Agenda

Meeting: **Audit Committee**

Venue: **Brierley Room, County Hall, Northallerton DL7 8AD**

Date: **Thursday 7 March 2019 at 1.30 pm**

Note: **Members are invited to attend a demonstration of a system which provides "real time" information concerning suppliers' financial health, to be held at 1.00 pm in the Brierley Room**

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Business

1. **Minutes of the meeting held on 20 December 2018**

   (Pages 5 to 10)

2. **Any Declarations of Interest**

Enquiries relating to this agenda please contact Ruth Gladstone **Tel: 01609 532555** or e-mail
ruth.gladstone@northyorks.gov.uk
www.northyorks.gov.uk

3. **Exclusion of the public from the meeting during consideration of appendices 2 and 3 to the report on the item "Counter Fraud and Associated Matters" on the grounds that discussion of those appendices is likely disclose exempt information as defined in paragraph 7 specified in column 2 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to information)(Variation) Order 2006**

4. **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 this agenda)* by midday on Monday 4 March 2019. 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.

5. **Progress on Issues Raised by the Committee** – Joint report of the Corporate Director – Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services)
(Pages 11 to 12)

6. **Treasury Management Strategy** – Report of the Corporate Director - Strategic Resources
(Pages 13 to 62)

7. **Accounting Policies** – Report of the Corporate Director - Strategic Resources
(Pages 63 to 67)

8. **Corporate Risk Management Policy** – Report of the Corporate Director – Strategic Resources
(Pages 68 to 88)

9. **Corporate Governance** – Report of the Corporate Director - Strategic Resources
(Pages 89 to 106)

10. **Review of Assurance over Value for Money** – Report of the Corporate Director - Strategic Resources
(Pages 107 to 113)

11. **Information Governance Annual Report** – Report of the Corporate Director - Strategic Resources
(Pages 114 to 119)

12. **External Audit Planning Report to the Audit Committee for the Year Ending 31 March 2019** – Report of Deloitte
(Pages 120 to 164)

13. **Progress on 2018/19 Internal Audit Plan** – Report of the Head of Internal Audit
(Pages 165 to 183)

14. **2019/20 Internal Audit Plan Consultation** – Report of the Head of Internal Audit
(Pages 184 to 201)

15. **Counter Fraud and Associated Matters** – Report of the Head of Internal Audit
**(Pages 202 to 240
Appendices 2 and 3 circulated to Committee Members only)**

16. **Internal Audit Work / Internal Control Matters for the Central Services Directorate:-**

    (a) Report of the Head of Internal Audit
    (Pages 241 to 250)

    (b) Report of the Corporate Director – Strategic Resources
    (Pages 251 to 273)

17. **Programme of Work** – Report of the Corporate Director – Strategic Resources
(Page 274)

18. **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

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)			
	Councillors Names		*Political Group*
1	ARTHUR, Karl		Conservative
2	ATKINSON, Margaret	Vice-Chairman	Conservative
3	BAKER, Robert		Conservative
4	CLARK, Jim		Conservative
5	HUGILL, David		Conservative
6	LUNN, Cliff	Chairman	Conservative
7	MACKAY, Don		NY Independents
8	WEBBER, Geoff		Liberal Democrat
Members other than County Councillors (Non-voting) (3)			
1	PORTLOCK, David		
2	MARSH, David		
3	GRUBB, Nick		

Total Membership – (11)			**Quorum – (3) County Councillors**		
Con	**Lib Dem**	**NY Ind**	**Labour**	**Ind**	**Total**
6	1	1	0	0	8

2. Substitute Members

Conservative		**Liberal Democrat**	
	Councillors Names		*Councillors Names*
1	BACKHOUSE, Andrew	**1**	BROADBANK, Philip
2	COOPER, Richard	**2**	
3	THOMPSON, Angus	**3**	
4	PARASKOS, Andy	**4**	
5	PATMORE, Caroline	**5**	
NY Independent			
	Councillors Names		
1			
2			
3			
4			
5			

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 20 December 2018 at 1.30 pm at County Hall, Northallerton

Present:-

County Councillor Members of the Committee:-

County Councillor Cliff Lunn (in the Chair); County Councillors Karl Arthur, Margaret Atkinson, Robert Baker, Jim Clark, David Hugill and Geoff Webber

Independent Members of the Committee:-

Mr Nick Grubb, Mr David Marsh and Mr David Portlock

In Attendance:-

County Councillor Carl Les (Leader of the County Council)

Deloitte Officers: Paul Thomson and Nick Rayner

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

County Council Officers: David Bowe (Corporate Director – Business and Environmental Services), Kevin Draisey (Head of Procurement and Contract Management), Gary Fielding (Corporate Director – Strategic Resources), Fiona Sowerby (Corporate Risk and Insurance Manager) and Ruth Gladstone (Principal Democratic Services Officer)

Copies of all documents considered are in the Minute Book

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95. Minutes

Resolved -

That the Minutes of the meeting held on 10 October 2018, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

96. Declarations of Interest

There were no declarations of interest.

97. Public Questions or Statements

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

98. 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 made on issues which the Committee had raised at previous meetings, together with an update on Treasury Management matters.

The Corporate Director – Strategic Resources, in introducing the report, highlighted that, with regard to undertaking a review of the Committee's effectiveness, views would be sought in early 2019 from a selection of Members and Independent Members of this Committee, for consideration as part of that review.

The Corporate Director – Strategic Resources confirmed that further Member training was being arranged on cyber security, to reflect the increased sophistication of scams. He added that an update concerning the progress of the arrangements would be included in the report "Progress on Issues Raised by the Committee" to be submitted to the Committee's meeting on 7 March 2019.

The Head of Internal Audit confirmed that the outcome of the recent external assessment of Veritau had been received. He advised that Veritau had been awarded the highest available rating. A small number of areas had been identified for Veritau to consider but no significant issues had been raised. The Head of Internal Audit intended to submit an Action Plan of issues arising from the assessment to the Committee's meeting on 7 March 2019.

Resolved -

That the report be noted, together with the undertakings provided during discussion for the following to be submitted to the Committee's meeting on 7 March 2019:-

(a) Within the report "Progress on Issues Raised by the Committee", an update concerning the progress of the arrangements to deliver further Member training on cyber security, to reflect the increased sophistication of scams.

(b) An Action Plan from the Head of Internal Audit concerning the issues arising from the recent external assessment of Veritau.

99. Review of the Procurement and Contract Procedure Rules

Considered -

The report of the Corporate Director - Strategic Resources which invited Members' comments on proposed changes to the Procurement and Contract Procedure Rules.

The Head of Procurement and Contract Management, in introducing the report, advised that the proposed changes to the Rules were due to be discussed further by officers and would be submitted for consideration by the Members' Working Group on the Constitution, the Executive and thereafter determined by full Council. He highlighted that the proposed changes to the Rules were detailed in Appendix 1 and related to:- powers and key decisions; OJEU tenders; contract management; authorisations; grants; quotes; transparency; and small and medium enterprises.

Whilst introducing the report, the Head of Procurement and Contract Management reported a revision to the proposal to adopt a new paragraph, to be numbered 22.1. The revised wording for this new paragraph was "The Council cannot procure services which it is itself required to deliver by means of a grant. The Council may grant-fund third party organisations to provide complementary activities". The aim of this revised wording was to clarify that funding which the Council granted to third party organisations could be used for, but was not restricted to, community cohesion activities.

The Head of Procurement and Contract Management also reported that the County Council's work in helping local and SME businesses to understand how the County Council undertook procurements was proving to be beneficial, as demonstrated by the rise, every year since 2015/16, in the County Council's spend on SMEs. Currently the County Council's spend on SMEs was 47.7%. There had also been similar increases during that period in the County Council's local spend, and its spend on local SMEs.

In response to Members' questions, the following situations were clarified:-

- YPO had been in discussion with Amazon with the intention of YPO being able to extend its offering. YPO hoped that a contract with Amazon might be signed during the first quarter of the 2019/20 financial year. YPO would provide PR information to its member authorities, including the County Council, as necessary.

- The County Council was developing a tool which gave 'real time' information on suppliers' financial health. This was a significant improvement on information currently available to the County Council. Members' supported a suggestion that a demonstration of this new tool should be provided at the Committee's seminar to be held at 1pm on 7 March 2019.

- In preparation for the possibility of Brexit, the Procurement and Contract Management Team had, during 2018, carried out two information exercises with the County Council's key suppliers. The responses had been varied, which had not been unexpected. Arrangements were being made to amend various internal processes as necessary. Management Board was also discussing Brexit.

Resolved -

(a) That the report be noted.

(b) That a demonstration be given, of the tool which is being developed to give 'real time' information on suppliers' financial health, during the Committee's seminar to be held at 1pm on 7 March 2019.

100. Risk Management - Progress Report

Considered -

The report of the Corporate Director - Strategic Resources which set out the updated Corporate Risk Register and advised of progress on other Risk Management related matters.

The Corporate Risk and Insurance Manager, in introducing the report, highlighted the following issues:-

- The significant amendments which had been made to the Corporate Risk Register were as follows:-

    - The addition of a new risk relating to Brexit Arrangements and the need for the County Council to assess the impacts and necessary actions that should be considered as a result of Brexit.

- The deletion from the Corporate Risk Register of risks relating to the Commercial Strategy and Health and Safety.

- Significantly changed risks on the Register related to:- (i) the Savings and Transformation Programme, in order to take into account 'Beyond 2020'; and (ii) Devolution and Growth – the Growth risk and the opportunities for Devolution were now combined as a single risk.

- Other Risk Management work undertaken included additional workshops to develop risk registers for specific areas of activity in the County Council, including for the Allerton Waste Recovery Park near Knaresborough, Harrogate rail line improvement, and the UCI Road World Championships 2019.

During discussion, the Corporate Director - Strategic Resources advised that the wording of risk 20/205 "Schools Organisation and Funding" required clarification to refer to "sufficiency of funding for places". He highlighted that funding for SEND was a separate risk, ie 20/1 "Funding Challenges", to which page 85 of the papers for this meeting referred.

County Councillor Jim Clark (Chairman, Scrutiny of Health Committee) expressed concern about NHS poor financial management and suggested that this risk should be allocated a higher ranking in the County Council's Corporate Risk Register. His comments were supported by County Councillor Geoff Webber. The Corporate Director – Strategic Resources advised that this was a heightened risk which had been retained on the Corporate Risk Register. He advised that the North Yorkshire health system had historically been underfunded. Nevertheless, the County Council was now working more closely than in the past with the NHS and the Council could, if it wished, go for full pooling of budgets. However, the County Council did not wish to do that. In response to further questions, the officers advised that they would take, to Management Board, Members' concerns about NHS poor financial management and the suggestion that NHS poor financial management needed to be reflected in the County Council's Corporate Risk Register.

In response to questions about the reasons why the risks faced by the North Yorkshire Pension Fund were not included in the County Council's Corporate Risk Register, the Corporate Director - Strategic Resources clarified that currently the Pension Fund's risks were not as big as the risks now shown in the Corporate Risk Register due to an improvement in its funding position.

Resolved -

(a) That the updated Corporate Risk Register, as set out at Appendix A to the report, be noted, subject to Management Board being advised of some Members' concerns about NHS poor financial management and Members' suggestion that this risk should be allocated a higher ranking in the County Council's Corporate Risk Register.

(b) That the position on other Risk Management related issues be noted.

101. Business and Environmental Services Directorate - Internal Audit Work and Control Matters

Considered -

(a) The report of the Head of Internal Audit which advised of the internal audit work performed during the year ended 30 November 2018 for the Business and Environmental Services Directorate and advised that the overall opinion of the

Head of Internal Audit concerning the framework of governance, risk management and control operated within that Directorate was that it provided Substantial Assurance.

(b) The report of the Corporate Director - Business and Environmental Services which provided an update on progress against areas for improvement identified through internal procedures, together with the latest Risk Register for the Business and Environmental Services Directorate.

The Head of Internal Audit and the Corporate Director – Business and Environmental Services introduced their reports and responded to Members' questions.

During discussion, Mr David Portlock questioned the Head of Internal Audit about whether the Head of Internal Audit felt sure that he could give an overall audit opinion about a Directorate when that Directorate was dealing with various complex issues and only two final audit reports had been issued during the year. The Head of Internal Audit advised that a couple of other audit reports were being prepared which would provide a Substantial Assurance. However, now that the number of specific audit undertaken had reduced, it was getting difficult to provide a Directorate specific opinion. He had discussed this with the Corporate Director – Strategic Resources and changes may be considered for the future.

Resolved -

(a) That the reports, including the updated salient points regarding, and the Risk Register for, the Business and Environmental Services Directorate, be noted.

(b) That it be noted that the Committee, having considered the report of the Head of Internal Audit, is satisfied that the internal control environment operating in the Business and Environmental Services Directorate is both adequate and effective.

102. Audit Committee Programme of Work 2018/19

Considered -

A revised version of the Committee's Work Programme which was circulated at the meeting. (A copy has been placed in the Minute Book.)

The Corporate Risk and Insurance Manager sought the Committee's agreement to submit the Risk Management Policy and Strategy to the Committee's meeting to be held on 7 March 2019. Members expressed support for that request.

Members asked for a private meeting between Members and Independent Members of the Committee and the External and Internal Auditors to be scheduled for 1pm on 25 October 2019.

During discussion, it was agreed that officers should provide a seminar for the three Independent Members of the Committee in respect of the County Council's budget.

Resolved -

(a) That the revised version of the Work Programme be approved, subject to the inclusion of the following:-

- Risk Management Policy and Strategy to be submitted to the Committee's meeting to be held on 7 March 2019.

- A private meeting between Members and Independent Members of the Committee and the External and Internal Auditors to be scheduled for 1pm on 25 October 2019.

(b) That a seminar in respect of the County Council's budget be provided for the three Independent Members of the Committee.

The meeting concluded at 3.10pm

RAG/JR

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 March 2019

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?
10.10.18	93 – Audit Committee Terms of Reference / Review of Effectiveness	That a working group be set up to undertake a review of the Committee's effectiveness and that the Chair and Gary Fielding seek working group volunteers via email.		X
20.12.18	98 – Progress on Issues Raised by the Committee	Within the report "Progress on Issues Raised by the Committee" an update concerning the progress of the arrangements to deliver further Member training on cyber security, to reflect the increased sophistication of scams.	A Members' Seminar on Cyber Security was held on 6 February 2019 to which all Members were invited	✓
20.12.18	98 – Progress on Issues Raised by the Committee	An Action Plan from the Head of Internal Audit concerning the issues arising from the recent external assessment of Veritau.	A copy of the Action Plan is included within the Internal Audit Plan Progress 2018/19 which is included within this agenda	✓

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
20.12.18	99 – Review of the Procurement and Contract Procedure Rules	That a demonstration be given, of the tool which is being developed to give 'real time' information on suppliers' financial health, during the Committee's seminar to be held at 1 pm on 7 March 2019.	This demonstration has been arranged for 7 March 2019 as requested.	✓
20.12.18	102 – Audit Committee Programme of Work 2018/19	Risk Management Policy and Strategy to be submitted to the Committee's meeting to be held on 7 March 2019.	The Risk Management Policy and Strategy has been included within this agenda.	✓
20.12.18	102 – Audit Committee Programme of Work 2018/19	A private meeting between Members and Independent Members of the Committee and the External and Internal Auditors to be scheduled for 1 pm on 25 October 2019.	This has been included on the Programme of Work to take place at 1 pm on 25 October 2019.	✓
20.12.19	102 – Audit Committee Programme of Work 2018/19	That a seminar in respect of the County Council's budget be provided for the three Independent Members of the Committee	This has been organised to take place at 12.30 on 7 March 2019.	✓

3.0 TREASURY MANAGEMENT

3.1 The Bank of England's Monetary Policy Committee (MPC) voted unanimously to maintain Bank Rate at 0.75% when they met on 7 February 2019.

3.1 Link Asset Services have updated their interest rate forecasts on 12 February (last updated August 2018) to reflect a more cautious outlook given the lack of progress on Brexit so far. It is assumed that the first rate rise will now occur in September 2019, followed by a further rises in June 2020, March 2021 and September 2021, with rates forecast to rise to 2.00% by March 2022.

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

7 March 2019

Background Documents: Report to, and Minutes of, Audit Committee meeting held on 20 December 2018

ITEM 6

NORTH YORKSHIRE COUNTY COUNCIL
AUDIT COMMITTEE
7 MARCH 2019

TREASURY MANAGEMENT STRATEGY

Report of the Corporate Director – Strategic Resources

1.0 **PURPOSE OF THE REPORT**

1.1 To review the 2019/20 Treasury Management Policy Statement

1.2 To review the 2019/20 Annual Treasury Management and Investment Strategy

2.0 In its scrutiny role of the County Council's Treasury Management policies, strategies and day-to-day activities, the Audit Committee receives regular Treasury Management reports. These reports provide Audit Committee Members with details of the latest Treasury Management developments, both at a local and national level and enable them to review Treasury Management arrangements and consider whether they wish to make any recommendations to the Executive.

2.1 As the County Council is required to approve an up to date Annual Treasury Management and Investment Strategy before the start of the new financial year, it is therefore not realistic for the Audit Committee to review this document in advance of its submission to Executive and the subsequent consideration by County Council on 20 February 2019.

2.2 As in recent years it is therefore proposed that the Treasury Management Policy Statement (**Appendix A**) and updated Annual Treasury Management and Investment Strategy for 2019/20 (**Appendix B**) is submitted for review by the Audit Committee on 7 March 2019. Any resulting proposals for change would then be considered at a subsequent meeting of the Executive. If any such proposals were accepted and required a change to the (by then) recently approved Strategy document the Executive would submit a revised document to the County Council at its meeting on 15 May 2019

3.0 **RECOMMENDATIONS**

3.1 That members:

i. Review the 2019/20 Treasury Management Policy Statement and Annual Investment Strategy

ii. Identify any areas requiring change

GARY FIELDING
Corporate Director, Strategic Resources
March 2019

APPENDIX A

NORTH YORKSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

1.0 BACKGROUND

1.1 The County Council has adopted the **CIPFA Code of Practice on Treasury Management in the Public Services** as updated in 2017. This Code sets out a framework of operating procedures to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the County Council.

1.2 The CIPFA Code of Practice on Treasury Management requires the County Council to adopt the following four clauses of intent:

a) the County Council will create and maintain as the cornerstone for effective Treasury Management

   i. a strategic **Treasury Management Policy Statement** (TMPS) stating the policies, objectives and approach to risk management of the County Council to its treasury management activities;

   ii. a framework of suitable **Treasury Management Practices** (TMPs) setting out the manner in which the County Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Code recommends 12 TMPs;

b) the County Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive and for the execution and administration of Treasury Management decisions to the Corporate Director – Strategic Resources who will act in accordance with the Council's TMPS, TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management;

c) the County Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategies and Policies; and

d) the County Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategies and Policies.

1.3 The **CIPFA Prudential Code for Capital Finance in Local Authorities** (updated in 2017) and the terms of the **Local Government Act 2003**, together with 'statutory' Government Guidance, establish further requirements in relation to treasury management matters, namely

a) the approval, on an annual basis, of a set of **Prudential Indicators**; and

b) approval, on an annual basis, of an **Annual Treasury Management Strategy**, an **Annual Investment Strategy**, an annual **Minimum Revenue Provision**

(MRP) policy statement and a **Capital Strategy** with an associated requirement that each is monitored on a regular basis with a provision to report as necessary both in-year and at the financial year end.

1.4 This current Treasury Management Policy Statement (TMPS) was approved by County Council on 20 February 2019.

2.0 TREASURY MANAGEMENT POLICY STATEMENT (TMPS)

2.1 Based on the requirements detailed above a TMPS stating the policies and objectives of the treasury management activities of the County Council is set out below.

2.2 The County Council defines the policies and objectives of the treasury management activities of the County Council as follows:-

a) the management of the County Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks;

b) the identification, monitoring and control of risk will be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the County Council and any financial instrument entered into to manage these risks; and

c) effective treasury management will provide support towards the achievement of the business and service objectives of the County Council as expressed in the Council Plan. The County Council is committed to the principles of achieving value for many in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.3 As emphasised in the Treasury Management Code of Practice, responsibility for risk management and control of Treasury Management activities lies wholly with the County Council and all officers involved in Treasury Management activities are explicitly required to follow Treasury Management policies and procedures.

3.0 TREASURY MANAGEMENT PRACTICES (TMPs)

3.1 The CIPFA Code of Practice on Treasury Management requires a framework of Treasury Management Practices (TMPs) which:

a) set out the manner in which the County Council will seek to achieve the policies and objectives; and

b) prescribe how the County Council will manage and control those activities;

3.2 The CIPFA Code of Practice recommends 12 TMPs. These updated documents were approved by the Audit Committee on 6 December 2012.

3.3 A list of the 12 TMPs is as follows:-

TMP 1 Risk management

TMP 2 Performance measurement

TMP 3 Decision-making and analysis

TMP 4 Approved instruments, methods and techniques

TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP 6 Reporting requirements and management information arrangements

TMP 7 Budgeting, accounting and audit arrangements

TMP 8 Cash and cash flow management

TMP 9 Money Laundering

TMP 10 Training and qualifications

TMP 11 Use of external service providers

TMP 12 Corporate governance

4.0 PRUDENTIAL INDICATORS

4.1 The Local Government Act 2003 underpins the Capital Finance system introduced on 1 April 2004 and requires the County Council to "have regard to" the **CIPFA Prudential Code for Capital Finance in Local Authorities**. This Code which was last updated in December 2017, requires the County Council to set a range of Prudential Indicators for the next three years

a) as part of the annual Budget process, and;

b) before the start of the financial year;

to ensure that capital spending plans are affordable, prudent and sustainable.

4.2 The Prudential Code also requires appropriate arrangements to be in place for the monitoring, reporting and revision of Prudential Indicators previously set.

4.3 The required Prudential Indicators are as follows:-

- Capital Expenditure - Actual and Forecasts
- estimated ratio of capital financing costs to the Net Revenue Budget
- Capital Financing Requirement
- Gross Debt and the Capital Financing Requirement
- authorised Limit for External Debt
- operational Boundary for External Debt
- Actual External Debt
- Maturity Structure of Borrowing
- Total Principal Sums Invested for periods longer than 365 days

4.4 The County Council will approve the Prudential Indicators for a three year period alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting each year. The Indicators will be monitored during the year and necessary revisions submitted as necessary via the Quarterly Performance and Budget Monitoring reports.

4.5 In addition to the above formally required Prudential Indicators, the County Council has also set two local ones as follows:

a) to cap Capital Financing costs to 10% of the net annual revenue budget; and

b) a 30% limit on money market borrowing as opposed to borrowing from the Public Works Loan Board.

5.0 ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY

5.1 A further implication of the Local Government Act 2003 is the requirement for the County Council to set out its Treasury Management Strategy for borrowing and to approve an Annual Investment Strategy (which sets out the County Council's policies for managing its investments and for giving priority to the security and liquidity of those investments).

5.2 The Government's guidance on the Annual Investment Strategy, updated in February 2018, states that authorities can combine the Treasury Management Strategy Statement and Annual Investment Strategy into one report. The County Council has adopted this combined approach.

5.3 Further statutory Government guidance, last updated with effect from February 2018, is in relation to an authority's charge to its Revenue Budget each year for debt repayment. A Minimum Revenue Provision (MRP) policy statement must be prepared each year and submitted to the full Council for approval before the start of the financial year.

5.4 The County Council will approve this combined Annual Strategy alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting each year.

6.0 REVIEW OF THIS POLICY STATEMENT

6.1 Under Financial Procedure Rule 14, the Corporate Director – Strategic Resources is required to periodically review this Policy Statement and all associated documentation. A review of this Statement, together with the associated annual strategies, will therefore be undertaken annually as part of the Revenue Budget process, together with a mid year review as part of the Quarterly Treasury Management reporting process and at such other times during the financial year as considered necessary by the Corporate Director – Strategic Resources.

Approved by County Council
20 February 2019

APPENDIX B

NORTH YORKSHIRE COUNTY COUNCIL

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2019/20

1.0 INTRODUCTION

1.1 Treasury Management is defined as

“The management of the County Council’s borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks”.

1.2 The Local Government Act 2003, and supporting regulations, require the County Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential Indicators for the next three years to ensure that the County Council’s capital investment plans are affordable, prudent and sustainable.

1.3 The Act also requires the County Council to set out its **Annual Treasury Management Strategy** for borrowing and to prepare an **Annual Investment Strategy** (as required by Investment Guidance issued subsequent to the Act) which sets out the County Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments. For practical purposes these two strategies are combined in this document.

1.4 This Strategy document for 2019/20 therefore covers the following;

- treasury limits in force which will limit the treasury risk and activities of the County Council (**Section 2**)
- Prudential indicators (**Section 3**)
- current treasury position (**Section 4**)
- borrowing requirement and borrowing limits (**Section 5**)
- borrowing policy (**Section 6**)
- prospects for interest rates (**Section 7**)
- borrowing strategy (**Section 8**)
- capping of capital financing costs (**Section 9**)
- review of long term debt and debt rescheduling (**Section 10**)

- minimum revenue provision policy (**Section 11**)
- annual investment strategy (**Section 12**)
- other treasury management issues (**Section 13**)
- arrangements for monitoring/reporting to Members (**Section 14**)
- specified investments (**Schedule A**)
- non-specified investments (**Schedule B**)
- approved lending list (**Schedule C**)
- approved countries for investments (**Schedule D**)
- Prudential Indicators (**Schedule E**)

1.5 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the County Council to produce a balanced Annual Revenue Budget. In particular, Section 32 requires a local authority to calculate its Budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby additional charges to the Revenue Budget arising from:-

a) increases in interest and principal charges caused by increased borrowing to finance additional capital expenditure, and/or;

b) any increases in running costs from new capital projects

are affordable within the projected revenue income of the County Council for the foreseeable future.

1.6 These issues are addressed and the necessary assurances provided by the Section 151 officer (the Corporate Director – Strategic Resources) in the 2019/20 Revenue Budget and Medium Term Financial Strategy report considered separately by the Executive on 29 January 2019 and approved by the County Council on 20 February 2019.

1.7 The Annual Treasury Management and Investment Strategy was approved by the County Council on 20 February 2019.

2.0 TREASURY LIMITS FOR 2019/20 TO 2021/22

2.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the County Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the **Affordable Borrowing Limit**.

2.2 The County Council must have regard to the Prudential Code when setting the Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future Council Tax levels is acceptable. In practice, it is equivalent to the Authorised Limit as defined for the Prudential Indicators.

2.3 Whilst termed an Affordable Borrowing Limit, the spending plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability such as credit arrangements. The Affordable Borrowing Limit has to be set on a rolling basis for the forthcoming financial year and two successive financial years.

3.0 PRUDENTIAL INDICATORS FOR 2019/20 TO 2021/22

3.1 The current Capital Finance system introduced is underpinned by the **CIPFA Prudential Code for Capital Finance in Local Authorities**. In order to ensure that capital spending plans are affordable, prudent and sustainable, this Code requires every local authority to set a range of Prudential Indicators

a) as part of the Revenue Budget process, and

b) before the start of the financial year

3.2 **Schedule E** to this Report sets out the proposed updated Prudential Indicators to 2021/22. This Appendix sets out every Prudential Indicator in terms of:

a) Indicators approved in August 2018

b) a revised set of Indicators with the addition of 2021/22

c) appropriate comments on each Indicator including reasons for any significant variations

4.0 CURRENT TREASURY POSITION

4.1 The County Council's treasury portfolio position at 31 March 2018 consisted of:

Item	Principal £m	Average Rate at 31 March 2018 %
Debt Outstanding		
Fixed Rate funding		
PWLB	267.5	4.42
Variable Rate funding	0.0	0.00
Market LOBO's	20.0	3.95
Total Debt Outstanding	287.5	4.39
Investments		
Managed in house	294.8	0.49
Net Borrowing	**-7.3**	

5.0 **BORROWING REQUIREMENT AND BORROWING LIMITS**

5.1 The County Council's annual borrowing requirement consists of the capital financing requirement generated by capital expenditure in the year, plus replacement borrowing for debt repaid less a prudent Minimum Revenue Provision charged to revenue for debt payment. These borrowing requirements are set out below.

