Yorkshire and York counter fraud initiative which has been grant funded by the Department for Communities and Local Government (DCLG). The project involves proactive data matching designed to identify and prevent fraud losses within high risks areas such as social care, council

tax, NNDR and procurement. To date the project has helped to recover fraud totalling £220.8k.

Information Governance

- 3.4 Veritau's Information Governance Team (IGT) continues to handle a significant number of information requests submitted under the Freedom of Information and Data Protection Acts. The number of FOI requests received between 1 April 2016 and 31 August 2016 is 523 compared with 508 requests received during the corresponding period in 2015/16. The IGT is currently exceeding the performance response target of 95% for 2016/17 with 96% of requests so far being answered within the statutory 20 day deadline. The IGT also coordinates the County Council's subject access requests and has received 104 such requests between 1 April 2016 and 31 August 2016 (note this figure has increased on previous years because we are now able to report on all subject access requests received by the Council rather than just those managed by Veritau).
- 3.5 Veritau is continuing to assist with the implementation of the County Council's information governance framework. As part of this, Veritau auditors continue to undertake a programme of unannounced audit visits to County Council premises in order to assess staff awareness of the need to secure personal and sensitive information.

Variations to the 2016/17 Audit Plan

- 3.6 All proposed variations to the agreed Audit Plan arising as the result of emerging issues and/or requests from directorates are subject to a Change Control process. Where the variation exceeds 5 days then the change must be authorised by the client officer. Any significant variations will then be communicated to the Audit Committee for information. The following variations have been authorised since the plan was approved. The variations follow discussions with management and reflect changes in current priorities:

Review of on-line banking controls	+5 days
Review of new arrangements for checking Members' expenses	+5 days
Contingency (10 days remaining)	- 10 days
Net change to plan	nil

Follow Up of Agreed Actions

- 3.7 Veritau follow up all agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. A new escalation procedure has been introduced to formalise the reporting process in the event that agreed actions are not implemented or management fail to provide adequate information to enable an assessment to be made. At this stage in the year, there are no actions which have needed to be escalated. On the basis of the follow up work undertaken during the year to date, the Head of Internal Audit is therefore satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.

4.0 **RECOMMENDATION**

- 4.1 Members are asked to note the progress made in delivering the 2016/17 Internal Audit programme of work and the variations agreed by the client officer.

Report prepared and presented by Max Thomas, Head of Internal Audit

Max Thomas
Head of Internal Audit
Veritau Limited
County Hall
Northallerton

1 September 2016

Background Documents: Relevant audit reports kept by Veritau at 50 South Parade, Northallerton.

PROGRESS AGAINST 2016/17 PERFORMANCE TARGETS (AS AT 31/8/2016)

Indicator	Milestone	Position at 31/8/2016
To deliver 93% of the agreed Internal Audit Plan	93% by 30/4/17	23.08%
To achieve a positive customer satisfaction rating of 95%	95% by 31/3/17	100.00%
To ensure 95% of Priority 1 recommendations made are agreed	95% by 31/3/17	100.00%
To ensure 95% of FOI requests are answered within the Statutory deadline of 20 working days	95% by 31/3/17	96.21% ¹

¹ Performance to 31/7/16

FINAL 2016/17 AUDIT REPORTS ISSUED TO DATE

Audit Area	Directorate	Overall Opinion
Information security incidents x 2	Corporate	N/A
Information security compliance (Jesmond House, Harrogate)	Corporate	Limited assurance
Information security compliance (Manor Road, Knaresborough)	Corporate	Limited assurance
Contracts with Dalewood Trust	Contract	N/A
Care home visit (The Orchards, Wistow)	HAS	Substantial assurance
Care home visit (Craegmore Priory)	HAS	High assurance
IT schools IT data centre (Highfield House)	ICT	Limited assurance

AUDIT COMMITTEE - PROGRAMME OF WORK 2016 / 17

ANNUAL WORKPLAN		JULY 16	SEPT 16	DEC 16	MAR 17	JUNE 17
Audit Committee Agenda Items						
A	Training for Members (as necessary)	3	1	2	TBA	TBA
	Annual Internal Audit Plan 2016/17				*	*
	Annual report of Head of Internal Audit 2015/16					*
	Progress Report on Annual Internal Audit Plan 2015/16		*	*	*	
	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				*	
B	Annual Audit Letter			*		
	Annual Audit Plan 2015/16 (NYCC & NYPF)				*	
	Annual Report / Letter of the External Auditor		*			
	Interim Audit Report					*
	Discussion with External Auditor on 1-to-1 basis					
C	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					*
	– progress report inc re AGS					*
	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				*	
	Contract Management			*		
Treasury Management – Executive February				*		
Corporate Procurement Strategy					*	
VFM Review			*			
D	Work Programme	*	*	*	*	*
	Progress on issues raised by the Committee (inc Treasury Management)		*	*	*	*
E	Agenda planning / briefing meeting	29/06	14/09	16/11		
	Audit Committee Agenda/Reports deadline	04/07	19/09	21/11	17/01	
Audit Committee Meeting Dates		14/07	29/09	01/12	02/03	

- A = Internal Audit
- B = External Audit
- C = Statement of Final Accounts / Governance
- D = Other
- E = Dates

- ◉ before formal meeting
- 1 LGPS
- 2 Internal / External Auditors
- 3 Waste Teckal
- Sessions to be sorted