Year	Basis	£m	Comment
2017/18	actual	0	No actual external borrowing was undertaken in 2017/18. The total requirement was £15.4m
2018/19	requirement	13.2	The much higher figure for later years includes the 'refinancing' significant PWLB loan repayments
2019/20	estimate	20.4	
2020/21	estimate	19.2	
2021/22	Estimate	19.0	

5.2 The Prudential Indicators include an **Operational Boundary** (an estimate of the most likely, prudent but not worst case scenario of external debt during the course of the financial year) and **Authorised Limit** (the same estimate as the Operational Boundary but allows sufficient headroom (£20m) over this figure to allow for unusual cash movements).

5.3 The **Authorised Limit** therefore represents the maximum amount of external debt which the County Council approves can be incurred at any time during the financial year and includes both capital and revenue requirements. It is not, however, expected that the County Council will have to borrow up to the Limit agreed.

5.4 **The 2019/20 Limits are as follows:**

	£m
Operational Boundary for external debt	517.2
+ provision to cover unusual cash movements during the year	20.0
= Authorised Limit for 2019/20	537.2

5.5 All the debt outstanding estimates and the Prudential Indicators relating to external debt are based on annual capital borrowing requirements being taken externally and therefore increasing debt outstanding levels. Consideration will be given, however, to delaying external borrowing throughout this period and funding annual borrowing requirements from revenue cash balances (i.e. running down investments).

6.0 **BORROWING POLICY**

6.1 The policy of the County Council for the financing of capital expenditure is set out in Treasury Management Practice Note 3 which supports the Treasury Management Policy Statement.

6.2 In practical terms the policy is to finance capital expenditure by borrowing from the Public Works Loan Board (for periods up to 50 years) or the money markets (for periods up to 70 years) whichever reflects the best possible value to the County Council. Individual loans are taken out over varying periods depending on the perceived relative value of interest rates at the time of borrowing need and the need to avoid a distorted loan repayment profile. Individual loans are not linked to the cost of specific capital assets or their useful life span. Decisions to borrow are made in consultation with the County Council's Treasury Management Advisor (Link Asset Services).

6.3 In addition to the PWLB the County Council can borrow from the money market (principally banks and building societies) and this is usually effected via a LOBO (Lender Option, Borrower Option). Such loans feature an initial fixed interest period followed by a specified series of calls when the lender has the option to request an interest rate increase. The borrower then has the option of repaying the loan (at no penalty) or accepting the higher rate.

6.4 Borrowing from the money market for capital purposes is limited to 30% of the County Council's total external debt outstanding at any one point in time (per **Prudential Indicator 9**).

6.5 The County Council will always look to borrow from the PWLB and money markets at the most advantageous rate. The Corporate Director – Strategic Resources will monitor this situation closely throughout the year to determine whether at any stage, money market loans are more appropriate and advantageous to the County Council than PWLB loans.

6.6 At present all County Council long term borrowing is from the PWLB or via equally advantageous money market loans. However some short term money market borrowing may take place during the financial year in order to take advantage of low interest rates or to facilitate any debt restructuring exercise.

6.7 Depending on the relationship between short term variable interest rates and the fixed term PWLB or LOBO rates for longer periods, some capital expenditure may be financed by short term borrowing from either the County Council's revenue cash balances or outside sources.

Policy on borrowing in advance of need

6.8 The Prudential Code allows external 'borrowing for capital purposes' in advance of need within the constraints of relevant approved Prudential Indicators. Taking estimated capital borrowing requirements up to 31 March 2022 any time after 1 April 2019 is allowable under the Prudential Code. There are risks, however, in such borrowing in advance of need and the County Council has not taken any such borrowing to date and there are no current plans to do so. Furthermore the County Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed.

6.9 Any decision to borrow in advance of need will only be considered where there is

- a clear business case for doing so for the current Capital Plan;
- to finance future debt maturity repayments;
- value for money can be demonstrated; and

- the County Council can ensure the security of such funds which are subsequently invested.

6.10 Any future consideration of whether borrowing will be undertaken in advance of need the County Council will:

- ensure that there is a clear link between the Capital Plan and maturity of the existing debt portfolio which supports the need to take funding in advance of need;

- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;

- consider the merits and demerits of alternative forms of funding;

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and

- consider the impact of borrowing in advance (until required to finance capital expenditure) on temporarily increasing investment cash balances and the consequent increase in exposure to counter party risk and other risks, and the level of such risks given the controls in place to minimise them.

7.0 PROSPECTS FOR INTEREST RATES

7.1 Whilst recognising the continuing volatility and turbulence in the financial markets, the following paragraphs present a pragmatic assessment of key economic factors as they are likely to impact on interest rates over the next three years.

7.2 In terms of the key economic background and forecasts, looking ahead the current position is as follows:

a) The UK Economy

- There has been a positive flow of economic statistics since the start of the year with a steady growth in GDP, although growth is expected to have weakened in the final quarter of the year.
- The MPC have repeatedly stated that future Bank Rate increases would be gradual and to a much lower steady rate (expected to be around 2.5%) than before the financial crash. However, with so much uncertainty around Brexit, the MPC have warned that the next move in Bank Rate could be up or down. Assuming that a timely Brexit deal is agreed and in view of the stance of the MPC at their November meeting, the next increase in Bank Rate is currently forecast to be in May 2019. The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

- The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.3% in November. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%). However, this inflation forecast is likely to be amended upwards due to the Bank's report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget.
- The current forecasts are based on the assumption that there is no change in government and an orderly Brexit is achieved in March 2019 or sometime shortly after. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up,

b) Global Economy

Global Outlook

- World growth has been aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the Eurozone, overall world growth is likely to weaken. Inflation has been weak during 2018 but, falling unemployment in the US and UK has led to a marked acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

Central Bank Policy

- Nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, some economists have assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through measures such as quantitative easing (QE).
- It would now appear the global economy is transitioning from a period of stimulating economic recovery and addressing potential deflation to reversing the measures employed and addressing potential inflation. A key risk to the economy in this period will be the timing of central bank measures, such as the reversal of QE and raising of interest rates, in order to avoid shocks to market expectations that could destabilise financial markets.

European Union (EU)

Growth remained consistent in the Eurozone throughout 2018. In particular, data from Germany was been mixed, potentially impacted by US tariffs on manufacturing exports. Although growth is still expected to be in the region of nearly 2% for 2018, the forecast going forward is less clear with the European Central Bank ended QE purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may not raise interest rates in 2019 if the growth rate of the EU economy is on a weakening trend.

USA

- The US fiscal policy is fuelling a, (temporary), boost in consumption, which has generated an upturn in strong growth. The strong growth in employment numbers and the reduction in the unemployment rate has seen an upturn in wage inflation. CPI inflation, however, fell overall in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued its series of increases in interest rates, although forecast for future increases is expected to be lower.

Asia

- Economic growth in China has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Moreover, Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will continue in the medium term to try to stimulate growth and modest inflation.

c) Link Asset Services Forward View

- Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions) are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

- The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. As a result, the Fed has continued to address rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.00 – 2.25% in September 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We have, therefore, seen US bond yields rise during October 2018 and also seen investors causing a sharp fall in equity prices as they sold out of holding riskier assets.

- Rising bond yields in the US have also caused some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure has been dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

- From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

- The overall balance of risks to economic growth in the UK is probably neutral.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively

- Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
  - Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth;
  - Bank of England monetary policy takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate;
  - a resurgence of the Eurozone sovereign debt crisis;
  - weak capitalisation of some European banks;
  - minority governments in a number of Eurozone countries;
  - further increases in interest rates in the US;
  - concerns around the level of US corporate ;and
  - geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

- The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -
  - Brexit – if both sides were to agree a compromise that removed all threats of economic and political disruption;
  - the Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE;
  - the Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect; and
  - UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields

7.3 The County Council has appointed Link Asset Services as its treasury management advisor and part of their service is to assist in formulating a view on interest rates. By drawing together a number of current city forecasts for short term (Bank rate) and longer fixed interest rates a consensus view for bank rate, PWLB borrowing rates and short term investment rates is as follows:-

	Bank Rate	**PWLB Borrowing Rates**				**Short Term**	
		5 year	10 year	25 year	50 year	3 Months	1 Year
	%	%	%	%	%	%	%
Mar 2019	0.75	2.10	2.50	2.90	2.70	0.90	1.00
Jun 2019	1.00	2.20	2.60	3.00	2.80	1.00	1.20
Sep 2019	1.00	2.20	2.60	3.10	2.90	1.10	1.30
Dec 2019	1.00	2.00	2.70	3.10	2.90	1.20	1.40
Mar 2020	1.25	2.30	2.80	3.20	3.00	1.30	1.50
Jun 2020	1.25	2.40	2.90	3.30	3.10	1.40	1.60
Sep 2020	1.25	2.50	2.90	3.30	3.10	1.50	1.70
Dec 2020	1.50	2.50	3.00	3.40	3.20	1.50	1.70
Mar 2021	1.50	2.60	3.00	3.40	3.20	1.60	1.80
Jun 2021	1.75	2.60	3.10	3.50	3.30	1.70	1.90
Sep 2021	1.75	2.70	3.10	3.50	3.30	1.80	2.00
Dec 2021	1.75	2.80	3.20	3.60	3.40	1.90	2.10

7.4 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Investment returns are likely to remain relatively low during 2019/20 but to be on a gently rising trend over the next few years;

- The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue costloss – the difference between borrowing costs and investment returns.

8.0 BORROWING STRATEGY 2019/20

8.1 Based on the interest rate forecast, there is a range of potential options available for the Borrowing Strategy for 2019/20. Consideration will therefore be given to the following:

a) the County Council is currently maintaining an under borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is currently prudent as investment returns are low and counterparty risk remains relatively high;

b) based on analysis, the cheapest borrowing will be internal borrowing achieved by continuing to run down cash balances and foregoing interest earned at historically low rates . However in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years;

c) long term fixed market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintain an appropriate balance between PWLB and market debt in the debt portfolio. The current market availability of such loans is, however, very limited and is not expected to change in the immediate future;

d) PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which would spread debt maturities away from a concentration in longer dated debt. The downside of such shorter term borrowing is the loss of long term stability in interest payments that longer term fixed interest rate borrowing provides;

e) consideration will be given to PWLB borrowing by annuity and Equal Instalments of Principal (EIP) in addition to maturity loans, which have been preferred in recent years;

f) PWLB rates are expected to gradually increase throughout the financial year so it would therefore be advantageous to time any new borrowing earlier in the year;

g) borrowing rates continue to be relatively attractive and may remain relatively low for some time, as a result, the timing of any borrowing will need to be monitored carefully. There will also remain a 'cost of borrowing' with any borrowing undertaken that results in an increase in investments incurring a revenue loss between borrowing costs and investment returns:

8.2 Based on the PWLB forecasts, suitable trigger rates for considering new fixed rate PWLB or equivalent money market borrowing will be set. The aim, however, would be to secure loans at rates below these levels if available.

8.3 The forecast rates and trigger points for new borrowing will be continually reviewed in the light of movements in the slope of the yield curve, the spread between PWLB new borrowing and early repayment rates, and any other changes that the PWLB may introduce to their lending policy and operations.

External -v- internal borrowing

8.4 The County Council's net borrowing figures (external borrowing net of investments) are significantly below the authority's capital borrowing need (Capital Financing Requirement – CFR) because of two main reasons

a) a significant level of investments (cash balances – core cash plus cash flow generated)

b) internally funded capital expenditure.

8.5 Such internal borrowing stood at £15.4m at 31 March 2018, principally as a result of funding company loans from internal, rather than external borrowing, and not taking up any new debt since 2010/11 for the borrowing requirements. For 2017/18, this resulted in an ongoing MRP saving of £61k per annum over 25 years and a saving of £445k per annum based on a maturity rate of 2.89% over 25 years. The level of this internal capital borrowing depends on a range of factors including:

a) premature repayment of external debt;

b) the timing of any debt rescheduling exercises;

c) the timing of taking out annual borrowing requirements;

d) policy considerations on the relative impact of financing capital expenditure from cash balances compared with taking new external debt with the balance of external and internal borrowing being generally driven by market conditions.

8.6 The County Council continues to examine the potential for undertaking further early repayment of some external debt in order to reduce the difference between the gross and net debt position. However the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007 compounded by a considerable further widening of the difference between new borrowing and repayment rates in October 2010, has meant that large premiums would be incurred by such actions which could not be justified on value for money grounds. This situation will be monitored closely in case the differential is narrowed by the PWLB at some future dates.

8.7 This internal capital borrowing option is possible because of the County Council's cash balance with the daily average being £337.2m in 2017/18. This consisted of cash flow generated (creditors etc), core cash (reserves, balances and provisions etc) and cash managed on behalf of other organisations. Consideration does therefore need to be given to the potential merits of internal borrowing.

8.8 As 2019/20 is expected to continue as a year of low bank interest rates, this extends the current opportunity for the County Council to continue with the current internal borrowing strategy.

8.9 Over the next three years investment rates are expected to be below long term borrowing rates. A value for money consideration would therefore indicate that value could be obtained by continuing avoiding/delaying some or all new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term savings but is not risk free.

8.10 The use of such internal borrowing, which runs down investments, also has the benefit of reducing exposure to low interest rates on investments, and the credit risk of counterparties.

8.11 In considering this option however, two significant risks to take into account are

a) the implications of day to day cash flow constraints, and;

b) short term savings by avoiding/delaying new long external borrowing in 2019/20 must be weighed against the loss of longer term interest rate stability. There is the potential, however, for incurring long term extra costs by delaying unavoidable new external borrowing until later years by which time PWLB long term rates are forecast to be significantly higher.

8.12 Borrowing interest rates are on a rising trend. The policy of avoiding new borrowing by running down cash balances has served the County Council well in recent years. However this needs to be carefully reviewed and monitored to avoid incurring even higher borrowing costs which are now looming even closer for authorities who will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt in the near future.

8.13 The general strategy for this “Internal Capital Financing” option will therefore be to continue to actively consider and pursue this approach on an ongoing basis in order to reduce the difference between the gross and net debts levels together with achieving short term savings and mitigating the credit risk incurred by holding investments in the market. However this policy will be carefully reviewed and monitored on an on-going basis.

Overall Approach to Borrowing in 2019/20

8.14 Given the market conditions, economic background and interest rate forecasts, caution will be paramount within the County Council’s 2019/20 Treasury Management operations. The Corporate Director – Strategic Resources will monitor the interest rates closely and adopt a pragmatic approach to changing circumstances – any key strategic decision that deviates from the Borrowing Strategy outlined above will be reported to the Executive at the next available opportunity.

Sensitivity of the Strategy

8.15 The main sensitivities of the Strategy are likely to be the two scenarios below. The Corporate Director – Strategic Resources will, in conjunction with the County Council's Treasury Management Advisor, continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a significant change of market view:

a) *if it is felt that there was a significant risk of a sharp fall in both long and short term rates,* (e.g. due to a marked increase of risks around the relapse into recession or of risks of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered;

b) *if it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast* (perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks), then the portfolio position will be re-appraised with the likely action that fixed rate funding will be taken whilst interest rates are still lower than they will be in the next few years.

9.0 CAPPING OF CAPITAL FINANCING COSTS

9.1 In order to regulate the impact of Prudential Borrowing on the net revenue budget, Members approved a local policy to cap capital financing charges as a proportion of the annual Net Revenue Budget. This cap was set at 10% in 2019/20 which accommodates existing Capital Plan requirements and will act as a regulator if Members are considering expanding the Capital Plan using Prudential Borrowing. Members do have the option to review the cap in the context of its explicit impact on the Revenue Budget/Medium Term Financial Strategy.

10.0 REVIEW OF LONG TERM DEBT AND DEBT RESCHEDULING

10.1 The long term debt of the County Council is under continuous review.

10.2 The rescheduling of debt involves the early repayment of existing debt and its replacement with new borrowing. This can result in one-off costs or benefits called, respectively, premiums and discounts. These occur where the rate of the loan repaid varies from comparative current rates. Where the interest rate of the loan to be repaid is higher than the current rates, a premium is charged by the PWLB for repayment. Where the interest rate of the loan to be repaid is lower than the current rate, a discount on repayment is paid by the PWLB.

10.3 Discussions with the County Council's Treasury Management Advisor about the long term financing strategy are ongoing and any debt rescheduling opportunity will be fully explored.

10.4 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which was compounded in October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration has to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

10.5 As short term borrowing rates are expected to be considerably cheaper than longer term rates throughout 2019/20, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred), their short term nature and the likely costs of refinancing those short term loans once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

10.6 Consideration will also be given to identify if there is any residual potential left for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in light of the debt repayment premiums.

10.7 The reasons for undertaking any rescheduling will include:

a) the generation of cash savings at minimum risk;

b) in order to help fulfil the Borrowing Strategy, and;

c) in order to enhance the balance of the long term portfolio (ie amend the maturity profile and/or the balance of volatility).

11.0 MINIMUM REVENUE PROVISION (MRP) POLICY 2019/20

11.1 Local authorities are statutorily required to pay off an element of accumulated capital expenditure funded from borrowing (Capital Financing Requirement – CFR) through a charge to the Revenue Account (the Minimum Revenue Provision – MRP).

11.2 MHCLG Guidance (revised in 2018) requires the County Council to approve an MRP Policy Statement in advance of each year. The MRP guidance offers a range of options, with an overriding recommendation that there should be prudent provision.

11.3 A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total VRP overpayments were £15m.

11.4 The County Council's MRP policy is based on the Government's Statutory Guidance. However, a further review of the existing assumptions for prudent provision incorporated into the County Council's MRP Policy will be undertaken as part of the 2019/20 budget review and any changes will be reported to Members as part of an in-year update of this Annual Treasury Management Strategy. Until that time, the policy for 2019/20 remains as follows:-

a) for all **capital expenditure incurred before 1 April 2008**, MRP will be based on 4% of the Capital Financing Requirement (CFR) at that date;

b) for **capital expenditure incurred after 1 April 2008 which is supported by Government Borrowing approvals**, MRP to be based on 4% of such sums as reflected in subsequent CFR updates;

c) for **locally agreed Prudential Borrowing on capital expenditure incurred after 1 April 2008**, MRP will be calculated using the asset life method based on equal annual instalments over the estimated useful life of the asset for which the borrowing is undertaken:

d) In view of the variety of different types of capital expenditure incurred by the County Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure, and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.
The estimated life of relevant assets will be assessed each year based on types of capital expenditure incurred but in general will be 25 years for buildings, 50 years for land, and 5 to 7 years for vehicles, plant and equipment. To the extent that the expenditure does not create a physical asset (eg capital grants and loans), and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the County Council.

In the case of long term debtors from loans, the amounts paid out are classed as capital expenditure for capital financing purposes. The expenditure is therefore included in the calculation of the County Council's Capital Financing Requirement. When the County Council receives the repayment of an amount loaned, the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the eventual receipt is expected to fall short of the amount expended).

Where expenditure is incurred to acquire and/or develop properties for resale, the Capital Financing Requirement will increase by the amount expended. Where the County Council will subsequently recoup the amount expended via the sale of an asset, the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the fair value of the properties falls below the amount expended).

Where expenditure is incurred to acquire properties meeting the accounting definition of investment properties, the Capital Financing Requirement will increase by the amount expended. Where the Council will subsequently recoup the amount expended (e.g. via the sale of an asset), the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing

Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the fair value of the properties falls below the amount expended).

This approach also allows the County Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

e) for **"on balance sheet" PFI schemes**, MRP will be equivalent to the "capital repayment element" of the annual service charge payable to the PFI Operator and for **finance leases**, MRP will be equivalent to the annual rental payable under the lease agreement.

11.5 Therefore the County Council's total MRP provision will be the sum of (a) + (b) + (c) + (d) (as defined above) which is considered to satisfy the prudent provision requirement. Based on this policy, total MRP in 2019/20 will be about £11.9m (including PFI and finance leases).

12.0 ANNUAL INVESTMENT STRATEGY

Background

12.1 The County Council's Investment Strategy has regard to the following :-

- MHCLG's Guidance on Local Government Investments (the Guidance)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (the Code)
- CIPFA Treasury Management Guidance Notes 2018

12.2 This Annual Investment Strategy must define the investments the County Council has approved for prudent management of its cash balances during the financial year under the headings of **specified investments** and **non specified investments**.

12.3 This Annual Investment Strategy therefore sets out

- revisions to the Annual Investment Strategy;
- the Investment Policy;
- the policy regarding loans to companies in which the County Council has an interest;
- specified and non specified investments;
- Creditworthiness Policy - security of capital and the use of credit ratings;
- the Investment Strategy to be followed for 2019/20;

- investment reports to members;
- investment of money borrowed in advance of need;
- investment (and Treasury Management) training;

Revisions to the Annual Investment Strategy

12.4 In addition to this updated **Investment Strategy,** which requires approval before the start of the financial year, a revised Strategy will be submitted to County Council for consideration and approval under the following circumstances:

a) significant changes in the risk assessment of a significant proportion of the County Council's investments;

b) any other significant development(s) that might impact on the County Council's investments and the existing strategy for managing those investments during 2019/20.

Investment Policy

12.5 The parameters of the Policy are as follows:

a) the County Council will have regard to the Government's Guidance on Local Government Investments as revised with effect February 2018, and the 2018 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes;

b) the County Council's investment policy has two fundamental objectives;

  - the security of capital (protecting the capital sum from loss); and then
  - the liquidity of its investments (keeping the money readily available for expenditure when needed)

c) the County Council will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the County Council is low in order to give priority to the security of its investments;

d) the County Council will not borrow more than or in advance of its need purely in order to profit from the investment of extra sums borrowed;

e) investment instruments for use in the financial year listed under **specified** and **non-specified investment** categories; and

f) counterparty limits will be set through the County Council's Treasury Management Practices Schedules.

Specified and non-specified Investments

12.6 Based on Government Guidance as updated from February 2018.

a) investment Instruments identified for use in the forthcoming financial year are listed in the Schedules attached to this Strategy under the **specified** and **non-specified** Investment categories;

b) all **specified** Investments (see **Schedule A**) are defined by the Government as options with “relatively high security and high liquidity” requiring minimal reference in investment strategies. In this context, the County Council has defined Specified Investments as being sterling denominated, with maturities up to a maximum of 1 year meeting the minimum high credit quality;

c) **Non-specified** investments (see **Schedule B**) attract a greater potential of risk. As a result, a maximum local limit of 20% of “core cash” funds, currently based on Reserves of approximately £200m, available for investment has been set which can be held in aggregate in such investments;

d) for both **specified** and **non-specified** investments, the attached Schedules indicate for each type of investment:-

- the investment category
- minimum credit criteria
- circumstances of use
- why use the investment and associated risks
- maximum % age of total investments (Non-Specified only)
- maximum maturity period

e) there are other instruments available as Specified and Non-Specified investments that are not currently included. Examples of such investments are:-

Specified Investments	- Commercial Paper - Gilt funds and other Bond Funds - Treasury Bills
Non-Specified Investments	- Sovereign Bond issues - Corporate Bonds - Floating Rate notes - Equities - Open Ended Investment Companies - Derivatives

A proposal to use any of these instruments would require detailed assessment and be subject to approval by Members as part of this Strategy. Under existing scrutiny arrangements, the County Council's Audit Committee will also look at any proposals to use the instruments referred to above.

Creditworthiness Policy – Security of Capital and the use of credit ratings

12.7 The financial markets have experienced a period of considerable turmoil since 2008 and as a result attention has been focused on credit standings of counterparties with whom the County Council can invest funds.

It is paramount that the County Council's money is managed in a way that balances risk with return, but with the overriding consideration being given to the security of the invested capital sum followed by the liquidity of the investment. The Approved Lending List will therefore reflect a prudent attitude towards organisations with whom funds may be deposited.

The rationale and purpose of distinguishing specified and non-specified investments is detailed above. Part of the definition for a Specified investment is that it is an investment made with a body which has been awarded a high credit rating with maturities of no longer than 365 days.

It is, therefore, necessary to define what the County Council considers to be a "high" credit rating in order to maintain the security of the invested capital sum.

The methodology and its application in practice will, therefore, be as follows:-

a) the County Council will rely on credit ratings published by the three credit rating agencies (Fitch, Moody's and Standard & Poor's) to establish the credit quality (ability to meet financial commitments) of counterparties (to whom the County Council lends) and investment schemes. Each agency has its own credit rating components to complete their rating assessments. These are as follows:

Fitch Ratings

Long Term - generally cover maturities of over five years and acts as a measure of the capacity to service and repay debt obligations punctually. Ratings range from AAA (highest credit quality) to D (indicating an entity has defaulted on all of its financial obligations)

Short Term - cover obligations which have an original maturity not exceeding one year and place greater emphasis on the liquidity necessary to meet financial commitments. The ratings range from F1+ (the highest credit quality) to D (indicating an entity has defaulted on all of its financial obligations)

Moody's Ratings

Long Term - an opinion of the relative credit risk of obligations with an original maturity of one year or more. They reflect both the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default. Ratings range from Aaa (highest quality, with minimal credit risk) to C (typically in default, with little prospect for recovery of principal or interest)

Short Term - an opinion of the likelihood of a default on contractually promised payments with an original maturity of 13 months or less. Ratings range from P-1 (a superior ability to repay short-term debt obligations) to P-3 (an acceptable ability to repay short-term obligations)

Standard & Poor's Ratings

Long Term - considers the likelihood of payment. Ratings range from AAA (best quality borrowers, reliable and stable) to D (has defaulted on obligations)

Short Term - generally assigned to those obligations considered short-term in the relevant market. Ratings range from A-1 (capacity to meet financial commitment is strong) to D (used upon the filing of a bankruptcy petition).

In addition, all three credit rating agencies produce a Sovereign Rating to select counterparties from only the most creditworthy countries. The ratings are the same as those used to measure long term credit.

b) the County Council will review the "ratings watch" and "outlook" notices issued by all three credit rating agencies referred to above. An agency will issue a "watch", (notification of likely change), or "outlook", (notification of a possible longer term change), when it anticipates that a change to a credit rating may occur in the forthcoming 6 to 24 months. The "watch" or "outlook" could reflect either a positive (increase in credit rating), negative (decrease in credit rating) or developing (uncertain whether a rating may go up or down) outcome;

c) no combination of ratings can be viewed as entirely fail safe and all credit ratings, watches and outlooks are monitored on a daily basis. This is achieved through the use of Link Asset Services creditworthiness service. This employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The credit ratings of counterparties are then supplemented with the following overlays;

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the County Council to determine the duration for investments. The County Council will therefore use counterparties within the following durational bands:-

Colour	Maximum Investment Duration
Yellow	5 Years
Purple	2 Years
Orange	1 Year
Blue	1 Year (UK nationalised / semi nationalised banks only)
Red	6 Months
Green	100 Days
No Colour	No investment to be made

d) given that a number of central banks/government have supported or are still supporting their banking industries in some way, the importance of the credit strength of the sovereign has become more important. The County Council will therefore also take into account the Sovereign Rating for the country in which an organisation is domiciled, for countries other than the UK (use of UK banks will not be limited). As a result, only an institution which is domiciled in a country with a minimum Sovereign Rating of AA- from Fitch or equivalent would be considered for inclusion on the County Council's Approved Lending List (subject to them meeting the criteria above). Organisations which are domiciled in a Country whose Sovereign Rating has fallen below the minimum criteria will be suspended, regardless of their own individual score/colour. The list of countries that currently qualify using this credit criteria are shown in **Schedule D**. This list will be amended should ratings change, in accordance with this policy;

e) in order to reflect current market sentiment regarding the credit worthiness of an institution the County Council will also take into account current trends within the Credit Default Swap (CDS) Market. Since they are a traded instrument they reflect the market's current perception of an institution's credit quality, unlike credit ratings, which often focus on a longer term view. These trends will be monitored through the use of Link Asset Services creditworthiness service which compares the CDS Market position for each institution to the benchmark CDS Index. Should the deviation be great, then market sentiment suggests that there is a fear that an institution's credit quality will fall. Organisations with such deviations will be monitored and their standing reduced by one colour band as a precaution. Where the deviation is great, the organisation will be awarded 'no colour' until market sentiment improves. Where entities do not have an actively traded CDS spread, credit ratings are used in isolation;

f) fully and part nationalised banks within the UK currently have credit ratings which are not as high as other institutions. This is the result of the banks having to have to accept external support from the UK Government However, due to this Central Government involvement, these institutions now effectively take on the credit worthiness of the Government itself (i.e. deposits made with them are effectively being made to the Government). This position is expected to take a number of years to unwind and would certainly not be done so without a considerable notice period. As a result, institutions which are significantly or fully owned by the UK Government will be assessed to have a high level of credit worthiness;

g) the largest UK banks are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1 January 2019. This is known as ring fencing. Ring fencing is a regulatory initiative created in response to the global financial crsis. It mandates the separation of retail and SME deposits from investment banking, in order to improve resilience. In general, simpler activities offered from a ring fenced bank will be focused on lower risk, day to day core transactions, whilst the more complex, and "riskier" activities are carried out by the non ring fenced bank.

h) all of the above will be monitored on a weekly basis through Link Asset Services creditworthiness service with additional information being received and monitored on a daily basis should credit ratings change and/or watch/outlook notices be issued. Sole reliance will not be placed on the information provided by Link Asset Services however. In addition the County Council will also use market data and information available from other sources such as the financial press and other agencies and organisations;

i) in addition, the County Council will set maximum investment limits for each organisation which also reflect that institution's credit worthiness – the higher the credit quality, the greater the investment limit. These limits also reflect UK Government involvement (i.e. Government ownership or being part of the UK Government guarantee of liquidity). These limits are as follows:-

Maximum Investment Limit	**Criteria**
£75m	UK "Nationalised / Part Nationalised" banks / UK banks with UK Central Government involvement
£20m to £60m	UK "Clearing Banks" and selected UK based Banks and Building Societies
£20m or £40m	High quality foreign banks

j) should a score/colour awarded to a counterparty or investment scheme be amended during the year due to rating changes, market sentiment etc., the County Council will take the following action:-

- reduce or increase the maximum investment term for an organisation dependent on the revised score / colour awarded
- temporarily suspend the organisation from the Approved Lending List should their score fall outside boundary limits and not be awarded a colour
- seek to withdraw an investment as soon as possible, within the terms and conditions of the investment made, should an organisation be suspended from the Approved Lending List

- ensure all investments remain as liquid as possible, i.e. on instant access until sentiment improves.

k) if a counterparty / investment scheme, not currently included on the Approved Lending List is subsequently upgraded, (resulting in a score which would fulfil the County Council's minimum criteria), the Corporate Director – Strategic Resources has the delegated authority to include it on the County Council's Approved Lending List with immediate effect;

l) a copy of the current Approved Lending List, showing maximum investment and time limits is attached at **Schedule C**. The Approved Lending List will be monitored on an ongoing daily basis and changes made as appropriate. Given current market conditions, there continues to be a very limited number of organisations which fulfil the criteria for non specified investments. This situation will be monitored on an ongoing basis with additional organisations added as appropriate with the approval of the Corporate Director – Strategic Resources.

The Investment Strategy to be followed for 2019/20

12.8 Recognising the categories of investment available and the rating criteria detailed above

a) the County Council currently manages all its cash balances internally;

b) ongoing discussions are held with the County Council's Treasury Management Advisor on whether to consider the appointment of an external fund manager(s) or continue investing in-house – any decision to appoint an external fund manager will be subject to Member approval;

c) the County Council's cash balances consist of two basic elements. The first element is **cash flow derived** (debtors/creditors/timing of income compared to expenditure profile). The second, **core element**, relates to specific funds (reserves, provisions, balances, capital receipts, funds held on behalf of other organisations etc.);

d) having given due consideration to the County Council's estimated level of funds and balances over the next three financial years, the need for liquidity and day to day cash flow requirements it is forecast that a maximum of £40m of the overall balances can be prudently committed to longer term investments (e.g. between 1 and 10 years);

e) investments will accordingly be made with reference to this core element and the County Council's ongoing cash flow requirements (which may change over time) and the outlook for short term interest rates (i.e. rates for investments up to 12 months);

f) the County Council currently two non-specified investment over 365 days, and investments within two Property Funds;

g) bank rate increased to 0.75% in August and underpins investment returns. Investment returns are expected to rise gently over the next 3 years;

h) The County Council will, therefore, avoid locking into long term deals while investment rates continue to be at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within a ‘low risk’ parameter. No trigger rates will be set for longer term deposits (two or three years) but this position will be kept under constant review and discussed with the Treasury Management Advisor on a regular basis.

i) for its cash flow generated balances the County Council will seek to utilise 'business reserve accounts' (deposits with certain banks and building societies), 15, 30 and 100 day accounts and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Investment Reports to Members

12.9 Reporting to Members on investment matters will be as follows:

a) in-year investment reports will be submitted to the Executive as part of the Quarterly Performance and Budget Monitoring reports;

b) at the end of the financial year a comprehensive report on the County Council’s investment activity will be submitted to the Executive as part of the Annual Treasury Management Outturn report;

c) periodic meetings between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder and the Chairman of the Audit Committee provide an opportunity to consider and discuss issues arising from the day to day management of Treasury Management activities.

Investment of Money Borrowed in Advance of Need

12.10 The Borrowing Policy covers the County Council’s policy on Borrowing in Advance of Spending Needs.

Although the County Council has not borrowed in advance of need to date and has no current plans to do so in the immediate future, any such future borrowing would impact on investment levels for the period between borrowing and capital spending.

Any such investments would, therefore, be made within the constraints of the County Council’s current Annual Investment Strategy, together with a maximum investment period related to when expenditure was expected to be incurred.

Treasury Management Training

12.11 The training needs of the County Council’s staff involved in investment management are monitored, reviewed and addressed on an on-going basis and are discussed as part of the staff appraisal process. In practice most training needs are addressed through attendance at courses and seminars provided by CIPFA, the LGA and others on a regular ongoing basis.

The CIPFA Code also requires that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny (i.e. the Audit Committee). Training for Members and officers will be provided as required. The training arrangements for officers will also be available to Members.

13.0 OTHER TREASURY MANAGEMENT ISSUES

Policy on the use of External Treasury Management Service Providers

13.1 The County Council uses Link Asset Services as its external treasury management adviser. Link provide a source of contemporary information, advice and assistance over a wide range of Treasury Management areas but particularly in relation to investments and debt administration.

13.2 Whilst the County Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, it fully accepts that responsibility for Treasury Management decisions remains with the authority at all times and will ensure that undue reliance is not placed upon advice of the external service provider.

13.3 Following a quotation exercise, Link Asset Services were appointed in September 2015 as a single provider of Treasury Management consultancy services for the County Council, North Yorkshire Fire and Rescue Authority and Selby District Council. The appointment was for an original three year period and has now been extended for a further two years as per the contract option. The value and quality of services being provided are monitored and reviewed on an ongoing basis.

The scheme of delegation and role of the section 151 officer in relation to Treasury Management

13.4 The Government's Investment Guidance requires that a local authority includes details of the Treasury Management schemes of delegation and the role of the Section 151 officer in the Annual Treasury Management/Investment Strategy.

13.5 The key elements of delegation in relation to Treasury Management are set out in the following Financial Procedure Rules (FPR):-

a) **14.1** The Council adopts CIPFA's "Treasury Management in the Public Services Code of Practice 2011" (as amended) as described in Section 5 of the Code, and will have regard to the associated guidance notes;

b) **14.2** The County Council will create and maintain as the cornerstone for effective Treasury Management

   i. a strategic Treasury Management Policy Statement (TMPS) stating the County Council's policies, objectives and approach to risk management of its treasury management activities;

ii. a framework of suitable Treasury Management Practices (TMPs) setting out the manner in which the County Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Code recommends 12 TMPs;

c) **14.3** The Executive and the full Council will receive reports on its Treasury Management policies, practices and activities including, as a minimum an Annual Treasury Management and Investment Strategy and associated report on Prudential Indicators in advance of the financial year;

d) **14.4** The County Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive, and for the execution and administration of Treasury Management decisions to the Corporate Director – Strategic Resources (CD-SR), who will act in accordance with the Council's TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management;

e) **14.5** The Executive will receive from the CD-SR a quarterly report on Treasury Management as part of the Quarterly Performance Monitoring report and an annual report on both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year;

f) **14.6** The CD-SR will meet periodically with the portfolio holder for financial services, including assets, IT and procurement and such other Member of the Executive as the Executive shall decide to consider issues arising from the day to day Treasury Management activities;

g) **14.7** The Audit Committee shall be responsible for ensuring effective scrutiny of the Treasury Management process;

h) **14.8** The CD-SR shall periodically review the Treasury Management Policy Statement and associated documentation and report to the Executive on any necessary changes, and the Executive shall make recommendations accordingly to the County Council;

i) **14.9** All money in the possession of the Council shall be under the control of the officer designated for the purposes of Section 151 of the Local Government Act 1972 (i.e. the Corporate Director - Strategic Resources).

13.6 In terms of the Treasury Management role of the Section 151 officer (the Corporate Director – Strategic Resources), the key areas of delegated responsibility are as follows :-

- recommending clauses, treasury management policies and practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports to Members;
- submitting budgets and budget variations to Members;
- receiving and reviewing management information reports;

- reviewing the performance of the treasury management function;

- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;

- ensuring the adequacy of internal audit, and liaising with external audit;

- recommending the appointment of external service providers:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management;

- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;

- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;

- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;

- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;

- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;

- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ;

- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;

- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;

- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed,

- Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

- Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Other Issues

13.7 The County Council continues to monitor potential PFI opportunities and assess other innovative methods of funding and the Corporate Director – Strategic Resources will report any developments to Executive at the first opportunity.

14.0 ARRANGEMENTS FOR MONITORING / REPORTING TO MEMBERS

14.1 Taking into account the matters referred to in this Strategy, the monitoring and reporting arrangements in place relating to Treasury Management activities are now as follows:

a) an annual (i.e. this) report to Executive and County Council as part of the Budget process that sets out the County Council's **Treasury Management Strategy, Prudential Indicators and Capital Strategy** for the forthcoming financial year;

b) a mid year update of these Indicators as part of the Q1 Performance Monitoring report submitted to the Executive

c) **annual outturn reports** to the Executive for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year

d) a quarterly report on Treasury Matters to Executive as part of the **Quarterly Performance and Budget Monitoring** report;

e) **periodic meetings** between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities;

f) copies of the reports mentioned in (a) to (d) above are provided to the **Audit Committee** who are also consulted on any proposed changes to the County Council's Treasury Management activities.

GARY FIELDING
Corporate Director – Strategic Resources

SCHEDULE A

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2019/20 – SPECIFIED INVESTMENTS

Investment	Security / Minimum Credit Rating	Circumstances of Use
Term Deposits with the UK Government or with UK Local Authorities (as per Local Government Act 2003) with maturities up to 1 year	High security as backed by UK Government	In-house
Term Deposits with credit rated deposit takers (Banks and Building Societies), including callable deposits with maturities less than 1 year	Organisations assessed as having "high credit quality" plus a minimum Sovereign rating of AA- for the country in which the organisation is domiciled	In-house
Certificate of Deposits issued by credit rated deposit takers (Banks and Building Societies) up to 1 year		Fund Manager or In-house "buy and hold" after consultation with Treasury Management Advisor
Forward deals with credit rated Banks and Building Societies less than 1 year (i.e. negotiated deal plus period of deposit)		In-house
Term Deposits with Housing Associations less than 1 year		In-house
Money Market Funds i.e. collective investment scheme as defined in SI2004 No 534 (*These funds have no maturity date*)	Funds must be AAA rated	In-house After consultation with Treasury Management Advisor Limited to £20m
Gilts (with maturities of up to 1 year)	Government Backed	Fund Manager or In-house buy and hold after consultation with Treasury Management Advisor
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities under 12 months (*Custodial arrangements required prior to purchase*)	Government Backed	After consultation with Treasury Management Advisor

SCHEDULE B

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2019/20 – NON-SPECIFIED INVESTMENTS

Investment	Security / Minimum Credit Rating	Circumstances of Use	Max % of total investments	Maximum investment with any one counterparty	Max. maturity period
Term Deposit with credit rated deposit takers (Banks & Building Societies), UK Government and other Local Authorities with maturities greater than 1 year	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	In-house	100% of agreed maximum proportion of Core Cash funds (£40m)	£5m	5 years
Certificate of Deposit with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year Custodial arrangements prior to purchase	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	100% of agreed maximum proportion of Core Cash funds (£40m)	£5m	5 years
Callable Deposits with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	In-house	50% of agreed maximum proportion of Core Cash funds (£20m)	£5m	5 years

Investment	**Security / Minimum Credit Rating**	**Circumstances of Use**	**Max % of total investments**	**Maximum investment with any one counterparty**	**Max. maturity period**
Term Deposits with Housing Associations with maturities greater than 1 year	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	In-house	25% of agreed maximum proportion of Core Cash funds (£10m)	£5m	5 years
Forward Deposits with a credit rated Bank or Building Society > 1 year (i.e. negotiated deal period plus period of deposit)	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	In-house	25% of agreed maximum proportion of Core Cash funds (£10m)	£5m	5 years
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	AA or Government backed	Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	25% of agreed maximum proportion of Core Cash funds (£10m)	n/a	5 years
Bonds issued by Multilateral development banks (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	AA or Government backed	Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	25% of agreed maximum proportion of Core Cash funds (£10m)	£5m	5 years

Investment	Security / Minimum Credit Rating	Circumstances of Use	Max % of total investments	Maximum investment with any one counterparty	Max. maturity period
UK Government Gilts with maturities in excess of 1 year Custodial arrangements required prior to purchase	Government backed	Fund Manager	25% of agreed maximum proportion of Core Cash funds (£10m)	n/a	5 years
Collateralised Deposit	UK Sovereign Rating	In-house	25% of agreed maximum proportion of Core Cash funds (£10m)	n/a	5 years
Property Funds	Organisations assessed as having “high credit quality”	In-house after consultation with Treasury Management Advisor	100% of agreed maximum proportion of Core Cash funds (£40m)	£5m	10 years

SCHEUDLE C

APPROVED LENDING LIST 2019/20

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £20m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland PLC (RFB)	GBR	75.0	364 days	-	-
National Westminster Bank PLC (RFB)	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	60.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	75.0	6 months	-	-
Barclays Bank UK PLC (RFB)	GBR				
Bank of Scotland PLC (RFB)	GBR	60.0	364 days	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR		6 months		
HSBC Bank PLC (NRFB)	GBR	30.0	364 days	-	-
HSBC UK Bank PLC (RFB	GBR				
Goldman Sachs International Bank	GBR	60.0	6 months		
Sumitomo Mitsui	GBR	30.0	6 months		
Standard Chartered Bank	GBR	60.0	6 months		
Handelsbanken	GBR	40.0	364 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months	-	-
High quality Foreign Banks					
National Australia Bank	AUS	30.0	364 days	-	-
Commonwealth Bank of Australia	AUS	30.0	364 days		
Toronto-Dominion Bank	CAN	30.0	364 days		
Credit Industriel et Commercial	FRA	30.0	6 months	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	30.0	364 days		
DBS (Singapore)	SING	30.0	364 days		
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	5 years
Police / Fire Authorities		20.0	364 days	5.0	5 years
National Park Authorities		20.0	364 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		20.0	364 days	5.0	5 years
Property Funds		5.0	364 days	5.0	10 years
Housing Associations		20.0	364 days	5.0	5 years
UK Debt Management Account		100.0	364 days	5.0	5 years

* Based on data as 31 December 2018

SCHEDULE D

APPROVED COUNTRIES FOR INVESTMENTS

Based on the lowest available rating

Sovereign Rating	Country
AAA	Australia Canada Denmark Germany Luxemburg Netherlands Norway Singapore Sweden Switzerland
AA+	Finland USA
AA	Abu Dhabi (UAE) France Hong Kong UK
AA-	Belgium Qatar

PRUDENTIAL INDICATORS UPDATE – FOR 2019 TO 2021/22

CAPITAL EXPENDITURE & EXTERNAL DEBT INDICATORS	Comment

1 Estimated Ratio of capital financing costs to the net Revenue Budget

(a) *Formally required Indicator*

This reflects capital financing costs (principal plus interest) on external debt plus PFI and finance leasing charges less interest earned on the temporary investment of cash balances.

The estimated ratios of financing costs to the net Revenue Budget for the current and future years, and the actual figure for 2017/18 are as follows:

Year	Executive August 2018 Basis	Executive August 2018 %	Update January 2019 Basis	Update January 2019 %
2017/18	actual	8.1	actual	8.0
2018/19	probable	9.1	probable	9.0
2019/20	estimate	8.6	estimate	8.6
2020/21	estimate	7.2	estimate	8.0
2021/22	estimate	-	estimate	7.4

(b) *Local Indicator*

This local Indicator reflects a policy decision to cap Capital Financing costs at 10% of the net annual Revenue Budget. The Indicator is different to the formally required Indicator at (a) above in that it only reflects the cost components of interest on external debt plus lost interest on internally financed capital expenditure, together with a revenue provision for debt repayment. Unlike the formally required PI it does not reflect interest earned on surplus cash balances or PFI / finance leasing charges.

Year	Executive August 2018 Basis	Executive August 2018 %	Update January 2019 Basis	Update January 2019 %
2017/18	actual	7.2	actual	7.2
2018/19	probable	6.8	probable	6.8
2019/20	estimate	6.5	estimate	6.6
2020/21	estimate	5.2	estimate	6.1
2021/22	estimate	-	estimate	5.7

Comment

The estimates of financing costs include current Capital Plan commitments based on the latest 2018/19 Q3 Capital Plan.

The updated estimates for 2018/19 to 2021/22 reflect the net effect of a range of factors, principally

(a) savings being achieved through the ongoing policy of financing capital borrowing requirements internally from cash balances

(b) variations in the level of annual borrowing requirements resulting from a range of factors, but principally capital expenditure slippage between years

(c) variations in borrowing costs (interest plus a revenue provision for debt repayment) reflecting latest interest rate forecasts to 2021/22

(d) variations in interest earned on cash balances resulting from continuing current historically low interest rates but offset by continuing higher levels of cash balances (formal Indicator only).

Prudential Indicator	Comment
2 Capital Expenditure - Actual and Forecasts The actual capital expenditure that was incurred in 2017/18 and the latest estimates of capital expenditure to be incurred for the current and future years are:	

Year	Executive August 2018 Basis	Executive August 2018 £m	Update January 2019 Basis	Update January 2019 £m
2017/18	actual	103.5	actual	103.5
2018/19	probable	155.8	probable	132.8
2019/20	estimate	88.4	estimate	137.6
2020/21	estimate	87.2	estimate	92.6
2021/22	estimate	-	estimate	21.8

The above figures reflect the updated Capital Plan (Q1 2018/19) together with:-

(i) expenditure on fixed assets funded directly from the Revenue Budget and not included in the Capital Plan.

(ii) an estimated allowance for future expenditure re-phasing between years.

Comment:

This Indicator now reflects the Capital Outturn in 2017/18 and the Capital Plan update for Q3 2018/19.

The variations are principally a result of:-

(a) additional provisions and variations to existing provisions which are self-funded from Capital Grants and Contributions, revenue contribution and earmarked capital receipts

(b) Capital expenditure re-phasing between years including slippage from 2017/18 outturn and Q3 2018/19 to later years

(c) various other Capital approvals and refinements reflected in the latest Capital Plan update

Prudential Indicator	Comment
3 Capital Financing Requirement (CFR) Actuals and estimates of the Capital Financing Requirement (CFR) at the defined year ends are as follows:	

Date	Executive August 2018 Basis	Executive August 2018 Borrowing	Executive August 2018 Other Long Term liabilities (PFI etc)	Executive August 2018 Total	Update January 2019 Basis	Update January 2019 Borrowing	Update January 2019 Other Long Term liabilities (PFI etc)	Update January 2019 Total
		£m	£m	£m		£m	£m	£m
31 Mar 18	actual	302.9	160.4	463.4	actual	302.9	160.4	463.4
31 Mar 19	probable	294.0	159.3	453.3	probable	309.9	159.3	469.2
31 Mar 20	estimate	281.9	157.8	439.7	estimate	298.0	157.8	455.8
31 Mar 21	estimate	270.8	156.1	427.0	estimate	280.3	156.1	436.4
31 Mar 22	estimate	-	-	-	estimate	275.6	154.3	429.9

The CFR measures the underlying need for the County Council to borrow for capital purposes. In accordance with best professional practice, the County Council does not earmark borrowing to specific items or types of expenditure. The County Council has an integrated treasury management approach and has adopted the CIPFA Code of Practice for Treasury Management. The County Council has, at any point in time, a number of cashflows, both positive and negative, and manages its treasury position in terms of its overall borrowings and investments in accordance with its approved Annual Treasury Management Strategy. In day to day cash management, no distinction is made between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the County Council as a whole and not simply those arising from capital spending. In contrast, the CFR Indicator reflects the County Council's underlying need to borrow for capital purposes only.

Comment:

The January 2019 figures were based on a Capital Plan approved as at 31 December 2018.

The updated figures reflect the following variations figures

(a) re-phasing between years of expenditure that is funded from borrowing including slippage between years identified at 2017/18 outturn and Q3 2018/19

(b) capital receipts (including company loans) slippage between years that affect year on year borrowing requirements

(c) variations in the level of the Corporate Capital Pot which is used in lieu of new borrowing until the Pot is required

(d) additions and variations to schemes/provisions approved that are funded from Prudential Borrowing

(e) variations in the annual Minimum Revenue Provision for debt Repayment which arise from the above

(f) Other Long Term Liabilities now include the Allerton Waste Recovery Park PFI Scheme

Prudential Indicator	Comment
4 Gross Debt and the Capital Financing Requirement The Prudential Code emphasises that in order to ensure that over the medium term debt will only be for a capital purpose, the County Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the previous year (2018/19), plus the estimate of any additional capital financing requirement for the current (2019/20) and next two financial years (2020/21 and 2021/22). If, in any of these years, there is a reduction in the capital financing requirement, this reduction should be ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt. This Prudential Indicator is referred to as gross debt and the comparison with the capital financing requirement (**Indicator 3**) and is a key indicator of prudence. The Corporate Director – Strategic Resources reports that the County Council had no difficulty in meeting this requirement up to 2018/19 nor are any difficulties envisaged for the current or future years of the Medium Term Financial Strategy up to 2021/22. For subsequent years, however, there is potential that the County Council may not be able to comply with the new requirement as a result of the potential for the annual Minimum Revenue Provision (MRP) reducing the Capital Financing Requirement below gross debt. This potential situation will be monitored closely. This opinion takes into account spending commitments, existing and proposed Capital Plans and the proposals in the Revenue Budget 2019/20 and Medium Term Financial Strategy report.	This Prudential Indicator was changed in 2013/14 to reflect the comparison of gross debt (external debt plus other long term liabilities) with the Capital Financing Requirement (CFR). The comparator debt figure had previously been net debt which was gross debt less investments. The Prudential Code requires that where there is a significant difference between the gross debt and the gross borrowing requirement, as demonstrated by the CFR, then the risks and benefits associated with this strategy should be clearly stated in the annual Treasury Management Strategy. The County Council's gross debt figure is currently significantly below the CFR figures shown in **Indicator 3** because of annual capital borrowing requirements being funded internally from cash balances (i.e. running down investments) rather than taking out new external debt. This situation, however, could be reversed in future as a result of two key factors: (i) externalising some or all of the internally financed CFR together with (ii) the potential for the annual Minimum Revenue Provision (MRP) for debt repayment reducing the CFR below gross debt because the debt cannot readily be prematurely repaid without incurring significant penalties (premiums). This potential situation will be monitored carefully by the Corporate Director – Strategic Resources.

Prudential Indicator	Comment
5 Authorised Limit for External Debt In respect of its external debt, it is recommended that the County Council approves the following Authorised Limits for its total external debt for the next three financial years. The Prudential Code requires external borrowing and other long term liabilities (PFI and Finance leases) to be identified separately. The authorised limit for 2018/19 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.	The Corporate Director – Strategic Resources confirms that these authorised limits are consistent with the County Council's current commitments, updated Capital Plan and the financing of that Plan, the 2019/20 Revenue Budget and Medium Term Financial Strategy and with its approved Treasury Management Policy Statement. The Corporate Director – Strategic Resources also confirms that the limits are based on the estimate of most likely prudent, but not worst case, scenario with sufficient headroom over and above this to allow for operational issues (e.g. unusual cash movements). To derive these limits a risk analysis has been applied to the Capital Plan, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes. The updated figures reflect a number of refinements which are also common to the Capital Financing Requirement (see **Indicator 3**) and Operational Boundary for external debt (see **Indicator 6**). Explanations for these changes are provided under **Indicators 3 and 6** respectively.

Year	Executive August 2018			Update January 2019		
	External Borrowing	**Other long term liabilities**	**Total Borrowing Limit**	**External Borrowing**	**Other long term liabilities**	**Total Borrowing Limit**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
2018/19	329.9	159.3	489.2	361.8	159.3	521.1
2019/20	347.3	157.8	505.1	379.4	157.8	537.2
2020/21	357.4	156.1	513.5	376.4	156.1	532.5
2021/22	-	-	-	368.1	154.3	522.4

Prudential Indicator	Comment

6 Operational Boundary for External Debt

It is recommended that the County Council approves the following Operational Boundary for external debt for the same period.

The proposed operational boundary for external debt is based on the same estimates as the Authorised Limit (ie **Indicator 5** above) but also reflects an estimate of the most likely prudent, but not worst case, scenario without the additional headroom included within the Authorised Limit to allow for eg unusual cash flows.

Year	Executive August 2018			Update January		
	External Borrowing	Other long term liabilities	Total Borrowing Limit	External Borrowing	Other long term liabilities	Total Borrowing Limit
	£m	£m	£m	£m	£m	£m
2018/19	309.9	159.3	469.2	341.8	159.3	501.1
2019/20	327.3	157.8	485.1	359.4	157.8	517.2
2020/21	337.4	156.1	493.5	356.4	156.1	512.5
2021/22	-	-	-	348.1	154.3	502.4

Comment

The Operational Boundary represents a key management tool for the in year monitoring of external debt by the Corporate Director – Strategic Resources.

The updated figures reflect refinements which are common to the Capital Financing Requirement (see **Indicator 3** above), together with

(a) relative levels of capital expenditure funded internally from cash balances rather than taking external debt

(b) loan repayment cover arrangements and the timing of such arrangements

These two financing transactions affect external debt levels at any one point of time during the financial year but do not impact on the Capital Financing Requirement.

Prudential Indicator	Comment
7 Actual External Debt	

7 Actual External Debt

The County Council's external debt is set out below and consists of external borrowing from the PWLB and money markets plus other long term liabilities such as PFI and finance leases which are classified as external debt for this purpose.

Year	Executive August 2018				Update January 2019			
	Basis	Borrowing	Other Long Term liabilities (PFI etc)	Total	Basis	Borrowing	Other Long Term liabilities (PFI etc)	Total
		£m	£m	£m		£m	£m	£m
31 Mar 2018	actual	287.5	160.4	447.9	actual	287.5	160.4	447.9
31 Mar 2019	probable	285.1	159.3	444.4	probable	285.1	159.3	444.4
31 Mar 2020	estimate	263.1	157.8	420.9	estimate	263.1	157.8	420.9
31 Mar 2021	estimate	236.0	156.1	392.1	estimate	236.0	156.1	392.1
31 Mar 2022					estimate	221.8	154.3	376.1

It should be noted that actual external debt is not directly comparable to the Authorised Limit (**Indicator 5 above**) and Operational Boundary (**Indicator 6 above**) since the actual external debt reflects a position at one point in time.

Comment: The updated estimates for the 3 years to 31 March 2022 reflect refinements which are common to the Capital Financing Requirement (see **Indicator 3** above) together with the relative levels of capital expenditure internally funded from cash balances rather than taking external debt.

8 Limit of Money Market Loans (Local Indicator)

Borrowing from the money market for capital purposes (as opposed to borrowing from the PWLB) is to be limited to 30% of the County Council's total external debt outstanding at any one point in time.

The actual position at 31 March 2019 was 7% (£20m out of a total of £287.5m) against an upper limit of 30%

Comment: This limit was introduced as a new Local Prudential Indicator in 2009/10, although the 30% limit has featured as part of the Borrowing Policy section of the County Council's Annual Treasury Management and Investment Strategy for many years.

Prudential Indicator	Comment

9 Maturity Structure of Borrowing

The upper and lower limits for the maturity structure of County Council borrowings are as follows:-

The amount of projected borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate:

Period	Lower Limit %	Upper Limit %	Memo item - actual at 1 April 18 %	1 April 19 %
under 12 months	0	50	1	9
12 months & within 24 months	0	25	9	15
24 months & within 5 years	0	50	25	10
5 years & within 10 years	0	75	3	4
10 years and within 25 years	0	100	9	9
25 years and within 50 years	0	100	53	53
			100	100

Comment: These limits are reviewed annually and have been updated to reflect the current maturity structure of the County Council's debt portfolio.

Prudential Indicator	Comment
10 Total Principal Sums Invested for periods longer than 365 days The 2018/19 aggregate limit of £40m for 'non specified' investments longer than 365 days is based on a maximum of 20% of estimated 'core cash funds' up to 2021/22 being made available for such investments. The purpose of this prudential limit for principal sums invested for longer than 365 days is for the County Council to contain its exposure to the possibility of loss that might arise as a result of it having to seek early repayment or redemption of principal sums invested.	**No change to this limit is proposed.** The County Council currently has no such investments that fall into this category. Prior to 1 April 2004, Regulations generally prevented local authorities from investing for longer than 365 days. As a result of the Prudential Regime however, these prescriptive regulations were abolished and replaced with Government Guidance from April 2004. This Guidance gives authorities more freedom in their choice of investments (including investing for periods longer than 365 days) and recognises that a potentially higher return can be achieved by taking a higher (ie longer term) risk. This flexibility requires authorities to produce an Annual Investment Strategy that classifies investments as either **Specified** (liquid, secure, high credit rating & less than 365 days) or **Non Specified** (other investments of a higher risk). Non Specified investments are perfectly allowable but the criteria and risks involved must be vigorously assessed, including professional advice, where appropriate. Therefore investments for 365 days+ are allowable as a Non Specified investment under the Government Guidance. The use of such investments is therefore now incorporated into the County Council's Annual Treasury Management and Investment Strategy.

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 March 2019

ACCOUNTING POLICIES

Report of the Corporate Director – Strategic Resources

1.0 **PURPOSE OF THE REPORT**

1.1 To review the changes to the County Council's Accounting Policies for the current financial year 2018/19

1.2 To note potential changes in the pipeline that are likely to impact on future year's Accounting Policies and the Statement of Final Accounts.

2.0 **BACKGROUND**

2.1 Part of the Audit Committee's Terms of Reference is to review changes in accounting policy.

2.2 The County Council's accounting policies are set out in the annual Statement of Final Accounts (SOFA) and have been developed to comply with the *Code of Practice on Local Authority Accounting in the United Kingdom* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). An updated Code of Practice, applicable for 2018/19 was issued in April 2018.

2.3 In addition to considering required changes to the County Council's accounting policies for 2018/19, there are further changes which CIPFA have been consulting with local authorities which are in the pipeline for future years (2019/20 and beyond) to bring to the Committee's attention.

3.0 **CHANGES IN ACCOUNTING POLICY FOR 2018/19**

3.1 The need for changes in accounting policy can arise from:

(i) mandatory changes under the annual *Code of Practice on Local Authority Accounting* which require a new or revised accounting policy to be adopted by all local authorities

(ii) changes within the overall framework of the *Code of Practice* but where the policy to be adopted is discretionary and is dependent upon interpretation of local circumstances

3.2 Changes required to the County Council's accounting policies for 2018/19, therefore arise as a result of the updated *Code of Practice on Local Authority Accounting* issued by CIPFA in April 2018.

3.3 Changes reflected in the 2018/19 updated Code are required to be incorporated into the County Council's accounts but may not necessarily impact on the County Council's accounting policies. This is because the changes are principally around additional or changed disclosure notes, points of clarification and additional guidance etc.

3.4 There are two changes to the *Code of Practice* that impact on the County Council's 2018/19 Accounting Policies as set out in **Appendix A**. However, the Accounting Policies ultimately determined for 2018/19 will be reported to Members on 25 July 2019 as part of the report accompanying the SOFA for 2018/19. At this stage, therefore, Members are asked to note the current position.

3.5 **Appendix A** also lists other key, but limited changes to the latest 2018/19 Code of Practice on Local Authority Accounting which will need to be considered and, where appropriate, reflected in the SOFA for 2018/19 or subsequent years.

4.0 POTENTIAL CHANGES IN THE PIPELINE FOR FUTURE YEARS

4.1 CIPFA have recently consulted on a draft *Code of Practice on Local Authority Accounting* for 2019/20 and provisional changes for future years beyond 2019/20, with the key potential changes set out in **Appendix B**.

4.2 The extent to which future changes will actually be fully implemented by CIPFA remains uncertain however and will be subject to further confirmation and guidance.

5.1 RECOMMENDATION

5.2 That Members:

(i) review the update on accounting policies for 2018/19 (**paragraphs 3.4, 3.5 and Appendix A**).

(ii) note potential changes to the SOFA and accounting policies which are in the pipeline for future years (2019/20 onwards) (**paragraph 4.1** and **Appendix B**).

GARY FIELDING
Corporate Director – Strategic Resources

County Hall
Northallerton

7 March 2019

APPENDIX A

CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING 2018/19

1.0 Introduction

1.1 There are two key changes to the Code that impact on the County Council's 2018/19 Accounting Policies. These changes were reported to the Audit Committee in March 2018 as being in the pipeline.

2.0 Financial Instruments

2.1 The introduction of IFRS 9 will have implications for the classification and measurement of financial assets.

2.2 This will result in new classifications of financial assets including Amortised Cost, Fair Value through Profit and Loss (FVPL) and Fair Value through Other Comprehensive Income (FVOCI) and the removal of the current classifications of Assets Held for Trading and Assets Held for Sale.

2.3 As the re-measurement of certain financial assets may result in accounting for losses and gains in a local authority's General Fund, the Ministry for Housing, Communities and Local Government will allow statutory overrides and reversals for certain elements of IFRS 9.

2.4 Initial analysis of the introduction of IFRS 9 suggests that the impact on the County Council's SOFA will be minimal.

2.5 Finance will review the accounting policy for Financial Instruments and reflect the changes required by the adoption of IFRS 9.

3.0 Revenue from Contracts with Customers

3.1 The CIPFA Code of Practice is clear that tax arising under regulation or legislation (including NNDR and Council Tax) does not fall under the scope of IFRS 15, which will mitigate the impact of the introduction of the standard on a local authority's SOFA.

3.2 Local Authorities will need to ensure that they have explained all sources of income sufficiently, giving due consideration to materiality.

3.3 The County Council will need to consider IFRS 15 when preparing group accounts; consolidation adjustments may be required as accounting regulations that subsidiaries adhere to (FRS 102) may be different to that of IFRS 15 in terms of the timing and measurement of income.

3.4 Initial analysis of the introduction of IFRS 15 suggests that the impact on the County Council's SOFA will be minimal.

3.5 Finance will review current accounting policies and reflect the changes required by the adoption of IFRS 15.

4.0 Other Key Changes to the 2018/19 Financial Statements

4.1 IAS 7 Statement of Cash Flows now requires that a new disclosure note is included in the SOFA for 2018/19 which provides a reconciliation between opening and closing liabilities arising from financing activities, including both cash and non-cash changes.

4.2 The 2018/19 Code clarifies that the Expenditure and Funding Analysis is not a core financial statement and therefore should appear after the core financial statements in the SOFA.

APPENDIX B

POTENTIAL CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING POLICIES IN THE PIPELINE FOLLOWING RECENT CIPFA CONSULTATION:

1.0 CIPFA have consulted on and confirmed proposed changes to the 2018/19 Code of Practice which was published in April 2018 and have also provided indications of a further potential change that is likely to be reflected in updates to the 2018/19 Code and beyond. These changes were reported to the Audit Committee in March 2018 as being in the pipeline

2.0 Leases

2.1 CIPFA is adopting IFRS 16 – Leases from 2020/21.

2.2 It was anticipated that CIPFA would instruct local authorities to adopt the requirements of IFRS 16 from 2019/20, but this has been deferred by 12 months due to issues raised by Central Government.

2.3 It is anticipated that as a result of any changes relating to IFRS 16 the current definition of a finance lease would be extended to cover all leases, which will create an accounting implication that the associated lease needs to be capitalised as an asset (with a corresponding liability extending over the life of the lease) on the lessee's balance sheet.

2.4 Further changes as a result of adopting IFRS 16 relate to the measurement of liabilities from leases, PFI and service concession arrangements which include an element of annual indexation.

2.5 Exceptions may be granted for leases of small value assets and for very short term leases, but an increased number of existing operating leases may need to be reclassified and reported on the County Council's balance sheet, which could potentially have prudential borrowing implications.

3.0 Highways Network Assets

3.1 It was anticipated that CIPFA would instruct local authorities to adopt the requirements of the Highways Network Assets Code of Practice. However, after further consultation CIPFA announced in 2016/17 that it would indefinitely postpone the implementation of the Code, on the basis that the cost of implementation outweighed the benefits of adoption. CIPFA have not announced any further plans to introduce the code.

AUDIT COMMITTEE

7 MARCH 2019

CORPORATE RISK MANAGEMENT POLICY

Report of the Corporate Director – Strategic Resources

1.0 **PURPOSE OF THE REPORT**

1.1 To consider an updated Corporate Risk Management Policy.

2.0 **BACKGROUND**

2.1 According to the Terms of Reference of the Audit Committee, its role in risk management is:

(i) to assess the effectiveness of the authority's risk management arrangements and

(ii) to review progress on the implementation of risk management throughout the authority.

2.2 Following a recommendation by this Committee, the Leader of the County Council and the Executive Member for Central Services formally approved a revised Corporate Risk Management Policy in 2015 with a provision that it will be reviewed and updated every three years.

2.3 This report relates to the triennial update of the Risk Management Policy, and also makes reference to the update of the associated Strategy.

3.0 RISK MANAGEMENT POLICY

3.1 The triennial update of the Corporate Risk Management Policy is presently underway and this is being supported by the recently issued ***BS ISO 31000:2018 – Risk Management: Guidelines***. The following minor changes have been made to the Policy to reflect this guidance:

- the definition of risk and risk management and
- the principles of risk management

Although the words may have altered, the fundamental rationale for the management of risk in the County Council has not changed. When uncertainty and change is managed effectively, the management of risk can also provide the opportunity to introduce new, innovative and effective ways of delivering services, and act as the catalyst for developing services with better outcomes and fewer risks for our staff and our local communities.

3.2 Minor amendments have also been made to the Policy to ensure the appropriate links to the updated Council Plan, performance management and the delivery of services beyond 2020.

3.3 The Risk Management Strategy is also in the process of being reviewed to ensure it continues to reflect present best practice. Dependent on the significance of the changes made to the Strategy, it may be appropriate to bring the final draft Strategy to this Committee for consideration.

3.4 The Committee is therefore asked to consider the updated Corporate Risk Management Policy- a "tracked changes" copy is attached at **Appendix A** for information, and a "clean" copy at **Appendix B**. Under specific delegations in the Constitution, where there are only minor changes, the Corporate Director - Strategic Resources can refer the Policy to the Chief Executive, in consultation with the Leader of the Council and the Executive Member for Finance and Assets to approve the changes to the Policy. There is no requirement for the document to go to Executive and full Council.

4.0 RECOMMENDATIONS

That the Committee:

(i) recommends the updated Corporate Risk Management Policy (**Appendix B**) to the Chief Executive, Leader of the Council and the Executive Member for Finance and Assets for approval.

GARY FIELDING
Corporate Director – Strategic Resources

County Hall, Northallerton

March 2019

Author of report: Fiona Sowerby, Corporate Risk and Insurance Manager
Tel 01609 532400

Background papers: None

Appendix A

NORTH YORKSHIRE COUNTY COUNCIL

CORPORATE RISK MANAGEMENT POLICY

2019~~5~~

CONTENTS

CORPORATE RISK MANAGEMENT POLICY

CORPORATE RISK MANAGEMENT POLICY

1.0 Introduction

1.1 The Vision of the County Council is that "We want North Yorkshire to be a thriving county which adapts to a changing world and remains a special place for everyone to live, work and visit".

To lead the achievement of our Vision we aim to:

- ensure that the key issues for people and places in North Yorkshire are identified and understood.
- ensure that there are strategies, developed with communities and partners, in place to tackle these.
- make the case for North Yorkshire

To **enable** individuals, families and communities to do the best for themselves we aim to:

- support empowered ~~and vibrant~~ communities to provide a range of services for local people that fully utilise all local assets, prevent loneliness and support troubled families, and contribute to healthier lifestyles.
- provide self service facilities and ready access to relevant information ~~and signposting~~ – enabling customers to access information, check eligibility, carry out a self-assessment, make appointments, make online payments, and request simple services themselves.

We also aim to **ensure** cost effective and efficient ~~**the**~~ delivery, or commission from those who are best placed to deliver, of:

- services to the most vulnerable people.
- high priority services that enable a thriving county. And

To **analyse** our performance, use this to become better at what we do and share with stakeholders how we are doing.

1.2 Risk, uncertainty and change create a challenging dynamic as the County Council strives to meet these objectives. Risks, whether recognised or unforeseen, create a threat to achieving performance targets and change. This may result, for example, in reductions in service quality or delay in project delivery. Uncertainty and change, when considered thoroughly however, can also provide the opportunity to introduce new, innovative and effective ways of delivering services and act as the catalyst for developing services with better outcomes and fewer risks for our staff and our local communities.

1.3 Risk Management is integral to all aspects of our innovation and service delivery as well as the management of all our staff, physical assets and financial resources. As such it is reflected in all Council policies, new initiatives and Service Plans where appropriate.

1.4 This Risk Management Policy has been developed jointly by the Management Board and the Leader of the Council.

1.5 Implementation of this Risk Management Policy and associated management systems contributes to protecting and modernising frontline services during this continuing period of austerity and great change.

2.0 Definition of Risk and ~~Enterprise~~ Risk Management

2.1 **Risk** is the effect of uncertainty on objectives. This can be expressed in terms of likelihood and consequences of risk sources such as an unwanted or uncertain action or event.
~~chance or possibility of loss, damage, injury or failure to achieve objectives caused by an unwanted or uncertain action or event.~~

2.2 ~~Enterprise~~ **Risk Management** is the range of coordinated activities utilised to direct and control the County Council with regard to risk.
~~is the approach to managing all of the County Council's key service risks and opportunities with the intent of maximising service delivery effectiveness and efficiency.~~

3.0 Principles

3.1 The purpose of risk management is the creation and protection of value. It supports the achievement of objectives, improves performance and encourages innovation. For risk management (RM) to be effective the County Council will aspire to the following principles:

- ~~RM **creates and protects value**. – we will ensure that RM contributes to the demonstrable achievement of our objectives and improvement of our performance such as human health and safety, security, project management, efficiency in operations, governance and reputation.~~
- RM is an **integral part of all organisational** **activities** - including strategic planning and all project and change management.~~**processes** – we will ensure that RM is part of the responsibilities of our management and part of our activities and processes including strategic planning, and all project and change management.~~
- ~~RM is **part of decision making** – we will ensure that RM helps our decision makers make informed choices, prioritise actions and distinguish among alternative courses of action.~~
- ~~RM explicitly **addresses uncertainty** – we will ensure that RM takes account of uncertainty, the nature of that uncertainty and how it can be addressed, including the fact that some risks can never be eliminated.~~
- RM is **s****tructured and comprehensive** ~~**ystematic, structured and timely**~~ – we will ensure that RM contributes to ~~our efficiency and to~~ consistent, and comparable ~~and reliable~~ results.

- ➔ RM is **based on the best available information** – we will ensure that the inputs to RM are based on historical and current information, as well as on future expectations. RM explicitly takes into account any limitations and uncertainties associated with such information and expectations. Information should be timely, clear and available to relevant stakeholders. ~~the inputs to the process of managing risk are based on reliable information but will always take into account any limitations of data or modelling or the possibility of divergence of opinions.~~
- ➔ RM is **customis~~z~~ed and proportionate -~~tailored~~** – we will ensure that the RM framework and process are customis~~z~~ed and proportionate to the County Council's external and internal context and related to its objectives. ~~we reflect the contemporary situation in our risk management arrangements.~~
- ➔ RM **takes human and cultural factors into account** – we will ensure that we recognise human behaviour and culture significantly influence all aspects of RM at each level and stage. ~~the capabilities, perceptions and intentions of external and internal people that can facilitate or hinder achievement of our objectives.~~
- ➔ RM is ~~**transparent and**~~ **inclusive** – we will ensure the appropriate and timely involvement of stakeholders and enable their knowledge, views and perceptions to be considered, resulting in improved awareness and informed RM. ~~appropriate and timely involvement of stakeholders and, in particular, decision makers at all levels of the County Council, in order that RM remains relevant and up to date.~~
- ➔ RM is **dynamic**~~**, iterative and responsive to change**~~ – Risks can emerge, change or disappear as the County Council's external and internal context changes. We will ensure that RM anticipates, detects, acknowledges and responds to those changes and events in an appropriate and timely manner. ~~we will ensure that risk management continually anticipates and responds to change, including ensuring that the process used is not burdensome and/or overly bureaucratic.~~
- ➔ RM ~~**facilitates**~~ **continually improves**~~**ment** of the County Council~~ – we will ensure that RM is continually improved through learning and experience. ~~develop and implement processes to improve our risk management maturity alongside all other aspects of the County Council.~~
- ~~➔ RM will be **adequately resourced** – we will ensure that the necessary resources are in place in order to deliver excellent risk management.~~

4.0 Objectives

4.1 The objectives of this Risk Management Policy are to:

- ➔ continue to improve~~embed~~ risk management and embed proportionate understanding into the culture of the County Council
- ➔ manage risk in accordance with best practice and support well considered risk taking
- ➔ anticipate and respond to changing social, environmental and legislative requirements
- ➔ minimise loss, disruption, damage and injury and reduce the cost of risk, thereby maximising the resources available for service delivery

- ➔ inform policy and operational decisions by identifying risks and their likely impact
- ➔ continue to raise awareness of the need for risk management by all those involved with the delivery of County Council services

4.2 These objectives will be achieved by:

- ➔ Members and management providing leadership and commitment to ensure that risk management is considered throughout all of the County Council's activities.
- ➔ integrating risk management through a dynamic and iterative process into the County Council's purpose, governance, objectives and services.
- ➔ designing a framework which understands the County Council and its context, articulating risk management commitment and allocating appropriate resources.
- ➔ establishing clear roles, responsibilities and reporting lines for risk management throughout the County Council
- ~~➔ providing opportunities for shared learning on risk management across the County Council~~
- ➔ ~~providing risk management training and awareness sessions~~
- ➔ using a consistent methodology to develop, monitor and review Risk Registers
- ➔ incorporating risk management considerations into the County Council's management processes (eg service~~business~~ planning, project management, service reviews) and decision making (eg
- ➔ reports)
- ➔ effective communication with, and the active involvement of, staff
- ➔ effective communication with, and the active involvement of stakeholders including partners
- ➔ monitoring arrangements on an on-going basis
- ➔ operating a Corporate Risk Management Group, led by a Corporate Director, that will be proactive in implementing and developing all the above including shared learning across the County Council
- ➔ delivering a Corporate Risk Management Strategy that is consistent with, and embedded within, the County Council's overall strategic policies and practices.

5.0 **Benefits**

5.1 We expect that when the above principles and objectives are being met that the following benefits will be realised:

- ➔ strengthened ability to deliver against objectives and targets
- ➔ improved stakeholder confidence and trust
- ➔ an established and reliable basis for decision making and improved governance
- ➔ assurance to Members and management on the adequacy of arrangements for the conduct of business and use of resources
- ➔ improved operational effectiveness and efficiencies including a reduction in interruptions to service delivery
- ➔ reduction in management time spent dealing with the consequences of a risk event having occurred
- ➔ improved health and safety of those employed, and those affected, by the County Council's undertakings
- ➔ ability to be more flexible and responsive to new pressures and external demands
- ➔ avoids surprises and minimises loss and waste
- ➔ better informed financial decision-making
- ➔ enhanced financial control
- ➔ reduction in the financial costs associated with losses due to service interruptions, litigation, etc
- ➔ reduce, or maintain constant levels of, insurance premiums
- ➔ minimal service disruption to customers and a positive external image as a result of all of the above

6.0 **Framework and Process**

6.1 In order to aspire to the Principles referred to in this Policy (see Section 3) it is necessary to have a conceptual Framework for Risk Management from which a Risk Management Process can be developed. The relationship between these three components is shown diagramatically in **Appendix A**.

6.2 Details of the Framework and the consequential Process are provided in the Risk Management Strategy.

7.0 **Responsibilities**

7.1 The County Council accepts and recognises that it is the responsibility of all Members and staff to have regard for risk in carrying out their duties. If left unidentified and therefore uncontrolled, risk can result in a drain on resources that would better be directed to front line service provision, and to the meeting of the County Council objectives and community needs.

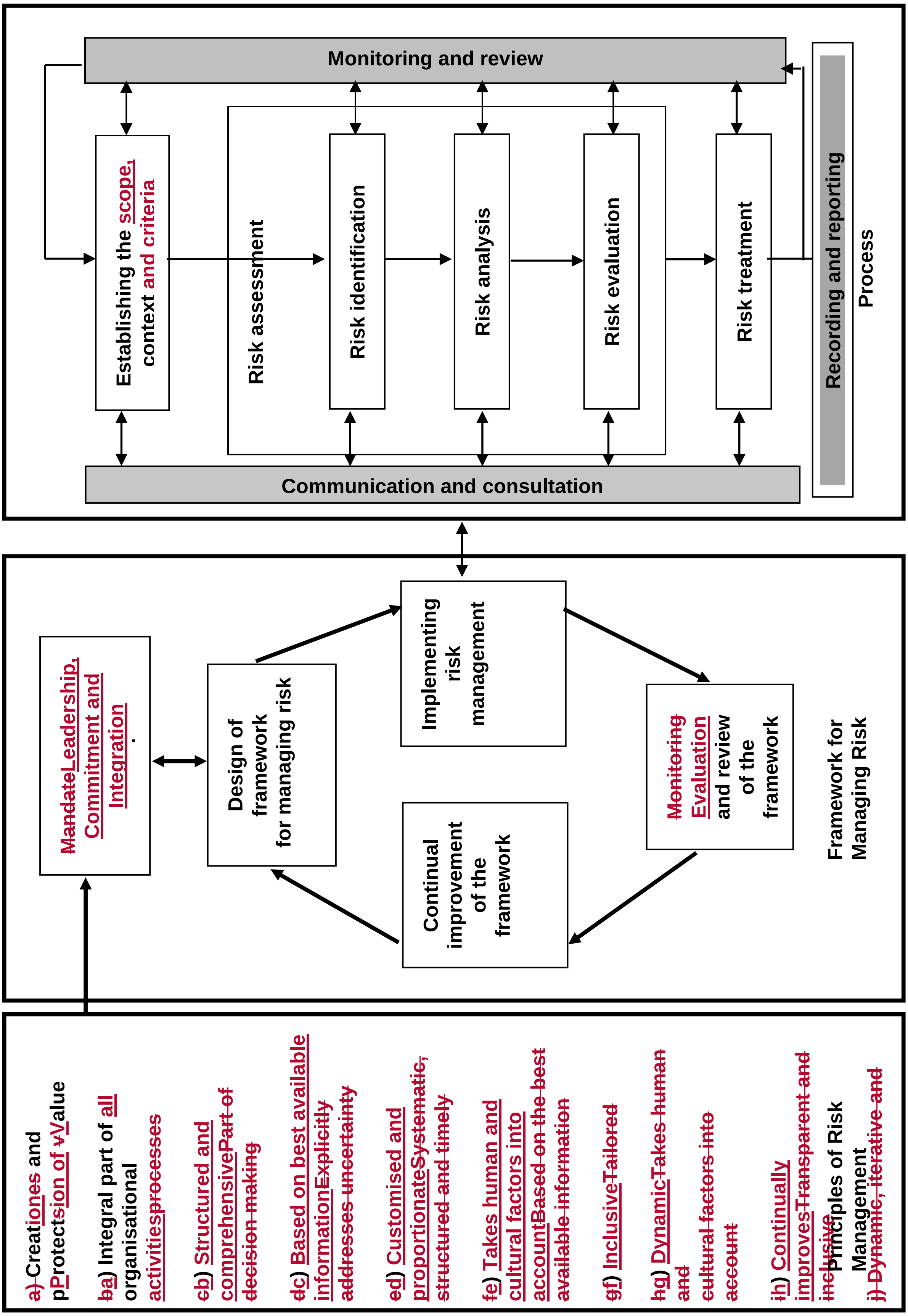
7.2 The Chief Executive, Corporate Directors, Service Heads and all line managers have the responsibility and accountability for managing the risks within their own work areas. All staff have a duty to work safely, avoid unnecessary waste of resources and contribute to risk management initiatives in their own area of activities. The co-operation and commitment of all staff is required to ensure that County Council resources are not squandered as a result of uncontrolled risk.

7.3 This Policy has the full support of the County Council which recognises that any reduction in injury, illness, loss or damage ultimately benefits the whole community of North Yorkshire.

8.0 Review

8.1 This Policy and other supporting documents such as the Risk Management Strategy will be reviewed at least every three years.

Relationships between Risk Management Principles, Framework and Process



9.0 SIGNATURES

9.1 We, the undersigned, confirm that we are satisfied with and approve of the content of this Risk Management Policy.

Signed:

Cllr ~~John Weighell~~ Carl Les Leader of the County Council	Richard Flinton Chief Executive
Date:	Date:
Cllr Gareth Dadd ~~Carl Les~~ Executive Member for Finance and Assets ~~Central and Financial Services~~	Gary Fielding Corporate Director – Strategic Resources (Section 151 Officer)
Date:	Date:

NORTH YORKSHIRE COUNTY COUNCIL

CORPORATE RISK MANAGEMENT POLICY

2019

CONTENTS

CORPORATE RISK MANAGEMENT POLICY

CORPORATE RISK MANAGEMENT POLICY

1.0 Introduction

1.2 The Vision of the County Council is that “We want North Yorkshire to be a thriving county which adapts to a changing world and remains a special place for everyone to live, work and visit”.

To lead the achievement of our Vision we aim to:

- ➔ ensure that the key issues for people and places in North Yorkshire are identified and understood.
- ➔ ensure that there are strategies, developed with communities and partners, in place to tackle these.
- ➔ make the case for North Yorkshire

To **enable** individuals, families and communities to do the best for themselves we aim to:

- ➔ support empowered communities to provide a range of services for local people that fully utilise all local assets, prevent loneliness and support troubled families, and contribute to healthier lifestyles.
- ➔ provide self service facilities and ready access to relevant information – enabling customers to access information, check eligibility, carry out a self-assessment, make appointments, make online payments, and request simple services themselves.

We also aim to **ensure** cost effective and efficient delivery, or commission from those who are best placed to deliver, of:

- ➔ services to the most vulnerable people.
- ➔ high priority services that enable a thriving county. And

To **analyse** our performance, use this to become better at what we do and share with stakeholders how we are doing.

1.2 Risk, uncertainty and change create a challenging dynamic as the County Council strives to meet these objectives. Risks, whether recognised or unforeseen, create a threat to achieving performance targets and change. This may result, for example, in reductions in service quality or delay in project delivery. Uncertainty and change, when considered thoroughly however, can also provide the opportunity to introduce new, innovative and effective ways of delivering services and act as the catalyst for developing services with better outcomes and fewer risks for our staff and our local communities.

1.3 Risk Management is integral to all aspects of our innovation and service delivery as well as the management of all our staff, physical assets and financial resources. As such it is reflected in all Council policies, new initiatives and Service Plans where appropriate.

1.4 This Risk Management Policy has been developed jointly by the Management Board and the Leader of the Council.

1.5 Implementation of this Risk Management Policy and associated management systems contributes to protecting and modernising frontline services during this continuing period of austerity and great change.

2.0 Definition of Risk and Risk Management

2.1 **Risk** is the effect of uncertainty on objectives. This can be expressed in terms of likelihood and consequences of risk sources such as an unwanted or uncertain action or event.

2.2 **Risk Management** is the range of coordinated activities utilised to direct and control the County Council with regard to risk.

3.0 Principles

3.1 The purpose of risk management is the creation and protection of value. It supports the achievement of objectives, improves performance and encourages innovation. For risk management (RM) to be effective the County Council will aspire to the following principles:

- ➔ RM is an **integral part of all organisational activities -** including strategic planning and all project and change management.
- ➔ RM is **structured and comprehensive** – we will ensure that RM contributes to consistent, and comparable results.
- ➔ RM is **based on the best available information** – we will ensure that the inputs to RM are based on historical and current information, as well as on future expectations. RM explicitly takes into account any limitations and uncertainties associated with such information and expectations. Information should be timely, clear and available to relevant stakeholders.
- ➔ RM is **customised and proportionate -**– we will ensure that the RM framework and process are customised and proportionate to the County Council’s external and internal context and related to its objectives.
- ➔ RM **takes human and cultural factors into account** – we will ensure that we recognise human behaviour and culture significantly influence all aspects of RM at each level and stage.
- ➔ RM is **inclusive** – we will ensure the appropriate and timely involvement of stakeholders and enable their knowledge, views and perceptions to be considered, resulting in improved awareness and informed RM.
- ➔ RM is **dynamic** – Risks can emerge, change or disappear as the County Council’s external and internal context changes. We will ensure that RM anticipates, detects, acknowledges and responds to those changes and events in an appropriate and timely manner.
- ➔ RM **continually improves** – we will ensure that RM is continually improved through learning and experience.

4.0 **Objectives**

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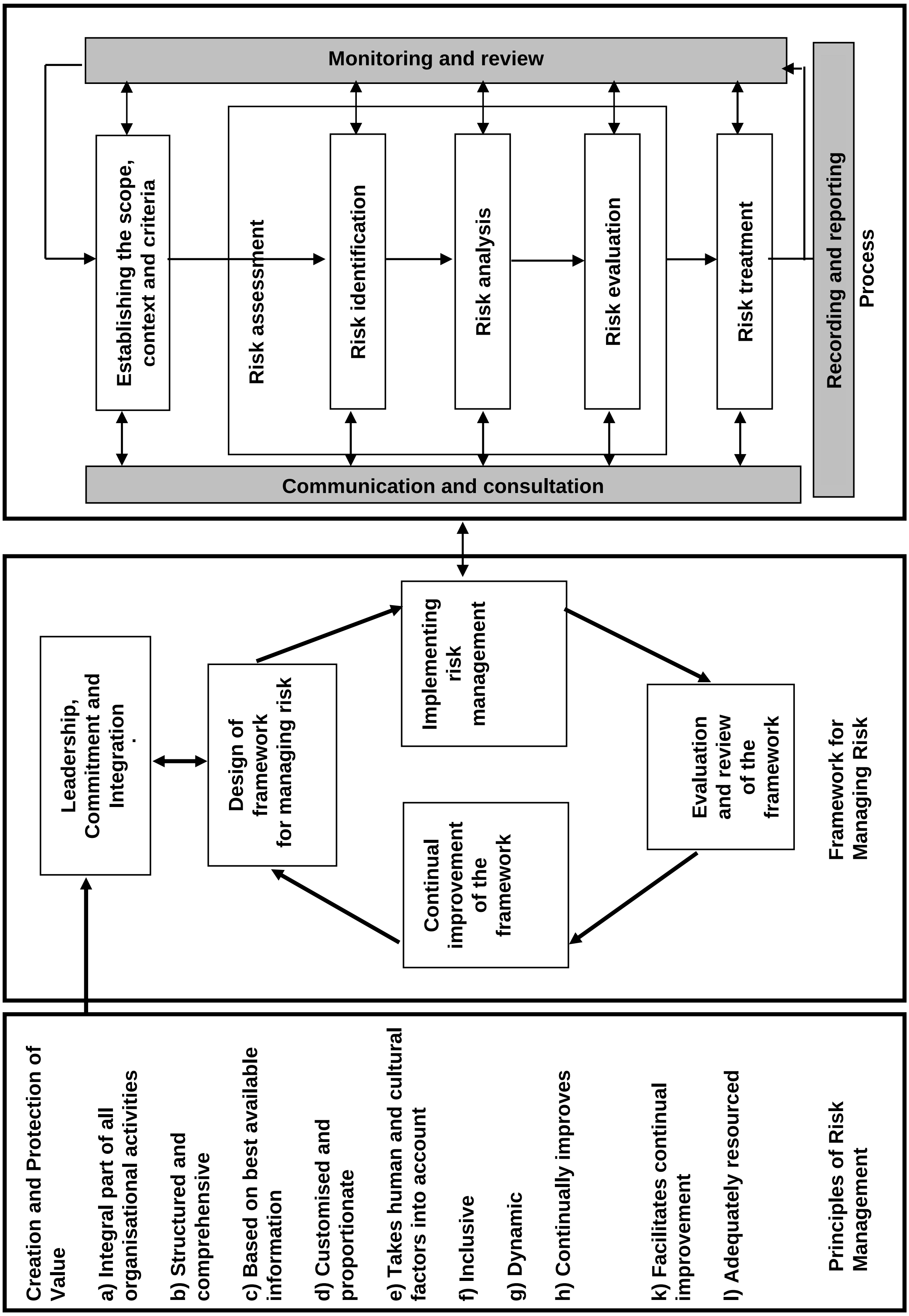
8.0 Review

8.1 This Policy and other supporting documents such as the Risk Management Strategy will be reviewed at least every three years.

Relationships between Risk Management Principles, Framework and Process



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Signed:

Cllr Carl Les Leader of the County Council	Richard Flinton Chief Executive
Date:	Date:
Cllr Gareth Dadd Executive Member for Finance and Assets	Gary Fielding Corporate Director – Strategic Resources (Section 151 Officer)
Date:	Date:

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 MARCH 2019

CORPORATE GOVERNANCE

Report of the Corporate Director, Strategic Resources

1.0 PURPOSE OF REPORT

1.1 To review the updated Local Code of Corporate Governance.

2.0 BACKGROUND

2.1 The standard for local authority governance in the UK is set out in guidance called the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016.

2.2 According to the Terms of Reference of the Audit Committee, its role in respect of Corporate Governance is:

(i) to assess the effectiveness of the authority's Corporate Governance arrangements

(ii) to review progress on the implementation of Corporate Governance arrangements throughout the authority

(iii) to approve the Annual Governance Statements for both the County Council and the North Yorkshire Pension Fund

(iv) to liaise, as necessary, with the Standards Committee on any matter(s) relating to the Codes of Conduct for both Members and Officers

(v) to review the arrangements in place for ensuring good governance in the County Council's key partnerships and owned companies.

2.3 In relation to (i) and (ii) above, an annual report is submitted as set out in the Programme of Work, and item (iii) is considered as part of the report relating to the Statement of Accounts. Issues are addressed by the respective Corporate Director alongside a report on internal audit work relating to that Directorate which is produced by the Head of Internal Audit.

3.0 LOCAL CODE OF CORPORATE GOVERNANCE

3.1 As a result of the publication of the publication of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016, the Council carried out a review of the changes as a consequence of this Framework, and updated their compliance documentation including the Local Code and the Annual Governance Statement last year.

Framework Principles

3.2 The 2016 Principles that are reflected in the Local Code with links to the Annual Governance Statement are as follows:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;

B. Ensuring openness and comprehensive stakeholder engagement;

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;

D. Determining the interventions necessary to optimise the achievement of the intended outcomes;

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;

F. Managing risks and performance through robust internal control and strong public financial management;

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework.

Changes and Updates to the Local Code

3.3 The Local Code of Corporate Governance for the County Council is a statement of the principles that the County Council will apply in its corporate governance framework. It also describes key components of that framework and how they will be monitored and reviewed.

3.4 The Local Code is reviewed on an annual basis. This review ensures that key changes to the corporate governance framework (whether driven by external forces such as legislative changes or by internal factors) are reflected in the current Local Code.

3.5 This year's review has resulted in minor changes and updates to the Local Code. Links to other documents on the County Council's website have been updated and further relevant links included in the text of the Local Code. For example:

- separate reference is made to the Members' Code of Conduct (incorporating the general principles of public life) and the Officers' Standards of Conduct Procedure.
- The Modern Slavery Statement has also been added to the policies and protocols that promote high ethical standards and good behaviour.
- The Information Sharing Protocol has been agreed with all key partners and individual agreements are in place where personal data is shared.

The revised draft Code showing tracked changes can be seen at **Appendix A.**

3.6 Once approved by the Committee at this meeting, the Local Code will be referred collectively to 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) for formal approval, as stated in the Constitution.

4.0 RECOMMENDATIONS

4.1 That the updated Local Code of Corporate Governance (**Appendix A**) be recommended for collective formal 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).

GARY FIELDING
Corporate Director, Strategic Resources, County Hall, Northallerton
March 2019

Report prepared by Fiona Sowerby, Corporate Risk and Insurance Manager, ext 2400

Background papers: None

North Yorkshire County Council

Draft
Local Code of Corporate Governance

March 2019

Contents

1.0 **INTRODUCTION**

1.1 Corporate governance is the system by which a local authority directs and controls its functions and relates to the community it serves. It is therefore a framework of policies, management systems, procedures and structures that together, determine and control the way in which a local authority manages its business, determines its strategies and objectives, and sets about delivering its services to meet those objectives for the greater good of its community. This naturally extends to how the organisation accounts to, engages with and, where appropriate, leads its community.

1.2 On this basis, the principles of good corporate governance require a local authority to undertake its functions in a way that is completely open and inclusive of all sectors of the community, demonstrates the utmost integrity in all its dealings, and is fully accountable to the public it serves.

1.3 North Yorkshire County Council is committed to demonstrating good corporate governance. This Code which is based upon the CIPFA/SOLACE document entitled *Delivering Good Governance in Local Government: Framework 2016* sets out what the governance arrangements are, and who is responsible for them within the County Council. It also explains how the arrangements will be kept under review and monitored for compliance.

1.4 The Code also expresses how the County Council will seek to conduct its business in a way that demonstrates –

- **Openness and Inclusivity** – which is necessary to ensure that stakeholders can have confidence in the decision-making and management processes of the County Council, and the role of the Members and Officers therein. Being open through genuine consultation with stakeholders and providing access to full, accurate and clear information leads to effective and timely action and lends itself to necessary scrutiny. Openness also requires an inclusive approach, which seeks to ensure that all stakeholders, and potential stakeholders, have the opportunity to engage effectively with the decision-making processes and actions of the County Council. It requires an outward looking perspective and a commitment to partnership working, that encourages innovative approaches to consultation and to service provision

- **Integrity** – is necessary for trust in decision making and actions. It is based upon honesty, selflessness and objectivity, and high standards of propriety and probity in the stewardship of public funds and the management of the County Council's affairs. It is dependent on the effectiveness of the internal control framework and on the personal standards and professionalism of both Members and Officers. It is reflected in the County Council's decision-making procedures, in its service delivery and in the quality of its financial and performance reporting

- **Accountability** - is the process whereby Members and Officers within the County Council are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles expressed through a robust and resilient structure

2.0 **POLICY STATEMENT ON CORPORATE GOVERNANCE**

2.1 The Policy of the County Council is to incorporate the principles of Corporate Governance into all aspects of its business activities to ensure that stakeholders can have confidence in the decision-making and management processes of the authority, and in the conduct and professionalism of its Members, Officers and agents in delivering services. To this end, the County Council will report annually on its intentions, performance and financial position, as well as on the arrangements in place to ensure good governance is always exercised and maintained.

2.2 The principles set out in this Policy will also apply to the North Yorkshire Pension Fund. Any company in which the County Council has a substantive equity holding will also be expected to comply with these principles.

3.0 **THE SEVEN PRINCIPLES OF CORPORATE GOVERNANCE**

3.1 There are seven core principles that should underpin governance arrangements within a local authority. These are defined as follows –

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

B. Ensuring openness and comprehensive stakeholder engagement

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

F. Managing risks and performance through robust internal control and strong public financial management

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

3.2 This Code addresses these seven core principles and describes the systems and processes that support these in the County Council. In addition the Code reflects how the County Council addresses the requirements of the CIPFA Statement on the *Role of the Chief Financial Officer in Local Government* (2015)

3.3 The Code also explains how the County Council intends to monitor and review the corporate governance arrangements defined in this Code including compliance with the CIPFA Statement on the *Role of the Chief Financial Officer in Local Government* (2015).

3.4 A diagrammatic representation of how this Code fits into the management process of the County Council is attached as **Appendix A**.

4.0 CORPORATE GOVERNANCE ARRANGEMENTS

Core Principle A : Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

4.1 The County Council will conduct its activities in a manner which promotes high ethical standards and good behaviour which will foster openness, support and mutual respect. The following policies and protocols have been established and will be kept under review to assist the County Council in maintaining this culture:–

- Members' Code of Conduct (incorporating the general principles of public life) and
- Officers' Standards of ~~Codes of~~ Conduct Procedure
- Local / National Teachers' Code of Conduct
- Protocol on Officer/Member relations and communications
- Code of Conduct for Planning
- Ethical Behaviour Statement~~s~~
  - Council
  - Leader
  - Chief Executive
-
- Protocol re the role of the Leader and Chief Executive Officer in the ethical framework
- Ethical Standards & Decision Making Training for Officers and Members
- Twice yearly Standards Bulletins , circulated to Members, Officers, certain other authorities and published on the Council's website
- Member and Officer Registers of Interests
- Member and Officer Registers of Gifts and Hospitality
- ICT Code of Practice and Protocols on ICT use for Members and Officers
- Whistleblowing Policy
- Counter Fraud Strategy
- Anti-Money Laundering and Terrorist Financing Policy
- Equality and Diversity Policy Statement
- Communication Strategy to support 2020 North Yorkshire
- Engagement Promise
- Partnership Governance guidance
- Procurement Strategy and training
- Information Governance Policy and Framework
- Corporate Complaints Procedure

- Guidance Note for Councillors and Officers on Outside Bodies
- Modern Slavery Statement

4.2 In addition, the County Council will ensure that systems and processes for financial administration, financial control and protection of the authority's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice. This includes compliance with CIPFA's Statement on the *Role of the Chief Financial Officer in Local Government* (2015).

4.3 The aim is to develop a set of shared values which will underpin an ethos of good governance. This will be further supported by compliance with legislation, Procedure Rules and all relevant professional standards.

4.4 The County Council has established a Standards Committee to discharge its responsibilities for promoting and maintaining high standards of Member conduct. The Standards Committee meets twice yearly and as required. It develops initiatives to promote high ethical standards, is involved in ensuring the training of all Members on standards, and determines any complaints that Members may have breached the Members' Code of Conduct referred to it by the Monitoring Officer. The Committee also has a role in assisting, where requested, in the designation and handling of persistent and/or vexatious complaints/complainants.

4.5 Where the County Council works in partnership it will continue to uphold its own ethical standards, as well as acting in accordance with the partnership's shared values and aspirations.

Core Principle B : Ensuring openness and comprehensive stakeholder engagement

4.6 The County Council will seek the views of its stakeholders and respond appropriately by:–

- clearly identifying its stakeholders, in order to ensure that relationships with these groups continue to be effective
- maintaining effective channels of communication which reach all groups within the community and other stakeholders as well as offering a range of consultation methods; to this end the County Council has a Communications Strategy to support the 2020 North Yorkshire Programme and an Engagement Promise that are regularly reviewed and updated
- publishing a Council Plan and an annual Statement of Final Accounts to inform stakeholders and services users of the previous year's achievements and outcomes
- publishing a Medium Term Financial Strategy and consulting each year on the Annual Revenue Budget and its impact on Council Tax
- providing a variety of opportunities for the public to engage effectively with the County Council including attending meetings, opportunity to ask questions at meetings, written consultations, surveys, web chats with Leader and Chief Executive
- presenting itself in an open and accessible manner to ensure that County Council matters are dealt with transparently, in so far as the need for confidentiality allows

- supporting these shared principles and the undertakings in the North Yorkshire Compact which provides a framework for local authorities and other public bodies to work together with the voluntary and community sector maintaining a Citizens' Panel of around 2000 residents who are consulted twice a year on a wide range of service issues
- maintaining a Freedom of Information Act Publication Scheme and arrangements to respond to requests for information from the public
- operating Access to Information Procedure Rules to ensure local people and stakeholders can exercise their rights to express an opinion on decisions, and can understand what decisions have been made and why
- ensuring the lawful and correct treatment of personal information through a Data Protection policy that follows the principles set out in the *Data Protection Act 2018* and the *General Data Protection Regulation.*
- maintaining a County Council website that provides access to information and services and opportunities for public engagement

Core Principle C : Defining outcomes in terms of sustainable economic, social, and environmental benefits

4.7 The County Council will develop a clear vision and purpose, identify intended outcomes and ensure that these are clearly communicated to all stakeholders of the organisation, both internal and external. In doing so, the County Council will report regularly on its activities and achievements, and its financial position and performance.

4.8 The County Council will publish:-

- a Council Plan (updated annually)
- an annual Statement of Final Accounts together with the Annual Governance Statement

4.9 The County Council will keep its corporate strategies, objectives and priorities under constant review, so as to ensure that they remain relevant to the needs and aspirations of the community.

4.10In undertaking all its activities, the County Council will aim to deliver high quality services which meet the needs of service users. Delivery may be made directly, via a subsidiary company, in partnership with other organisations, or by a commissioning arrangement. Measurement of service quality will also be a key feature of service delivery.

4.11In addition, the County Council will continue to monitor the cost effectiveness and efficiency of its service delivery, as well as

- ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the County Council meets its policy and service objectives and provides effective stewardship of public money in its use

- ensure that the County Council maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary

- ensure compliance with CIPFA's Code on Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code

4.12The County Council will monitor and regularly report on performance through the Performance Management Framework and system

4.13The County Council will also seek to address any concerns or failings in service delivery by adhering to and promoting its Corporate Complaints Procedure.

Core Principle D : Determining the interventions necessary to optimise the achievement of the intended outcome

4.14The County Council will observe this Principle through a combination of the following:

- having a formal Constitution which details the decision making processes and the procedures required to support the transparency and accountability of decisions made
- carrying out consultations to ensure a robust decision making process for service improvement or termination or otherwise, in order to prioritise competing demands within limited resources
- publishing a Council Plan which provides the key ambitions for the Council, key strategies, high level outcomes and priorities for the next 4 years
- publishing an annual Statement of Final Accounts including an Annual Governance Statement to inform stakeholders and services users of the previous year's achievements and improvements for the following year
- establishing a medium term business and financial planning process to deliver strategic objectives which is reviewed regularly
- maintaining an effective Performance Management Strategy and system
- having a Staff Engagement Strategy
- having a Communications Strategy to support the 2020 North Yorkshire Programme

Core Principle E : Developing the entity's capacity, including the capability of its leadership and the individuals within it

4.15 The County Council is continually seeking to develop the capacity and capability of the Council itself, and both its Members and Officers in recognition that the people who direct and control the organisation must have the right skills. This is achieved through a commitment to training and development, as well as recruiting senior officers with the appropriate balance of knowledge and experience. The County Council aims to achieve this by:-

- carrying out a regular LGA Peer Review
- maintaining Partnership Governance procedures and guidance, and carrying out regular reviews of partnerships and their outcomes
- organising Member and employee induction programmes
- continuing with further organisational development under the 2020 North Yorkshire Programme by promoting the 3 core elements of engagement, innovation and leadership
- maintaining an effective Performance Management Strategy and system
- continuing to develop a Workforce Plan that addresses issues such as recruitment, succession planning, flexible working and other people management issues
- carrying out regular appraisals which incorporate service improvement and personal development plans
- providing career structures to encourage staff development
- regularly reviewing job descriptions and person specifications and using these as the basis for recruitment
- encouraging a wide variety of individuals and organisations to participate in the work of the County Council
- ensuring regular review and improvement of the Employee Assistance Programme which includes health assessments, counselling, emotional support and fitness advice.

4.16 To ensure compliance with the CIPFA Statement in the *Role of the Chief Financial Officer* the County Council will:-

- ensure the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas of his role
- review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised
- provide the finance function with the resources, expertise and systems necessary to perform its role effectively
- embed financial competencies in person specifications and appraisals
- ensure that Members' roles and responsibilities for monitoring financial performance / budget management are clear, that they have adequate access to financial skills and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities

Core Principle F : Managing risks and performance through robust internal control and strong public financial management

4.17 The County Council observes this Principle through a combination of the following:

- a Risk Management Policy and Strategy have been in place for many years and are reviewed and updated in line with current guidance and best practice on a regular basis
- there is a reporting and monitoring framework for communicating risks (eg Corporate Risk Management Group / Directorate Risk Management Group / Mgt teams)
- decision making is supported through risk registers at Corporate, Directorate and Service levels as well as one off major projects
- Risk Registers include consideration of objectives and contribute to service plans
- there is a Corporate Performance Management Strategy and system
- the Executive is supported at all times by professional advice that addresses all relevant legal, financial, risk and resourcing issues. Risk management processes operate so as to ensure that the risk and impact of decisions are fully assessed
- there are regular quarterly Performance / Financial reports to Executive & Scrutiny Board
- there is a year-end report on Performance / Financial out-turn to Executive & Scrutiny Board
- there is comprehensive recording of all decisions taken and the reasons for those decisions
- there is an effective scrutiny function and framework, supported by named officers, that enables decisions by the Executive to be challenged or influenced by the rest of the County Council's Members
- there is compliance with the *Code of Practice on Managing the Risk of Fraud and Corruption* (CIPFA 2014) through a Counter Fraud Policy and Strategy including a Fraud Prosecution Policy, and an Anti-Money Laundering Policy and Procedures
- there is an Annual Governance Statement which is updated and forms part of the annual Statement of Final Accounts
- the Audit Committee includes independent co-opted members
- there is an Information Governance policy framework which ensures compliance with data protection and access to information legislation and best practice
- an Information Sharing Protocol has been agreed with all key partners and individual agreements are in place where personal data is shared ~~an Information Sharing Protocol and individual agreements are active with many partners~~
- there is an Audit Charter with an adequately resourced internal audit and counter fraud function
- ~~ensures that its~~ governance arrangements allow the CFO direct access to the Audit Committee and External Auditor

- by ensuring~~es~~ the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the County Council
- by ensuring~~es~~ the County Council's governance arrangements allow the CFO to bring influence to bear on all material decisions
- by ensuring~~es~~ that advice is provided on the levels of reserves and balances in line with good practice guidance
- the County Council's arrangements for financial and internal control and for managing risk are addressed in annual governance reports by Corporate Directors to the Audit Committee
- the County Council puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes

Core Principle G : Implementing good practices in transparency, reporting, and audit to deliver effective accountability

4.18 The County Council observes this Principle through a combination of the following:-

- maintaining a County Council website that provides access to information and services and opportunities for public engagement
- all meetings of the Council and its Committees are open to the public (except where, for example, personal or confidential matters are being discussed) and published on the website
- having a formal Constitution which details the decision making processes and the procedures required to support the transparency and accountability of decisions made
- an Engagement Promise setting out in simple terms how everyone who lives or works in the county, or uses the County Council's services can influence decisions
- a properly constituted Standards Committee, an Audit Committee with a number of independent co-opted members and an effective scrutiny function
- there is an Audit Charter with an adequately resourced internal audit and counter fraud function
- by ensuring~~e~~ that its governance arrangements allow the CFO direct access to the Audit Committee and External Auditor
- by ensuring~~e~~ the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority
- by ensuring~~e~~ the County Council's governance arrangements allow the CFO to bring influence to bear on all material decisions
- ensure that advice is provided on the levels of reserves and balances in line with good practice guidance

- by ensuring the County Council puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes
- ensuring the County Council's arrangements for financial and internal control and for managing risk are addressed in annual governance reports by Corporate Directors to the Audit Committee
- publishing an annual Statement of Final Accounts together with the Annual Governance Statement which will show any significant improvements required.
- ensuring compliance with *CIPFA's Statement on the Role of the Head of Internal Audit* (2010)
- ensuring compliance with Public Sector Internal Audit Standards
- considering and implementing LGA Peer Review recommendations
- completion of Equality Impact Assessments/Data Protection Impact Assessments for any proposed changes in service delivery

5.0 **MONITORING, REPORTING AND REVIEW**

5.1 Ensuring good corporate governance is the responsibility of the whole Council. However to formalise the process, the County Council has two Committees that are primarily responsible for monitoring and reviewing the adequacy of the corporate governance arrangements referred to in this Local Code –

- the Audit Committee
- the Standards Committee

The two committees liaise on any issue of Corporate Governance that may be of legitimate common concern to both.

5.2 The Audit Committee is independent of both the Executive and Scrutiny, and has wide ranging responsibilities in relation to audit, information governance, counter fraud, risk management, treasury management, financial and performance reporting, as well as overall corporate governance and ethics. The Committee's terms of reference are set out in the Constitution and its principal objectives are to ensure that the County Council manages its risks appropriately and maintains an adequate and effective system of internal control. The Committee meets up to five times a year and includes up to three co-opted external Members.

5.3 The Standards Committee currently meets twice yearly and as required to promote and maintain high standards of conduct by Councillors and co-opted Members of the Council. The Committee provides advice and support to the Council and its members on the Council's Members' Code of Conduct and related ethical issues such as membership of outside bodies and Member/officer relations. Additionally, Standards Committee Members participate in training sessions and the Committee determines any complaints that Members may have breached the Members' Code of Conduct referred to it by the Monitoring Officer. The Committee also has a role in assisting, where requested, in the designation and handling of persistent and/or vexatious complaints/complainants. The Committee is attended by independent persons, as well as County Council Members.

5.4 Further to the two Committees referred to above, the County Council has also established:

- a Corporate Governance Officer Group of senior officers, chaired by the Corporate Director – Strategic Resources, which is responsible for overseeing the delivery of an integrated programme of work to support the development of robust corporate governance arrangements, and to keep implementation of such arrangements under on-going review. In particular, this Group monitors the Self-Assessment Checklist that maps, and monitors, all governance activity within the County Council against all published Best Practice Guidelines

- a Corporate Information Governance Group, also chaired by the Corporate Director – Strategic Resources. This Group addresses the various challenges of Information Governance including the development and maintenance of a Framework for Information Governance which comprises a suite of relevant policies, protocols and guidance notes

5.5 The County Council is required to undertake an annual review of the effectiveness of its system of internal control (as required by *Regulation 6 of the Accounts and Audit Regulations* (2015). This review seeks to –

- identify principal risks to the achievement of County Council objectives
- identify and evaluate key controls to manage principal risks
- obtain assurances of the effectiveness of key controls
- evaluate assurances and identify gaps in control/assurances

This review is overseen by the Audit Committee and is part of the preparatory process for the Annual Governance Statement (see **paragraph 5.8** below). The Audit Committee receives assurance from various sources regarding the adequacy of the internal control environment and overall corporate governance arrangements, including from the Head of Internal Audit.

5.6 Additionally, compliance with the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government* is reviewed annually by the Audit Committee.

5.7 Finally, annual reports are produced and published by:

- the Audit Committee Chair
- the Standards Committee Chair

The Annual Governance Statement

5.8 Following the annual review of effectiveness of the system of internal control an Annual Governance Statement (AGS) will be published to accompany the Statement of Final Accounts for the County Council. The AGS will provide an overall assessment of the corporate governance arrangements in the County Council.

5.9 To reflect the County Council's commitment to the continuous improvement of its system of internal control, progress to address weaknesses is drawn up in response to any significant control weaknesses identified in the AGS. A follow up process is then overseen by the Corporate Governance Officer Group to ensure continuous improvement of the system of corporate governance. The Audit Committee monitors progress to address weaknesses every six months.

Review of this Code

5.10 A review of this Code will be undertaken annually alongside the preparation of the AGS.

6.0 CONTACT DETAILS AND FURTHER INFORMATION

6.1 Further details of the County Council's Corporate Governance arrangements can be obtained on the County Council's website www.northyorks.gov.uk or by contacting the Corporate Director – Strategic Resources (**see below**).

6.2 Finally, if you have any concerns about the way in which the County Council, its Members, Officers or agents conduct its business, or believe that elements of this Code are not being complied with, please contact one of the following Officers as appropriate. Your enquiry will be treated confidentially, and a response made following investigation of the facts in each case.

(i) **Chief Executive (Head of Paid Service)**
Richard Flinton
North Yorkshire County Council
County Hall
Northallerton
North Yorkshire DL7 8AL
Tel: 01609 532444 E-mail: richard.flinton@northyorks.gov.uk

(ii) **Corporate Director – Strategic Resources (Section 151 Officer)**
Gary Fielding
Corporate Director – Strategic Resources
North Yorkshire County Council
Racecourse Lane
Northallerton
North Yorkshire DL7 8AL
Tel 01609 533304 E-mail gary.fielding@northyorks.gov.uk

(iii) **Assistant Chief Executive (Legal and Democratic Services) (Monitoring Officer)**
Barry Khan
Legal and Democratic Services
North Yorkshire County Council
Racecourse Lane
Northallerton DL7 8AL
Tel 01609 532173 E-mail barry.khan@northyorks.gov.uk

Appendix A
CORPORATE GOVERNANCE

ANNUAL GOVERNANCE STATEMENT

LOCAL CODE OF CORPORATE GOVERNANCE

Ongoing Monitoring and Annual Review

Standards Committee

Audit Committee

Corporate Governance Officer Group

Principle A.
Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- A.1.1 Acting in the public interest and protecting our reputation
- A.1.2 Establishing and communicating our values
- A.1.3 Leading by example and using our values as a framework for decision making
- A.1.4 & A.2.3 Embedding values and ethical standards in our policies
- A.2.1 & A.2.2 Ethical standards and performance are maintained and permeate our culture and operation
- A.2.4 Ensuring external providers of our services act ethically and with integrity
- A.3.1 Demonstrating a strong commitment to the rule of law
- A.3.2 Ensuring statutory officers and members are able to fulfil their legislative and regulatory responsibilities
- A.3.3 Optimizing the full use of powers for the benefit of citizens and communities
- A.3.4 & A.3.5 Dealing effectively with breaches of legal and regulatory provision, corruption and misuse of power

Principle B
Ensuring openness and comprehensive stakeholder engagement

- B.1.1 Demonstrating our commitment to openness
- B.1.2 & B.1.3 Making open decisions with clear reasoning and evidence.
- B.1.4 Using consultation to determine effective courses of action
- B.2.1 Engaging effectively with institutional stakeholders
- B.2.2 & B.2.3 Developing partnerships built on trust and shared values to allow efficient use of resources
- B.3.1 Establishing a clear policy on the type of issues that we will consult upon
- B.3.2 Ensuring effective communication and clarity on the role of members and officers with regard to community engagement
- B.3.3 Ensuring consideration is given to the views of those from different backgrounds and to future needs
- B.3.4 Implementing effective feedback mechanisms
- B.3.5 Balancing feedback from more active stakeholder groups with that of others
- B.3.6 Taking account of the interests of future generations, tax payers & service users

Principle C
Defining outcomes in terms of sustainable economic, social, and environmental benefits

- C.1.1 Having a clear vision
- C.1.2 Specifying intended impacts and changes
- C.1.3 Delivering outcomes sustainably within available resources
- C.1.4 Identifying and managing risks to the achievement of outcomes
- C.1.5 Managing service user expectations
- C.2.1 & C.2.3 Considering the economic, social and environmental impact of service provision and the associated wider public interest
- C.2.2 Taking a longer term view with regard to decision making
- C.2.4 Ensuring fair access to services

Principle D
Determining the interventions necessary to optimise the achievement of the intended outcomes

- D.1.1 Ensuring decision makers consider full options appraisals
- D.1.2 Considering feedback in decision making on service improvement or removal
- D.2.1 Working to robust planning and control cycles
- D.2.2 Engaging with all stakeholders on service planning and delivery
- D.2.3 Considering and monitoring risk in partnerships
- D.2.4 Ensuring flexible & agile arrangements are in place
- D.2.5 Establishing key performance indicators for service performance measurement.
- D.2.6 Ensuring sufficient capacity to review service quality
- D.2.7 & D.2.8 Preparing budgets in accordance with plans, strategies and realistic expenditure estimates.
- D.3.1 & D.3.3 Ensuring the MTFS balances priorities with affordability and sets the context for on-going decision making
- D.3.2 Ensuring budgets take into account the medium and long term cost of operations
- D.3.4 Ensuring the achievement of social value

Principle E
Developing the entity's capacity, including the capability of its leadership & the individuals within it

- E.1.1 & E.1.2 Regularly reviewing & benchmarking operations, performance and use of assets
- E.1.3 Recognising the benefits of partnerships and collaborative working
- E.1.4 Maintaining an effective workforce plan
- E.2.1 Ensuring elected & appointed leaders talk with each other
- E.2.2 Specifying delegable and non delegable decisions
- E.2.3 Clearly defining Leader and CEO roles
- E.2.4 Developing the capabilities of members and officers
- E.2.5 Encouraging public participation
- E.2.6 Considering leadership effectiveness
- E.2.7 Reviewing staff performance
- E.2.8 Maintaining workforce health and wellbeing

Principle F
Managing risks and performance through robust internal control and strong public financial

- F.1.1, F.1.2 & F.1.3 Recognising risk management as an integral part of activities and implementing arrangements, ensuring responsibilities are understood
- F.2.1, F.2.4 & F.2.5 Monitoring & reporting on all aspects of service delivery including post implementation reviews
- F.2.2 Making decisions based on objective analysis & clear understanding of the risks
- F.2.3 & F.3.5 Operating an effective overview and scrutiny function and audit committee
- F.3.1 & F.3.2 Evaluating risk management & internal control and ensuring alignment with objectives
- F.3.3 Ensuring effective counter fraud & anti-corruption arrangements
- F.3.4 Obtaining Internal audit assurance on governance
- F.4.1, F.4.2 & F.4.3 Ensuring robust data governance arrangements are in place
- F.5.1 & F.5.2 Ensuring strong financial management arrangements are in place

Principle G
Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- G.1.1 & G.1.2 Communicating with stakeholders in an understandable and transparent way
- G.2.1 & G.2.2 Reporting on performance & value for money and ensuring members and senior managers own the results
- G.2.3 Publishing an Annual Governance Statement
- G.2.4, G.3.4 & G.3.5 Ensure audit and governance are applied to partnerships, shared services and those provided by third parties
- G.2.5 Preparing consistent performance information to accompany financial statements
- G.3.1 & G.3.2 Ensuring effective internal and external audit
- G.3.3 Welcoming peer challenge & inspection

APPENDIX A

North Yorkshire County Council

Audit Committee

7 March 2019

Review of Assurance over Value for Money

Report of the Corporate Director – Strategic Resources

1.0 Purpose of report

1.1 To consider the ongoing arrangements made within the County Council in respect of achieving Value for Money (VfM).

1.2 To consider how overall assurance is obtained about the effectiveness of these arrangements.

2.0 Background

2.1 The Audit Committee terms of reference in respect of Value for Money are:

"to have oversight of the arrangements across the County Council in securing Value for Money".

This is achieved through on-going evaluation of a range of activity within the Council but an annual report is considered by the Committee in order to give due focus to value for money.

2.2 The National Audit Office (NAO) uses three criteria to assess the value for money of authorities spending:

- **Economy**: minimising the cost of resources used or required (inputs) – spending less;
- **Efficiency:** the relationship between the output from goods or services and the resources to produce them – spending well; and
- **Effectiveness:** the relationship between the intended and actual results of public spending (outcomes) – spending wisely.

This can be summarised as **"***the optimal use of resources to achieve the intended outcomes"*

A further definition of what VfM means is:

- *"The assessment of the cost of a product or service against the quality of output received*". It is therefore not simply about buying at the cheapest price.

2.3 VfM plays an integral part of many aspects within the Council, ranging from how the Council Plan is drawn up right down to individual decisions that take place on a daily basis; in other words VfM is built into the fabric of the Council, as it is a fundamental consideration within every action.

2.4 By way of example, within any decision process, in order to help ensure VfM has been considered and realised, some simple questions can be asked:

- What level of quality are we looking for?
- Is expenditure required? And if so, can we be sure it will help achieve the objectives of the Council?
- What is a fair price to pay for the good or service?

By answering these questions, confidence can be gained that the decision will have a positive VfM outcome.

3.0 National Audit Office

3.1 The National Audit Office (NAO) produced Auditor Guidance Note AGN 03 – **"Auditor's conclusion on arrangements to secure value for money in the use of resources"** in November 2015 to assist Auditors on how they should arrive at their VFM Conclusion. This remains the prime guidance for our external auditors.

3.2 The direction of travel the NAO are looking to take for the VfM Code is for it to be principles based, which requires auditors to be satisfied at a relatively high level that the authority has secured the "3 E's": economy, efficiency and effectiveness.

3.3 This is then distilled into the "proper arrangements" which give auditors guidance on how to substantiate VfM. This is split into three categories:

- ***Informed decision-making*** – e.g. appropriate cost & performance information to support decision-making.
- ***Sustainable resource deployment*** – e.g. managing assets effectively (including finances) to support delivery of strategic priorities.
- ***Working with partners and other third parties*** – e.g. commissioning effectively to support delivery of strategic priorities.

3.4 The auditor will then reach a statutory VfM conclusion based on the following criteria:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

3.5 In the Annual Audit Letter for 2017/18, the Councils Auditors KPMG said about the councils arrangements for VfM

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017/18 on 30thJuly 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

In addition the Auditors looked at VfM risk areas and commented in the letter that

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified no significant matters.

4.0 Existing assurances

4.1 Within North Yorkshire County Council, there are a number of activities that individually may not guarantee VfM by themselves, but by considering each of these against the principals of VfM and in conjunction with the "proper arrangements" help ensure increased confidence that VfM is being achieved.

The following is not an exhaustive list of the actions that occur but do stand to highlight the broad approach that takes place to secure good a:

4.2 The Council Plan continues to be a framework that is used to help focus efforts, ensuring they are aligned with our strategic objectives. This is one of the key principles behind delivering VfM: alignment of goals to promote effective utilisation of resources.

- The Council Plan has recently been updated. It sets out the vision and values and describes a three-pronged approach - to provide leadership, enable individuals, families and communities to do the best for themselves, and to ensure the delivery of our own high quality services.
- The plan identifies four key ambitions for up to 2022:
    - every child and young person has the best possible start in life;
    - every adult has a longer, healthier and independent life;
    - North Yorkshire is a place with a strong economy and a commitment to sustainable growth that enables our citizens to fulfil their ambitions and aspirations; and
    - we are a modern council which puts our customers at the heart of what we do.
- The plan describes how the council needs to continue to change, details some of our recent achievements and sets out our priorities for action for the next four years. It also details where our funding comes from and on what it is spent.

4.3 2020 North Yorkshire Programmes primary aim is to improve the productivity within the Council by conducting transformational change in the way we work. For example, the Modern Council project integrates our approach to delivering savings by drawing together property, people and technology in to a single project. The approach includes not only modernising the IT kit, e.g. laptop, smart phones, video conferencing, etc. Also changing the way in which that technology is used, to rationalise our property portfolio, by introducing new ways of working, supported Organisational Development and modern HR policies. As the workforce decreases it is essential that the workload can be absorbed at this requires investment (in order to save).

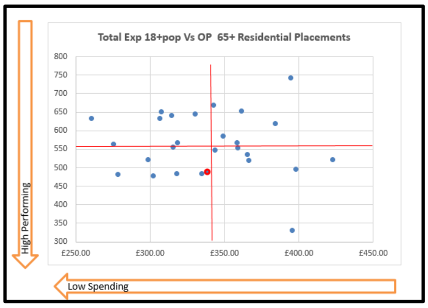
4.4 During the 2018/19 an exercise was undertaken to review and challenge both the performance and VfM of all services and teams across the council. The exercise was entitled Better Efficiency through Sustained Transformation (BEST). However, at the heart of the exercise were the core principals of VfM; Economy Efficiency and Effectiveness.

The Best process followed a five-step plan to arrive at the key outcomes of:

- Ensuring services are been delivered in line with the principals of VfM
- Any opportunities for improvement to services or development of new saving proposals were taken

The initial step of the exercise was a **Desk Top Analysis** of spend & benchmarked performance based on national finance returns (DHCLG RO forms) and a range of national data sets to provide broad brush indication of cost of service including a range of unit costs, typically at a cost per population level. This gave an initial indication of relative spend that could be compared between like authorities.

The second step was a **Desk Top performance analysis.** Performance data was analysed to give a performance take on the service, often combining a number of indicators to give a holistic view of the service. . This performance data was then combined with the financial data to produce a range of quadrant charts



The charts showed the relative position of North Yorkshire to other shire authorities on an axis of cost and performance. With the best performing authorities in the bottom left-hand quadrant.

Armed with this information, services were then challenged to look at the best in class and understand why they are high performing especially if performing better than North Yorkshire.

4.5 Following on from this analysis and conversations with the high performing authorities, the service's developed a **VFM Options Long List** of potential savings opportunities for discussion at MB/Programme Board. These long lists where then further refined and challenged to produce an **Options Short Listing.**

Having agreed on which of the options shortlist were to be taken forward, these were fed into the existing 2020 system for **Analysis & Business Case Development.**
An example of one saving to come out of the BEST process was the decision to revise the start date of winter maintence on call arrangements, saving some £130k, with no adverse effect on service delivery. BEST principals now form part of service planning.

4.6 A strengthened, more rigorous approach to service and team planning has been developed by the Strategy and Performance team for 2019/20 The revised approach draws on the BEST methodology, and provides services with further opportunity to bench mark their performance and spend against that of best in class. Financial and performance data is to be collated by a central resource using national, statutory data sets to compare North Yorkshire performance Services use this data to identify high performing peers from whom learning can be applied to improvement plans locally. Service planning now incorporates multi-year medium term financial planning targets, improving transparency and strengthening the relationship between spend, performance and improvement.

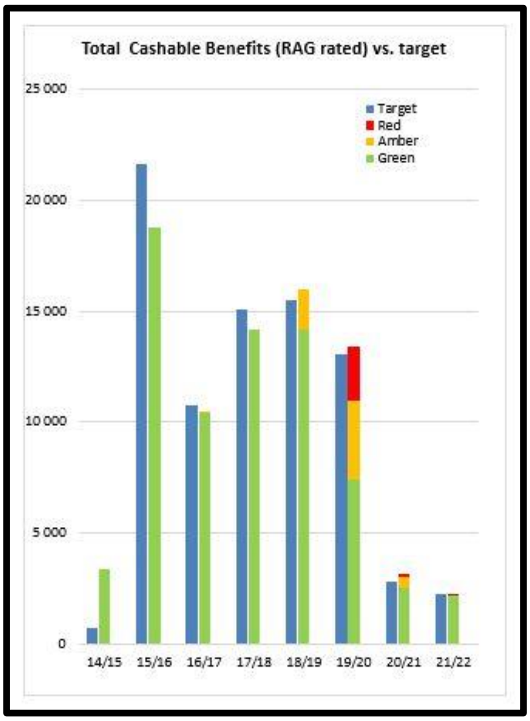
4.7 The Procurement and Contract Management Service has overall responsibility for all aspects of the procurement cycle, including policy, procedure and process. The Service is managed by the Head of Procurement & Contract Management who leads on procurement policy. The structure also includes a specific team for Contract Management. This role has oversight for Contract Management across the Authority, and continue to share best practice and training to Officers. The team has taken responsibility for managing a number of corporate contracts, including the operational hand over to P2P. In the main, and apart from contracts designated as corporate, contract management will continue to happen within Directorates, with support and guidance from the Procurement and Contract Management Service as required.

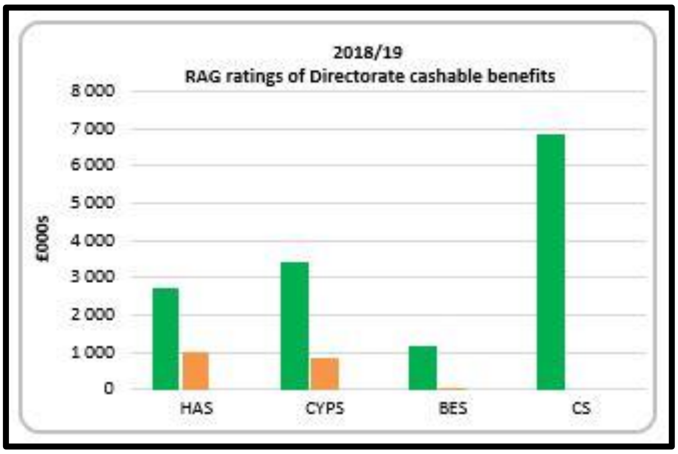
The Council's Procurement and Contract Management Service is ultimately responsible to the Corporate Procurement Board (CPB) within the Council's management structure. CPB owns the Council's corporate procurement strategy and the supporting strategy action plan. A new strategy and supporting action plan was published in November 2018. This sets out how the Council will achieve its procurement and contract management ambitions, aims and objectives over the next four years. Across the four year life of this new strategy the Procurement and Contract Management Service will manage spend of around £1.4 billion. This strategy will set out the plan to achieve best value, efficient use of resources, technology, innovation, and procedures to ensure we make the best use of that spend.

The Procurement and Contract Management Service has a target of delivering an additional £1.15 million cashable saving up to 2020. Savings secured to date against the savings target total £856,263, and there is a high degree of confidence in meeting the remaining target of £293,737 by March 2020.

,
4.8 In addition to the annual budget setting process, the Council also completes a three year Medium Term Financial Strategy (MTFS). The value of this is to look further ahead when planning resources with the aim of optimising them over multiple years. For 2019/20 Service planning has also been framed on the same three year period The purpose of this longer term view is to avoid the issue created by focusing solely on the short term is that decisions can inhibit longer term decision making which drives long term value. The executive summary of the MTFS highlights that we have already made savings totalling £141.9m. However, a further £44.3m is required from 2018-19 to 2021/22. From this, we have already identified £33.6m of savings, with £10.7m remaining. These aggregate savings of £186.1m broadly equate to over a third reduction in the council's spending power since 2011.

4.9 The charts below show the current position of the planned savings relating to the 2020 programme for North Yorkshire





As you can see for 2018/19 majority of benefits are rated as green (high confidence of achieving, Amber and Red indicating reducing levels of confidence of achieving savings) with a pipeline of agreed saving coming in over the next three years. A significant proportion of which is also rated as green

4.10 Council Resilience Model

In this ongoing period of austerity, a number of organisations have started to develop resilience models to demonstrate how authorities are coping with austerity and ultimately helping to prevent another council collapsing as in the case of Northamptonshire.

The statements below are from the councils MTFS for 2019/20 resilience

- *Overall various factors indicate that the Council has a relatively high level of financial resilience:*
- *The County Council currently has a reasonable level of reserves relative to its revenue expenditure although these are forecast to reduce significantly over the MTFS period if other funding or further savings are not identified;*
- *The County Council has maintained a relatively high level of budget provision for services outside of demand-led services (such as social care) meaning it has more flexibility to potentially identify further savings;*
- *The external auditor has given unqualified conclusions on the County Council's arrangements to secure value for money in previous years. This means the auditor is satisfied that NYCC had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources*.

4.11 The quarterly performance reports (Q reports) have continued to evolve over the year, based on comments from Management Board, Executive and the Executive Member with portfolio responsibility for Performance. The reports now have a with a stronger emphasis on challenging the directorates over their performance. The reports are themed around the four key ambitions of the council. With each ambition taking the lead for greater scrutiny once in the annual reporting cycle. A key part of the performance framework and thus the quarterly performance reports is the corporate KPI suite. Drawing them together and framing them in this way provides Management Board & Cabinet a broader overview of performance across the Council, as well as progress against the council ambitions. The suite has recently will be reviewed to ensure it remains focussed around the Councils ambitions.

4.11 Overview and Scrutiny also continue to provide an additional level of challenge. Quarterly performance briefings are provided to Chairs of Scrutiny Committee's (Scrutiny Board), and plans are in development to align elements of performance with individual Scrutiny Committee's work programme and forward plans.

4.12 During 2018/19 members of the Strategy and Performance Team have worked closely with the Data & Intelligence function of T&C, to develop a range of performance dashboards that help inform better management decisions.

5.0 Development Areas

5.1 The following items have been identified as principles that will further improve our ability to drive positive VfM. It is important that we leave no stone unturned in the pursuit of customer focus and more cost effective service delivery. This approach operates at all levels in the organisation, from strategic through to operational service and team. At each stage we need to test service delivery against four defined and customer focussed considerations;

- **Demand management** – can we deliver better customer outcomes by working differently with partners, communities and individuals to be more resilient and avoid the need for services. Where services are required are they delivered at the most appropriate level to meet customer needs.
- **Assessment gateway** – can we make our processes more customer focussed and effective by supporting people to access the right community or partner services to meet their needs, prior to or following contact with the Council.
- **Professional decision making** – Can we be more cost effective at delivering the most appropriate outcomes to meet customer need
- **Overall efficiency of process** – can we deliver better customer outcomes and reduce wasteful effort by improving our ways or working, systems and procedures

5.2 **Transformation ideas.**

- Management Board set ambitious expectations of the organisation, and have commissioned a series of top down targeted research papers. Research cuts across service areas and provides an unbiased consideration of opportunities for delivering innovative new ways of working.
- Research papers test the North Yorkshire operating context against class leading peers nationally and internationally and provides the basis for learning from the very best.

5.3 **Focussed Reviews –**

- Focussed reviews provide precise and data led approaches to reviewing processes across the organisation. Reviews use research on how the class leading peers deliver services, detailed analysis of North Yorkshire data and process mapping.
- Reviews are delivered by a core central team who work with services to provide an unbiased view of improvement opportunity. Including process redesign and revised performance and financial models.
- Initially, reviews are targeted at areas of overspend or poor performance, but eventually will provide universal coverage of all services on a 3 year rolling cycle.

5.4 Continued development of the Quarterly Reporting Framework (Q Reports) to improve transparency and highlight areas in need of performance improvement

5.5 To embed and improve the new format for service planning. Ensuring that the teams are learning from the beast in class and can answer the four questions above.

6.0 Recommendations

6.1 That the Audit Committee -

a) Consider the arrangements currently in place for assuring value for money;
b) Identify any areas for further development in the assurance arrangements;

c) Confirm if they are satisfied that this report adequately contributes to the requirements of fulfilling the terms of reference noted in section 2.1.

GARY FIELDING
Corporate Director – Strategic Resources
March 2019

Report prepared by Tony Law
Team Leader Strategy and Performance BES
Tel no. 01609 532375

ITEM 11

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 MARCH 2019

INFORMATION GOVERNANCE ANNUAL REPORT

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

1.1 To provide an update on Information Governance matters, developments in the County Council's Information Governance arrangements, details of related performance and compliance with relevant legislation.

2.0 BACKGROUND

2.1 Information governance is the framework established for managing, recording, protecting, using and sharing information assets in order to support the efficient and effective delivery of services. The framework includes management structures, policies and processes, technical measures and action plans. It helps to ensure information is handled securely and correctly, and provides assurance to the public, partners and other stakeholders that the County Council is complying with all statutory, regulatory and best practice requirements. Information is a key asset for the County Council along with money, property and human resources, and must therefore be protected accordingly. Information governance is however the responsibility of all employees.

2.2 The County Council must comply with relevant legislation, including:

The Data Protection Act 2018
The General Data Protection Regulation (GDPR)
Freedom of Information Act 2000
Environmental Information Regulations 2004
Regulation of Investigatory Powers Act 2000

2.3 In respect of Information Governance, the Audit Committee is responsible for:

- Reviewing all corporate policies and procedures in relation to Information Governance
- Overseeing the implementation of Information Governance policies and procedures throughout the County Council

2.4 Information governance has been identified as a high risk area on the corporate risk register. This is in part due to the consequences should the County Council suffer a serious data breach. As well as regulatory action, including the possibility of financial penalties, the County Council could also suffer significant reputational damage in such an event.

3.0 ROLES AND RESPONSIBILITIES

3.1 The County Council's information governance framework includes a number of specific roles, as follows:

<u>Senior Information Risk Owner (SIRO)</u>

The Corporate Director - Strategic Resources has been designated as the Senior Information Risk Owner (SIRO) with specific responsibility for ensuring risks relating to information governance are managed effectively. The SIRO reports on the County Council's management of information risks to Management Board and the Audit Committee.

<u>Corporate Information Governance Group (CIGG)</u>

The Corporate Information Governance Group (CIGG) exists to support the SIRO in the discharge of those responsibilities. CIGG provides overall direction and guidance on all information governance matters. CIGG meets every two months and reviews and updates the information governance strategy and policy framework, monitors information risks and emerging issues, develops and coordinates action plans and oversees related activities.

<u>Data Protection Officer (DPO) – Veritau</u>

All public authorities are required to appoint a Data Protection Officer (DPO). The DPO monitors and reports on compliance, and provides independent advice on data protection matters. The DPO also advises on Data Protection Impact Assessments and acts as the first point of contact for the Information Commissioner's Office (ICO) and data subjects. Veritau is the County Council's Data Protection Officer

<u>Data Governance Team</u>

The Data Governance team works with service areas to embed information governance policies and best practice. This includes providing support with the preparation and maintenance of information asset registers, Data Protection Impact Assessments and information sharing agreements. The team supports services to investigate data breaches. The team also delivers classroom based training to service teams and updates the mandatory data protection e-learning courses.

<u>Veritau Information Governance Team</u>

The Information Governance team within Veritau manage all Freedom of Information and Subject Access requests received by the County Council. The team coordinates responses, provides advice to services on the use of exemptions and responds to complaints. The team chairs the Multi Agency Information Sharing Protocol group and investigates all serious data breaches. The team also works with the Data Governance team to ensure the policy framework is kept up to date, raise awareness of data protection obligations, and respond to any emerging issues.

4.0 GENERAL DATA PROTRECTION REGULATION (GDPR) / DATA PROTECTION ACT 2018 (DPA)

4.1 The General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA) came into force in May 2018. A significant amount of work was undertaken to help prepare for the new legislation. CIGG monitored action plans and received regular updates on progress. Key actions completed or in progress include:

- Information Asset Registers are being prepared by each directorate. The registers identify all information assets and their associated information asset owners.
- Privacy notices are being prepared and published on the Council's website.
- The policy framework was reviewed and updated (see section 5 below).
- Training and guidance was provided to information asset owners.
- Contracts for supplies and services were reviewed to identify those involving the processing of personal information. A contract variation process has been developed and training provided to contract managers. The target is to complete all relevant contract variations by 30 June 2019.

5.0 POLICY FRAMEWORK

5.1 The following policies have been updated to reflect GDPR and DPA 2018, and approved by Management Board:

- Information Governance Policy Framework – Overview (IGP002)
- Information Transparency, Access, and Reuse Policy (IGP003)
- Data Protection Rights Policy (IGP004)
- Personal Privacy Policy (IGP005)
- Information Management Policy (IGP006)
- Information Security Overview (IGP009)
- Information Security Incident Management Policy (IGP011)

5.2 The Information Security Policy (PO 01) has been considered by CIGG and is now due to approved by Management Board. A Surveillance Policy (IGP007) has been drafted and will be presented to the next CIGG meeting for consideration. Work is also ongoing with the Social Media Acceptable Use (IGP008) and Information Security Classifications (IGP010) policies.

6.0 DATA BREACHES

6.1 Employees are required to report all information security incidents (data breaches) to Veritau, including near misses. The incidents are assessed, given a RAG rating and then investigated.

6.2 Green incidents are unlikely to result in harm but indicate a breach of procedure or policy; Amber incidents represent actual disclosure, but harm is unlikely to be serious; and Red incidents are sufficiently serious to be considered for self-reporting to the ICO. Following the introduction of the new 'Information Security Incident (Data Breaches) Management' Policy, the County Council has started categorising some incidents as 'white'. White incidents are where there has been a failure of security safeguards but no breach of confidentiality, integrity, or availability has actually taken place (i.e. the incident was a near miss).

6.3 The number of reported data security incidents since April 2017 is as follows:

Year	Quarter	Red	Amber	Green	White	Total
2017/18	Q1	1	14	5	0	20
	Q2	0	18	6	0	24
	Q3	3	10	10	0	23
	Q4	1	25	10	0	36
2018/19	Q1	3	30	9	3	45
	Q2	3	35	21	7	66
	Q3	3	34	21	6	64

6.4 Two data breaches have been reported to the ICO since 1 April 2018. In one case, the ICO decided to take no further action because it considered the risk of harm was low and the County Council had taken appropriate mitigating action. No response has yet been received from the ICO regarding the second case but, following investigation, the breach has been downgraded by the DPO.

7.0 CYBER SECURITY

7.1 The County Council completed a LGA self-assessment survey of its cyber security arrangements. This rated the Council's arrangements as Green. An action plan has now been prepared to address identified areas for improvement.

7.2 A number of test email phishing exercises have been completed during the year. The emails are designed to appear genuine and invite the recipient to click on a link and provide login details and passwords. Those employees who click on the link and go on to provide further information are identified. They are also redirected to a training site which explains the risks of phishing and provides further guidance on how to recognise suspicious emails.

7.3 The Technology & Change Service has maintained its certification of ISO 27001 which is an internationally recognised framework for Information Security ensuring that the Confidentiality, Integrity and Availability of data is maintained.

7.4 In an effort to ensure cyber security consistency across EU member states the European parliament adopted a 'Directive on Security of Network and Information Systems (NIS Directive)' which became enforceable in May 2018 to coincide with the introduction of the GDPR. Whilst the County Council is not classed as 'an operator of essential services', and therefore not directly compelled by the directive, it is likely that the Council may need to review and potentially update aspects of its cyber security arrangements to ensure compatibility when sharing data with partner agencies who are classed as operators of essential services (for example the police). The Council will work with partner agencies to ensure compliance with the directive's requirements.

8.0 SECURE DATA TRANSFER

8.1 The government's secure data network, Government Secure Internet, and the associated gcsx email domains will be discontinued as of 31 March 2019. The Council has implemented the required technical security changes to allow the normal @northyorks.gov.uk to be used for sending sensitive emails to other public sector bodies. The Council still has access to Egress where additional security is required for emails containing personal or confidential information which are sent to our residents and non-public sector bodies.

9.0 OFFICE MOVES / CONFIDENTIAL WASTE

9.1 A new 'audit' and authorisation process has been developed to improve the security of records where service teams are involved in office moves. This follows a number of data security incidents earlier in the last year. Veritau are checking some office moves to ensure the new process is being correctly followed.

9.2 Facilities Management has also reviewed and are improving processes for the collection of confidential waste. New locked confidential waste bins are due to be installed on the County Hall campus shortly.

10.0 RECOMMENDATION

10.1 Members are asked to note the progress made in developing the County Council's information governance arrangements during the year.

Report prepared by Max Thomas, Head of Internal Audit and Jon Learoyd, Head of Technology Solutions

GARY FIELDING
Corporate Director – Strategic Resources

County Hall
Northallerton

5 February 2019

Background Documents: Relevant reports considered by the Corporate Information Governance Group

Planning report to the Audit Committee for the year ending 31 March 2019

26 February 2019

Deloitte Confidential: Government and Public Services - for approved external use only

Contents

01 Planning report

02 Appendices

Partner introduction

The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our planning report to the Audit Committee for the 2019 audit. I would like to draw your attention to the key messages of this paper:

Audit Plan	• We have completed our handover with KPMG, including review of their prior year file. • We are developing our understanding of the Council through discussion with management and review of relevant documentation from across the Council. • Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk. • The audit plan for the North Yorkshire Pension Fund will be provided separately.
Key risks	• We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 11.
Regulatory change	• Our audit is carried out under the Code of Audit Practice issued by the National Audit Office.

Paul Thomson
Lead audit partner

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

- To communicate audit scope
- To provide timely and relevant observations
- To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy.

Internal controls and risks

- Review the internal control and risk management systems
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Monitor and review the effectiveness of the internal audit activities.
- Consider annually whether the scope of the internal audit programme is adequate.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

We have spent time with management understanding the current year matters and prepared our risk assessment for the audit and we will continue to keep this under review throughout the audit process.

Scoping

We anticipate our scope to be in line with the Code of Audit Practice issued by the NAO.

More detail is given on page 6.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report, including key audit matters if applicable.

Determine materiality

We have determined a preliminary materiality for the Group and Council only of £20.2m and £19.9m respectively. This is based on 2% of gross expenditure. We will report to you any misstatements above £1m. We will report to you misstatements below this threshold if we consider them to be material by nature.

Significant risk assessment

We have identified significant audit risks in relation to the Council. More detail is given on pages 11 to 16.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of North Yorkshire County Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of work and approach

We have four key areas of responsibility under the Audit Code

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the National Audit Office ("NAO"). The Council will prepare its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

We are also required to issue a separate assurance report to the NAO on the Council's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental accounts.

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we will review the remuneration report and annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Council.

Value for Money conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.
To perform this work, we are required to:

- plan our work based on consideration of the significant risks of giving a wrong conclusion; and
- carry out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VFM.

Our work therefore includes a detailed risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focussed on the risks identified.

We then provide a conclusion on these arrangements as part of our final reporting to you.

Group audit

We are undertaking our scoping of the components for the Group audit and will communicate directly with component auditors in relation to any work that we require them to carry out to support our audit opinion on the group accounts. In the prior year the auditors considered the following to be the significant subsidiary companies in the context of the group audit:

- Nynet Limited; and
- Yorwaste Limited.

We will notify the committee of any changes once we have completed our scoping and will reassess the significance of the subsidiaries throughout our audit.

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council complete the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures (including consideration of the recent CIPFA publication on streamlining local government accounts), as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.

Planning	Interim	Year end fieldwork	Reporting activities
Planning meetings to inform risk assessment; and agree on key judgemental accounting issues. Develop an understanding of key business cycles and changes to financial reporting. Review of key Council documents including Cabinet, Council and Audit Committee minutes.	Document design and implementation of key controls and update understanding of key business cycles. Substantive testing of limited areas including fixed asset additions, expenditure, payroll, certain areas of income. Update on value for money responsibilities. Scoping of components for the group audit.	Substantive testing of all areas. Finalisation of work in support of value for money responsibilities. Detailed review of annual accounts and report, including Annual Governance Statement. Review of final internal audit reports and opinion. Completion of testing on significant audit risks.	Year-end closing meetings. Reporting of significant control deficiencies. Signing audit reports in respect of Financial Statements. Whole of Government Accounts reporting. Issuing Annual Audit Letter.
Verbal update to the Audit Committee	2018/19 Audit Plan	Final report to the Audit Committee	Any additional reporting as required
December 2018	**February-March 2019**	**June-July 2019**	**July-August 2019**

Ongoing communication and feedback

Materiality

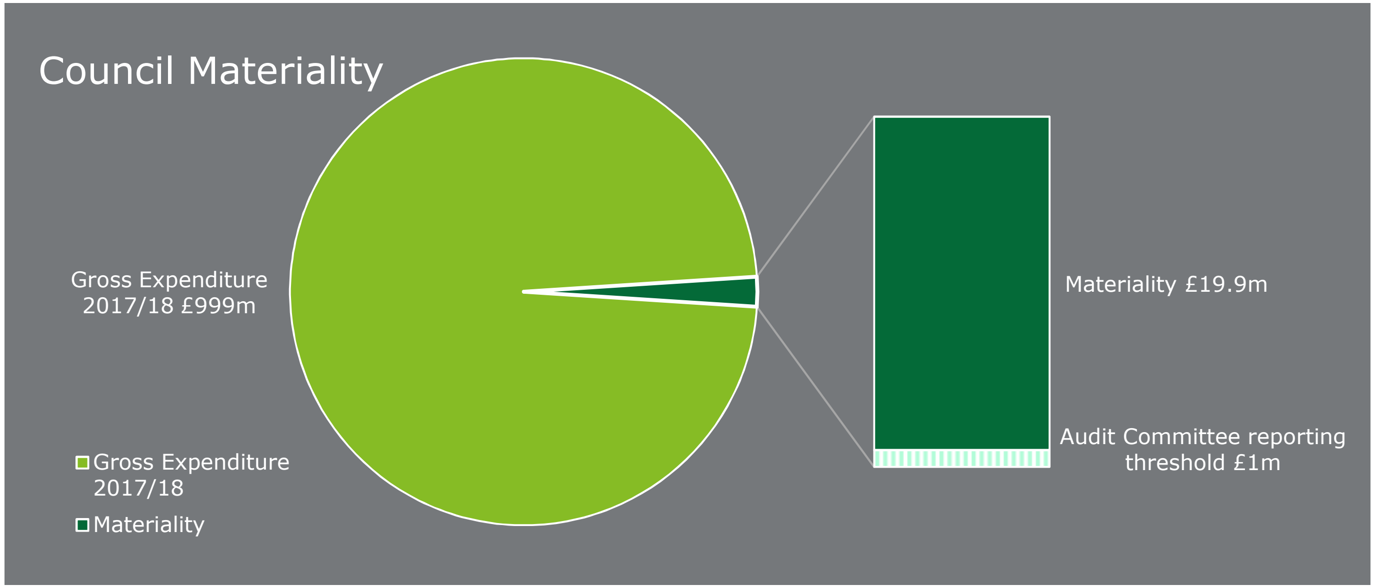
Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined preliminary materiality for the Group as £20.2m and the Council as £19.9m, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements. We will communicate the other component materialities to the committee once we have completed our group assessment.
- We have used 2% of gross expenditure based on the 2017/18 audited accounts as the benchmark for determining our preliminary materiality.
- We will re-visit the determined materiality based on the actual reported year end position.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £1m.
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the audit partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- the disclosures made by the Audit Committee in their previous Audit Committee report;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

Deloitte view

Management must carefully consider the principal risks, uncertainties and accounting estimates of the Council.

Principal risk and uncertainties

- Implementation of 2020 North Yorkshire Change Programme
- Resource management
- Information governance
- Devolution
- Ability to secure commercial opportunities
- Underachievement of savings
- Health & Safety

IAS 1 Critical accounting estimates

- Future funding levels
- Property valuations
- Recognition of schools fixed assets
- Pension liabilities
- Valuation of investments
- Provisions and contingencies
- Accounting for grant income
- Classification of leases

Changes in your business and environment

- Continued overspends in Children & Young People's Services;
- Increasing income generation from more commercial activities;
- Purchase of a range of investment assets; and
- Brexit.

NAO – Auditor Guidance Note 06

The National Audit Office has identified going concern, new accounting standards (IFRS15 and IFRS 9) and the guaranteed minimum pension as key issues for 2018-19. Whilst we do not consider these to represent significant risks we will carefully review the approach being taken by the Council to address these issues.

The next page summarises the significant risks that we will focus on during our audit. Of the significant risks identified in the prior year by KPMG we consider all the risks to be relevant in the current year except for their risks in relation to faster close and the accounting treatment of the Allerton Waste Recovery asset as they related to matters specific to the prior year rather than ongoing issues. We have also included expenditure as a new significant risk.

Significant risks
Significant risk dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Slide no.
Completeness and Cut off of expenditure	✓	✓	D+I	⚠	✓	12
Property Valuations	✓	✗	D+I	⚠	✓	13
Pension Liabilities	✓	✗	D+I	⚠	✓	14
Management Override of Controls	✓	✓	D+I	⚠	✗	15

At the planning stage we have not identified any significant Value for Money risks.

D+I: Assessing the design and implementation of key controls

⚠ Low level of management judgement ⚠ Moderate level of management judgement ⚠ High level of management judgement

Significant risks

Risk 1 – Completeness and cut-off of expenditure

Risk identified	Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that a fraud risk lies with the completeness and cut-off of expenditure (as well as management override of controls as detailed on page 15). We identify this as expenditure excluding payroll costs, depreciation and amortisation and expenditure which is grant backed. There is an inherent fraud risk associated with the under recording of expenditure in order for the Council to report a more favourable year-end position.
Our response	Our work in this area will include the following: • We will obtain an understanding of the design and implementation of the key controls in place in relation to recording completeness and cut-off of expenditure (excluding payroll, depreciation and amortisation, and expenditure which is grant backed); • We will perform focused testing in relation to the completeness and cut-off of expenditure (excluding the areas set out above) including detailed reviews of provisions and accruals; and, • We will review and challenge the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded expenditure.

Significant risks

Risk 2 – Property Valuations

Risk identified	The Council held £864m of property assets at 31 March 2017 which increased to £1,009m as at 31 March 2018. The increase was in part due to additions of £171m offset by £82m of disposals, and upwards revaluations of £56m as a result of the Council undertaking a valuation exercise during 2017/18. The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. Furthermore the Council will complete the valuation as at the 1 April 2018 and any changes to factors used in the valuation process could materially affect the value of the Council's assets as at year end. There is therefore a risk that that the value of property assets materially differ from the year end fair value.
Our response	Our work in this area will include the following: • We will test the design and implementation of key controls in place around the valuation of property; • We will review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis, by suitably qualified individuals, using appropriate inputs and that appropriate consideration and adjustment has been made to ensure that the valuation as at the valuation date is valid at the year end; • We will review the approach used by the Council to assess the risk that assets not subject to revaluation are materially misstated; • We will use our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions on its assets values between April 2018 and Year end; and • We will test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

Significant risks

Risk 3 – Pension Liabilities

Risk identified	The net pension liability is a material element of the Council's balance sheet. The council is an admitted body of the North Yorkshire Pension Fund. The valuation of the Scheme relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. Furthermore there are financial and demographic assumptions used in the calculation of the Council's valuation – e.g. the discount rate, inflation rates, mortality rates. These assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to the net pension liability accounted for in the financial statements.
Our response	Our work in this area will include the following: • We will obtain an understanding of the design and implementation of the key controls in place in relation to review of the assumptions by the Council and over information sent to the Scheme actuary; • We will evaluate the competency, objectivity and independence of the actuarial specialist; • We will review the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assesment of the variables used; • We will engage with the Deloitte Pension Fund audit team to gain further assurance over the completeness and accuracy of pension data provided to the Pension Fund; • We will review the pension related disclosures in the financial accounts; and, • We will consider the valuation of pension assets.

Significant risks

Risk 4 – Management override of controls

Risk identified	In accordance with ISA 240 (UK) management override of controls is a significant risk due to fraud for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions. The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness and cut-off of expenditure, Pension valuations and the Council's property valuations) and any one off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: • We will test the design and implementation of key controls in place around journal entries and key management estimates; • We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on characteristics which we consider to be of increased interest; • We will review accounting estimates on both an individual and cumulative level for biases that could result in material misstatements due to fraud; and, • We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Value for Money
Risk assessment

We are required to be satisfied the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Under the guidance issued by the National Audit Office, we are required to perform a risk assessment to identify any potential areas of significant risk to value for money that require further substantive work to be performed. Whilst we have not identified any significant risks at this time our assessment remains ongoing and, in particular, we will consider the Council's delivery against its savings targets:

Financial Sustainability

The Council expects that it will be required to deliver £40.3m of savings between 2019/20 and 2021/22, while currently proposals for £26.3m have been identified, there is an additional £14m which will need to be covered. Achievement of savings will play an important role in the Council's ability to meet its plan.

We will monitor the Council's financial performance throughout the year and achievement of savings, as well as the governance structures that are in place to support delivery of savings.

In addition to monitoring the above key area our continuous risk assessment will cover the areas noted below.

Our response

Our work in this area will include:

- Interviews with Director of Finance, and senior operational staff as required;
- Review of the Council's draft Annual Report, Annual Governance Statement and Council papers and minutes;
- Consideration of issues identified in our financial statements audit work;
- Consideration of the Council's financial results, including delivery of savings, and the Council's plan; and
- Review of any reports from regulators e.g. Ofsted, issued in the year.

We have not currently identified any significant VfM risks.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our audit plan, includes our consideration of key audit judgements and our planned scope.

Use of this report

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

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

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Deloitte LLP

Leeds | 26 February 2019

Appendices

Fraud responsibilities and representations

Responsibilities explained

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in expenditure and management override of controls as key audit risks for your organisation.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2019 in our final report to the Audit Committee.
Fees	There are no non-audit fees for 2018/19.
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have not other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Independence and fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2018 to 31 March 2019 are as follows:

	Current year £
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	72,757
Total audit	**72,757**
Audit related assurance services	-
Total assurance services	**-**
Total fees	**72,757**

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Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2018 the Financial Reporting Council ("FRC") issued individual reports on each of the eight largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2017/18 cycle of reviews.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, not just on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings, arising from the AQR inspections and our own internal reviews to a wider population, however, we need to do more to ensure these actions are embedded. In order to achieve this we have launched a more detailed risk identification process and our InFlight review programme. This programme is aimed at having a greater impact on the quality of the audit before the audit report is signed. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

The AQR's 2017/18 Audit Quality Inspection Report on Deloitte LLP

"The overall results of our reviews of the firm's audits show that 76% were assessed as requiring no more than limited improvements, compared with 78% in 2016/17. Of the FTSE 350 audits we reviewed this year, we assessed 79% as achieving this standard compared with 82% in 2016/17. We are concerned at the lack of improvement in inspection results. The FRC's target is that at least 90% of these audits should meet this standard by 2018/19."

"Where we identified concerns in our inspections, they related principally to aspects of group audit work, audit work on estimates and financial models, and audit work on provisions and contingencies. During the year, the firm has continued to develop the use of "centres of excellence", increasing the involvement of the firm's specialists in key areas of the audit. We have no significant issues to report this year in most of the areas we reported on last year."

"The firm has revised its policies and procedures in response to the revised Ethical and Auditing Standards. We have identified some examples of good practice, as well as certain areas for improvement."

The firm has enhanced its policies and procedures in the following areas:

- Increased use of centres of excellence ("CoE") involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- A new staff performance and development system was implemented with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

Our key findings in the current year requiring action by the firm:

- Improve the group audit team's oversight and challenge of component auditors.
- Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates.
- Strengthen the firm's audit of provisions and contingencies.

Review of firm-wide procedures. The firm should:

- Enhance certain aspects of its independence systems and procedures.

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North Yorkshire Pension Fund

External audit plan 2019

26 February 2019

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Contents

01 Planning report

02 Appendices

Partner introduction
The key messages in this report:

I have pleasure in presenting our inaugural Planning Report to the Audit Committee for the 2019 audit of the North Yorkshire Pension Fund ("the Fund"). I would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Scope

Our principal audit objective is to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of the Fund prepared under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

Key developments

As part of our audit planning procedures we have held planning meetings with key members of management. Additionally, we have reviewed the prior year audit files held by KPMG and will use this as part of our opening balances audit procedures. Key developments have been:

- The transfer of assets to 3 new unit linked investment mandates with Leadenhall totaling c. £160m. We will test the valuation of these at the year end as well as reviewing the key controls around valuation within any available controls report released by Leadenhall.
- The investment of a further c.£160m in cash (disinvested from equities) held with the North Yorkshire County Council Treasury Management.
- The full disinvestment, c.£170m, from the Standard Life GARS mandate.

We are also aware of the ongoing discussions around the transfer of Fund assets to the Border to Coast Pension Partnership pension pool. We will factor this into our audit if this takes place prior to the year end.

Significant audit risks

As we continue to accumulate knowledge of the Fund we have created our risk assessment so that our plan reflects those areas which we believe have a greater chance of leading to material misstatement of the financial statements.

Our significant audit risk will be management override of controls.

Auditing Standards require us to assume that management override and revenue recognition are significant risks for all our audits.

We have rebutted the risk of revenue recognition within the Fund as we consider that there is little incentive or opportunity for revenue (including investment income, transfers and contributions) to be fraudulently misstated and therefore there is limited risk of material misstatement arising due to fraud.

Please refer to page 12 for full details.

Partner introduction
The key messages in this report (continued)

Our response to the audit quality objectives in respect of the Fund are detailed below:

Our audit quality is managed by using dedicated pension scheme audit specialists. This is supplemented by appropriate specialists such as IT. This structure allows us to challenge key judgements taken in the preparation of the financial statements.

We plan and deliver an audit that raises findings early with those charged with governance. This is underpinned by mutually agreed timetables, detailed audit request lists and frequent communications with management.

Other audit focus areas	Although they have not been assessed as significant risks, our other main focus areas during the audit will be: 1. completeness and accuracy of contributions; and 2. completeness and valuation of investments. Please refer to pages 14-15 for full details.

Paul Thomson
Audit Partner

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

As a result of regulatory change in recent years, the role of audit committees has significantly expanded. We set out here a summary of the core areas of audit committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee ('Committee') in fulfilling its remit.

- To communicate audit scope
- To provide timely and relevant observations
- To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.

- Review of external audit findings, key judgements, level of misstatements.

- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.

- Assess the completeness and consistency of disclosures.

Internal controls and risks

- Review the internal control and risk management systems
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your Fund

Identify changes in your entity and environment

Following our planning meetings with, we have highlighted key developments on page 3. Our audit approach to key account balances is discussed on pages 11 to 15.

Scoping

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement and leads to the identification of our significant audit risk highlighted on page 3.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report.

Determine materiality

For the 2019 audit we estimate financial statement materiality of £33m. These figures are based on the 31 March 2018 signed financial statements. See page 9 for further details on how we established our materiality.

Significant risks assessment

Based upon our interaction with management and knowledge of the Fund and the industry, we have identified our significant audit risk for the 2019 audit and highlighted this on pages 3. This is discussed in more detail in this report on page 12.

Quality and Independence

We confirm we are independent of North Yorkshire Pension Fund. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn and initial comments from the interim and final visits will be shared with management as required. The following sets out the expected timing of our reporting to and communication with you.

Planning	Visits prior to year end fieldwork	Year end fieldwork	Post reporting activities
• Planning discussions • Discussion of fraud risk assessment • Audit team presents planning report to the Committee	• Document design and implementation of key controls and update understanding of key business cycles • Substantive testing of limited areas including benefits, contributions and expenditure	• Audit of Financial Statements • Year-end audit field work visit to NYPF • Year-end closing meetings with management • Completion of testing on significant audit risks	• Presentation of report and attendance at Committee meeting • Audit of Annual Report • Audit de-brief on the 2019 audit • Reporting of significant control deficiencies • Signing audit reports in respect of Financial Statements • Planning considerations for 2019 audit
2019 Audit Plan	Verbal update	Final report to the AC	Any additional reporting as required
October 2018 – February 2019	**February –March 2019**	**May – June 2019**	**July - September 2019**

Ongoing communication and fortnightly calls during the year end fieldwork phase

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Committee's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

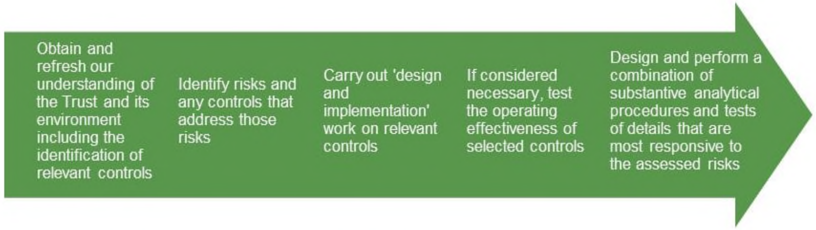
We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Fund's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.



Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Fund completes the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures, as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

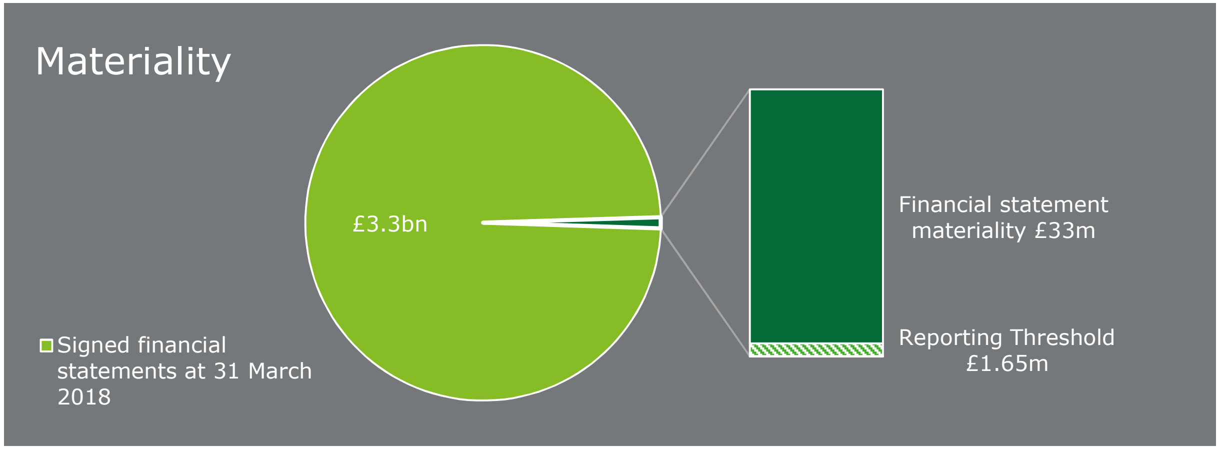
Materiality
Our approach to materiality

Basis of our materiality benchmark

- The audit partner has estimated financial statement materiality as £33m based on professional judgement, the requirement of auditing standards and the net assets of the Fund.
- We have used 1% of Fund net assets as at 31 March 2018 as the benchmark for determining our materiality levels.
- Note, as a result of any lower materiality that may be required for the provision of IAS 19 assurance letters. Our final materiality may be capped below the benchmark in this slide.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of 5% of financial statement materiality. We will report to you misstatements below this threshold if we consider them to be material by nature.
- We will determine materiality figures for the 31 March 2019 audit, and report them to those charged with governance on receipt of the draft 2019 financial statements.



Although materiality is the judgement of the audit partner, the Audit Committee members must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scoping
Risk dashboard

Risk	Material /pervasive	Fraud risk	Planned approach to controls	Level of management judgement	Use of Specialist?	Slide no.
Management override of controls	✓	✓	D+I	⚠	✓	12
Completeness and valuation of investments	✓	✗	D+I	⚠	✗	14
Completeness and accuracy of contributions	✓	✗	D+I	⚠	✗	15

Risks identified as significant are bold in the table above.

- Low levels of management judgement/involvement
- Medium levels of management judgement/involvement
- High degree of management judgement/involvement

D+I: Assessing the design and implementation of key controls
OE: Testing of the operating effectiveness of key controls

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Significant audit risks

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Significant risk
Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Response of those charged with governance

The financial reporting process in place has an adequate level of segregation of duties.

Deloitte response management override of controls risk identified

In order to address the significant risk our audit procedures will consist of the following:

- Using Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items;
- Making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Performing a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Ensuring that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- Testing the design and implementation of controls around the journals process and investment and disinvestment of cash during the year;
- Reviewing of related party transactions and balances to identify if any inappropriate transactions have taken place; and
- Reviewing the accounting estimates for bias, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management.

Audit focus areas

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Audit focus areas
Completeness and valuation of investments

Risk identified

The Fund holds a large and highly material portfolio of investments and due to the ongoing changes and numerous transactions within this portfolio, there is considered an increased risk of material misstatement.

Additionally, within this portfolio is a range of alternative investments, including c.£160m invested with Leadenhall during the Fund year. These funds do not have publicly available prices and are often infrequently priced increasing the risk of stale pricing.

As a result of this we consider the completeness and valuation of these to be an area of audit focus.

Response of those charged with governance

The Fund appoints various investment managers and BNYM as custodian for these investments. These parties have strong control environments in place.

Deloitte response to the risk identified

In order to address this area of audit focus, we will perform the following audit procedures:

- Review the design and implementation of key controls over the completeness and valuation of investments by obtaining the investment manager internal control reports (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Agree the year end valuations as reported in the financial statements to the reports received directly from the investment managers;
- Agree the year end holdings as reported in the financial statements to the reports received directly from the custodian;
- Agree registered funds and directly held investments to publicly available prices;
- Perform independent valuation testing for a sample of year end alternative investment holdings by rolling forward the valuation as per the latest audited account using cashflows and an appropriate index as a benchmark;
- Ensure appropriate stale price adjustments have been posted to the financial statements;
- Test the completeness of investments by agreeing a sample of sales and purchases transactions to the investment manager confirmations and to the bank statements; and
- Perform a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year, (i.e. sales, purchases, change in market value).

Audit focus areas

Completeness and accuracy of contributions

Risk identified

There is some complexity surrounding the accuracy and completeness of employee and employer contributions received by the Fund. The employer primary and secondary contribution rates are dictated by the actuarial valuation and these vary between the contributing employers. Employee contributions are based on varying percentages of employee pensionable pay, this can vary month to month and the Fund has no oversight of the individual employer payrolls.

As a result of this we would expect the accuracy, timeliness and completeness of contributions to be an area of audit focus.

Response of those charged with governance

The administration team monitors the due dates of contributions and that the correct amounts are received into the Fund bank account to ensure that payments are in accordance with the actuarial valuation.

Employers must also complete a contributions return confirming that the contributions paid during the year are accurate and complete.

Deloitte response to the risk identified

In order to address this area of audit focus, we will perform the following audit procedures:

- Consider the design and implementation of key controls over the contribution process;
- Perform an analytical review of the employer and employee normal contributions received in the year, basing our expectation on the prior year audited balance, adjusted for the movement in active member numbers, contribution rate changes and any average pay rise awarded in the year;
- Tie a sample of employer contributions received during the year back to the contribution rates stipulated by the 31 March 2016 actuarial valuation; and
- For a sample of active members across the Fund, we will recalculate individual contribution deductions to confirm that these were calculated in accordance with the rates stipulated in the by the LGPS and the 31 March 2016 actuarial valuation.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory updates, relevant to you

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and Fund risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

Our technical updates provide the Audit Committee with some insight in to relevant topical events in the pensions industry.

We will update you if there are any significant changes to the audit plan.

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

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

Paul Thomson

for and on behalf of Deloitte LLP

26 February 2019

Appendix 1: Fraud responsibilities and representations

Responsibilities explained

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the Committee, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risk section of this document, we have identified the management override of controls as the key audit risk for the Fund.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Committee:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- [We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.]
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

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Appendix 1: Fraud responsibilities and representations (continued)
Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to the Audit Committee regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

The Committee

- How the Audit Committee exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether the Audit Committee has knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of the Audit Committee on the most significant fraud risk factors affecting the entity.

Appendix 2: Independence and fees

A Fair and Transparent Fee

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund and will reconfirm our independence and objectivity to the Committee for the year ending 31 March 2019 in our final report to the Committee.
Fees	Our audit fee for the year ending 31 March 2019 is £19,206* for the Fund. The above fees exclude VAT and include out of pocket expenses.
Non audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

* This fee excludes the cost of providing IAS 19 letters to other local authority's that will be recharged by the Fund to the other local authorities. This fee is in the process of being quantified and will be discussed with management.

Appendix 3: Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2018 the Financial Reporting Council ("FRC") issued individual reports on each of the eight largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2017/18 cycle of reviews.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, not just on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings, arising from the AQR inspections and our own internal reviews to a wider population, however, we need to do more to ensure these actions are embedded. In order to achieve this we have launched a more detailed risk identification process and our InFlight review programme. This programme is aimed at having a greater impact on the quality of the audit before the audit report is signed. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

The AQR's 2017/18 Audit Quality Inspection Report on Deloitte LLP

"The overall results of our reviews of the firm's audits show that 76% were assessed as requiring no more than limited improvements, compared with 78% in 2016/17. Of the FTSE 350 audits we reviewed this year, we assessed 79% as achieving this standard compared with 82% in 2016/17. We are concerned at the lack of improvement in inspection results. The FRC's target is that at least 90% of these audits should meet this standard by 2018/19."

"Where we identified concerns in our inspections, they related principally to aspects of group audit work, audit work on estimates and financial models, and audit work on provisions and contingencies. During the year, the firm has continued to develop the use of "centres of excellence", increasing the involvement of the firm's specialists in key areas of the audit. We have no significant issues to report this year in most of the areas we reported on last year."

"The firm has revised its policies and procedures in response to the revised Ethical and Auditing Standards. We have identified some examples of good practice, as well as certain areas for improvement."

The firm has enhanced its policies and procedures in the following areas:

- Increased use of centres of excellence ("CoE") involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- A new staff performance and development system was implemented with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

Our key findings in the current year requiring action by the firm:

- Improve the group audit team's oversight and challenge of component auditors.
- Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates.
- Strengthen the firm's audit of provisions and contingencies.

Review of firm-wide procedures. The firm should:

- Enhance certain aspects of its independence systems and procedures.

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ITEM 13

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 MARCH 2019

PROGRESS ON 2018/19 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 2018/19 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 2018/19 Audit Plan on the 21 June 2018. The total number of planned audit days for 2018/19 is 1,100 (plus 956 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 2018/19 Audit Plan is progressing.

3.0 INTERNAL AUDIT PLAN PROGRESS BY 31 JANUARY 2019

3.1 The internal audit performance targets for 2018/19 were set by the County Council's client officer. Progress against these performance targets, as at 31 January 2019, 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 2019 (the cut off point for 2018/19 audits). **Appendix 2** provides details of the final reports issued in the period. A further 7 audit reports have been issued but remain in draft. Fieldwork is currently underway with a number of other scheduled audits.

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, 44 cases of suspected fraud or malpractice have been referred to Veritau for investigation. 15 of these are internal fraud cases, 21 relate to social care and 8 relate to external fraud, debt recovery, or abuse of the council's financial assistance scheme. A further 13 cases relate to applications for a school place. A number of these investigations are still ongoing.

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 2018 and 31 January 2019 is 967 compared with 1,027 requests received during the corresponding period in 2017/18. The County Council is currently below the performance response target of 95% for 2018/19 with approximately 83% of requests so far being answered within the statutory 20 day deadline. An action plan has been discussed at Management Board to improve performance in this area. The IGT also coordinates the County Council's subject access requests (SARs) and has received 328 such requests between 1 April 2018 and 31 January 2019 compared to 162 requests received during the corresponding period in 2017/18.

3.5 Veritau acts as the County Council's Data Protection Officer following the implementation of the General Data Protection Regulation (GDPR) on 25 May 2018. The IGT has been assisting the County Council to update the information governance policy framework in line with the requirements of GDPR and the new Data Protection Act 2018. Other work has included preparing data sharing agreements, recording data security incidents, investigating serious data security incidents, and providing advice and support to service departments. Veritau auditors have also continued to undertake a programme of unannounced compliance visits to County Council premises in order to assess staff awareness of the need to secure personal and sensitive information.

Variations to the 2018/19 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 last progress report. The variations follow discussions with management and reflect changes in current priorities:

Review of T21 payment process	+20 days
Reduction in allocation for Financial Processors (15 days)	-8 days
Contingency (12 days)	-12 days
Net change to plan	**nil**

Follow Up of Agreed Actions

3.7 Veritau follows up all agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. An escalation process is in place for when agreed actions are not implemented or where 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 satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.

External Assessment

3.8 In order to comply with the Public Sector Internal Audit Standards (PSIAS), internal auditors working in local government are required to maintain a quality assurance and improvement programme (QAIP). As part of this programme, providers are required to have an external assessment of their working practices at least once every five years.

3.9 An external assessment of Veritau's internal audit working practices was undertaken in November 2018 by the South West Audit Partnership (SWAP). SWAP is a not for profit council owned company operating primarily in the South West of England. As a large shared service internal audit provider it has the relevant knowledge and expertise to undertake external inspections of other shared services and is independent of Veritau. A copy their external assessment report is attached as **appendix 3**.

3.10 The report concludes that Veritau internal audit activity generally conforms to the PSIAS[1] and, overall, the findings were very positive. The feedback included comments that the internal audit service was highly valued by its member councils and other clients, and that services had continued to improve since the last external assessment in April 2014. However, the report does include some areas for further development. These areas, and initial draft proposed actions, are summarised in **appendix 4**.

4.0 **RECOMMENDATION**

Members are asked to note:

4.1 the progress made in delivering the 2018/19 Internal Audit programme of work and the variations agreed by the client officer.

4.2 the outcome from the external assessment of internal audit and the proposed action plan.

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

Max Thomas
Head of Internal Audit
Veritau Limited
County Hall
Northallerton

14 February 2019

[1] PSIAS guidance suggests a scale of three ratings, 'generally conforms, 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

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

PROGRESS AGAINST 2018/19 PERFORMANCE TARGETS (AS AT 31/1/2019)

Indicator	Milestone	Position at 31/1/2019
To deliver 93% of the agreed Internal Audit Plan	93% by 30/4/19	41.86%
To achieve a positive customer satisfaction rating of 95%	95% by 31/3/19	100%
To ensure 95% of Priority 1 recommendations made are agreed	95% by 31/3/19	100%
To ensure at least 30% of investigations completed result in a positive outcome (management action, sanction or prosecution)	30% by 31/3/19	54.17%
To identify actual fraud savings of £50k (quantifiable savings)	£50k by 31/3/19	£72,438
To ensure 95% of FOI requests are answered within the Statutory deadline of 20 working days	95% by 31/3/19	83.04%

FINAL 2018/19 AUDIT REPORTS ISSUED TO DATE

Audit Area	**Directorate**	**Overall Opinion**
Information security compliance – Jesmond House	Corporate	Substantial assurance
Information security compliance – North Yorkshire House	Corporate	Limited assurance
Risk management	Corporate	Substantial assurance
Transparency	Corporate	High assurance
Financial safeguarding procedures	HAS	No opinion
Deprivation of assets	HAS	Substantial assurance
Visits to Care Providers - Mencap (Scarborough)	HAS	No opinion
Visits to Care Providers - Avalon (Scarborough)	HAS	Substantial assurance
Visits to Care Providers - Botton Village – CVT	HAS	Substantial assurance
Visits to Care Providers – Eldercare	HAS	Substantial assurance
Visits to Care Providers – Foresight	HAS	Reasonable assurance
Visits to Care Providers - Botton Village - Avalon Shared Lives	HAS	Substantial assurance
Street lighting	BES	Substantial assurance
Statement of accounts – closedown	CS	High assurance
Developing Stronger Families April/May claim	CYPS	No opinion
Developing Stronger Families September claim	CYPS	No opinion
Developing Stronger Families December claim	CYPS	No opinion
Responsive works	Procurement	No opinion

FINAL REPORT

SELF-ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION

VERITAU GROUP

NOVEMBER 2018

COMPLETED BY:
SWAP INTERNAL AUDIT SERVICES

INTRODUCTION

In accordance with the International Standards for the Professional Practice of Internal Auditing "The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity" *(Performance Standard 1300).* In order to achieve this, the Head of Internal Audit Partnership commissioned a Quality Review of Veritau.

There are two suggested approaches to conducting the review:

- External Quality Assessment
- Self-Assessment with Independent Validation

Due to the prohibitive costs of an External Quality Assessment, recognised as achieving the highest level of quality assurance, Veritau opted for the second option, with independent validation being carried out through peer review. For the process to pass the 'independence' test the Manual recommends that "at least three organisations come together to form a pool of professionals, all of whom are qualified to conduct external assessments".

In order to achieve this Veritau worked together with the South West Audit Partnership (SWAP), the Devon Audit Partnership (DAP) and Hertfordshire's Shared Internal Audit Service (SIAS), whereby each Audit Team would carry out a self-assessment and then SWAP would act as Validators for Veritau, Veritau for SIAS, SIAS for DAP and DAP for SWAP.

SCOPE AND METHODOLOGY

As part of the preparation for the Quality Assurance Review (QAR), Veritau prepared a self-assessment document (utilising the Checklist for Assessing Conformance with the Public Sector Internal Auditing Standards (PSIAS) and the Local Government Application Note (LGAN)), providing links to necessary evidence to support their findings. The self-assessment team conducted a QAR of the internal audit (IA) activity undertaken by Veritau across its client organisations in preparation for validation by an independent assessor. The team also reviewed the IA activity's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes as well as the service Procedure Manuals for the delivery of Internal Audit reviews.

The principal objective of the QAR was to assess the IA activity's conformance to the International Standards for the Professional Practice of Internal Auditing (Standards), incorporating the PSIAS and LGAN.

The QAR Team from SWAP was made up of their Company Chief Executive – Gerry Cox who is a Chartered Auditor and Certified Auditor with c.30 years management experience in Internal Auditing. The second member of the team was SWAP's Director of Quality - Ian Baker, a Chartered Auditor and Fellow Member of the Institute of Management Services with over 15 years management experience in Internal Auditing.

In addition to reviewing the evidence supplied by the Self-Assessment Team the Review Team were on site for three days meeting with Veritau staff, client officers and Committee Members. In addition to interviewing the Head of Internal Audit and his Deputy a further twenty-two interviews were held, with eighteen of these representing client organisations and the other five being staff members.

OPINION AS TO CONFORMITY TO THE *STANDARDS*

It is our overall opinion that the Veritau IA activity 'Generally Conforms' to the *Standards* and Code of Ethics.

For a detailed list of conformances to individual standards, please see Attachment A. The Self-Assessment and QAR team identified opportunities for further improvement, details of which are provided in this report.

The IIA's *Quality Assessment Manual for the Internal Audit Activity* suggests a scale of three rankings when opining on the internal audit activity:

- "Generally Conforms," "Partially Conforms," and "Does Not Conform." The ranking of "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the Code of Ethics.

- "Partially Conforms" means that deficiencies in practice are noted that are judged to deviate from the *Standards* and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.

- "Does Not Conform" means that deficiencies in practice are judged to deviate from the *Standards* and the Code of Ethics, and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

A detailed description of conformance criteria can be found at the end of Appendix B.

SUMMARY OF POSITIVE OBSERVATIONS

It is our view that the IA activity environment provided by Veritau is well-structured and continues in its progression. The Standards are clearly understood, and management is taking a number of initiatives to ensure the service continues to provide added value to its clients. The vast majority of those interviewed spoke about the significant improvements they have seen in the service provided over recent years; providing evidence that the service is staying 'relevant' in ever changing times. A key contributor to this is that the Head of Internal Audit continues to be highly valued and respected by both client officers and staff; the Audit Managers and staff are also clearly valued with clients mentioning how quickly junior members of the IA team are brought up to speed.

To demonstrate how the service is viewed we have captured a flavour of some of the comments made to us:

- *Very professional….. the Head of IA is exceptional"* - s.151 Officer
- *"I have a good relationship with the Audit Manager, interaction is good, and we have an open door"* – Audit Committee Chair
- *"They tell me what I need to hear, not what I want to hear"* – s.151 Officer
- *"The Head of IA is the personification of professionalism"* – s.151 Officer
- *"Their reports are valuable, never trivia and never lacking in substance"* – Audit Committee Chair

Other positive observations include:

- The Head of Internal Audit is highly respected by both staff and client representatives.
- We received exceptionally positive feedback about Audit Managers and staff working on audits.
- Feedback indicates that the service is trusted and maintains a good organisational profile.
- We asked each of the eighteen client representatives to rate the internal audit service provided by Veritau, out of 10. The service received an average score of 8.2 which indicates it is highly valued by its clients.
- Veritau offer good internal training and development for new auditors.
- We identified in the last QAR that IT audit in Annual Plans was low. This has been addressed and Veritau have a pragmatic approach for developing and maintaining skills in this area of expertise.
- Other issues raised in the last QAR have been addressed.

Consequently, the observations and recommendations by the QAR Team captured below are intended to build on the foundations already in place in the IA activity.

OBSERVATIONS AND RECOMMENDATIONS

PART I – MATTERS FOR CONSIDERATION OF VERITAU MANAGEMENT

1. The IA Charter states that "The Head of Internal Audit will informally meet in private with members of the Audit and Governance Committee, or the committee as a whole as required. Meetings may be requested by committee members or the HoIA."

   Guidance from the IIA recommends that the Audit Committee (Board) "Meets with the Head of Internal Audit at least once a year without the presence of management." This does not happen as a matter of course with all clients of Veritau, however, the Charter allows this to happen and all Chairs of Audit Committees feel that if they wanted such a meeting, it would happen. Some teams have taken a 'purest' approach and hold at least one meeting a year with the Audit Committee or Chair without management being present. The HoIA audit should consider if Veritau should adopt a similar approach or be satisfied that such meeting will take place should it become necessary to do so. *(Attribute Standard 1111).*

2. The self-assessment identified that Council CEO's or Audit Committee Chairmen do not contribute to the performance appraisal of the HoIA. The responsibility for this rests with the Board of Directors, many of whom are Section 151 Officers for the representative Councils. In addition, reliance is placed on Customer Satisfaction results. To ensure that this is reflective of the key clients, the Chairman of the Board may want to consider the introduction of a 360-degree feedback process when assessing the HoIA's performance. *(Attribute Standard 1100).*

3. While the annual planning process is well documented, the self-assessment acknowledged that each piece of audit work is not prioritised. Doing so assists when decisions need to be taken on bringing in new pieces of work due to new and emerging risks. Consideration should be given to priority ranking audit work. *(LGAN requirement)*.

4. Whilst reliance may be placed on other sources of assurance, the self-assessment brought attention to the fact that there has not been an assurance mapping exercise to determine the approach to using other sources of assurance. Completion of such an exercise would ensure that work is coordinated with other assurance bodies and limited resources are not duplicating effort. *(Attribute Standard 2050).*

5. It is clear that the actions from the last review have been completed, however, the resulting Quality Assessment Improvement Programme (QAIP) should remain a live document to demonstrate continuous improvement. While the process of the QAIP is reported to the Audit Committee annually, the report does not outline the detailed actions with SMART targets for completion. *(Attribute Standard 1320).*

The following two matters are not related necessarily to Conformance with the Standards but are matters we picked up during our three-day visit that should be on the radar of the Veritau Board and be highlighted as part of the Company's risk exposure:

- **SUCCESSION PLANNING** – there is no doubt that the HoIA is highly respected and valued by clients. Whilst other audit managers are respected as well, it became clear to us that a lot of emphasis was placed on the existing HoIA, with one client asking, *"what will happen post Max"*. Clearly this could be a matter for serious concern, having all eggs in one basket, so to speak. The Veritau Board should satisfy themselves that there is a clear succession plan in place in the event of the current HoIA not being available to the Company for any reason.
- **STAFF RETENTION** – a number of clients raised concerns around the retention of staff. They were, as reflected in our discussions, very complimentary about the quality of the more junior staff being introduced to the Company, which is a credit to IA Managers and their induction of these individuals. However, it should be recognised that whilst some good initiatives have been taken in the recruitment and development of these staff, for example in the area of IT Audit, in a highly competitive market for Internal Auditors, and in particular those with specialist skills, the Company may become a 'nursery' for other providers paying higher salaries for experienced audit staff. The Veritau Board should consider whether their retention policies are robust and that the organisation structure allows sufficient progression to occur in order to retain staff as their experience and knowledge grows.

PART II – ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY OF VERITAU

1. As identified earlier, the service provided by Veritau is highly rated (8.2 out of 10). Of course, we know with any service there will be results above or below this perception and it is the same for some audit reviews. For those who said why such reviews would be considered for a lower score, feedback generally related to reporting, as follows:

    - Audit assessments could be more robust or more forceful. This came from a number of individuals who felt that sometimes the reporting may ‘placate’ the service too much. There is a difficult balance to find between not alienating people from the audit process, but robustly ‘telling it as it is’.

    - Closely aligned to this was the some felt reports could do with more ‘context’ rather than just straight in to the findings.

    - Finally, one minor ‘irritation’ was when auditors report “we have found”, when often it is the service that brought this to their attention.

2. All the staff interviewed were very happy with their role within the Company. We did, however, agree to feedback any points raised during these interviews for suggested improvement; some of which may already be on management’s radar and recognising that in each suggestion there is a balance to be reached:

    - Ensure the Auditor who completed the review completes the follow up. The individual who raised this was doing so from an efficiency point of view.

    - Allow more time to learn about the clients and become more organisationally aware.

    - Better sharing of findings and information across clients.

RECOMMENDATIONS

We recommend that:

- the Head of Internal Audit presents this report to the Veritau Board and each of its client organisations Audit Committees;

- the Head of Internal Audit incorporates the Observations and Recommendations from this report into the Quality Assessment Improvement Programme (QAIP) and that the QAIP is maintained as a live document;

- the Head of Internal Audit presents the QAIP to the Veritau Board and each of its client organisations Audit Committees and thereafter reported periodically to monitor progress and to demonstrate the continuous improvement of the service.

ATTACHMENT A
STANDARDS CONFORMANCE
EVALUATION SUMMARY

SWAP INTERNAL AUDIT SERVICES

Standards Conformance Evaluation Summary		("X" Evaluator's Decision)		
		GC	**PC**	**DNC**
OVERALL EVALUATION				
ATTRIBUTE STANDARDS				
Definition of Internal Auditing		X		
IIA Code of Ethics		X		
1000	**Purpose, Authority, and Responsibility**	X		
1100	**Independence and Objectivity**	X		
1110	Organisational Independence	X		
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200	**Proficiency and Due Professional Care**			
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	**Quality Assurance and Improvement Program**			
1310	Requirements of the Quality Assurance and Improvement Program	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement	X		
1321	Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"	X		
1322	Disclosure of Non-conformance	X		
PERFORMANCE STANDARDS				
2000	**Managing the Internal Audit Activity**			
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		

Veritau
Assurance Services for the Public Sector

Standards Conformance Evaluation Summary

		("X" Evaluator's Decision)		
		GC	**PC**	**DNC**
2050	Coordination		X	
2060	Reporting to Senior Management and the Board	X		
2100	**Nature of Work**			
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	**Engagement Planning**			
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	**Performing the Engagement**			
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	**Communicating Results**			
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*"	X		
2431	Engagement Disclosure of Non-conformance	X		
2440	Disseminating Results	X		
2500	**Monitoring Progress**	X		
2600	**Communicating the Acceptance of Risks**	X		

Definitions

GC – "Generally Conforms" means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – "Partially Conforms" means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organisation.

DNC – "Does Not Conform" means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

ATTACHMENT B
INDEPENDENT VALIDATOR STATEMENT

The validator was engaged to conduct an independent validation of the Veritau self-assessment. The primary objective of the validation was to verify the assertions made by the self-assessment team concerning adequate fulfilment of the organisation's basic expectations of the IA activity and its conformity to the International Standards for the Professional Practice of Internal Auditing (Standards) with reference to the Public Sector Internal Auditing Standards (PSIAS) and incorporating the Local Government Application Notes (LGAN).

In acting as validator, I am fully independent of the organisation and have the necessary knowledge and skills to undertake this engagement. The validation started on 12th October 2018 and culminated with a three-day site visit between the 5th and 7th November 2018. The validation consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with twenty-four individuals, including the Head of Internal Audit and his Deputy. These individuals are considered key stakeholders and included Audit Committee Chairs, Chief Executives, Section 151 Officers, Senior Service Managers and Veritau staff at various levels in the Company.

I concur fully with the IA activity's conclusions in the self-assessment from where some of the observations were identified.

Consideration of the matters raised, and implementation of the recommendations contained in this report will serve only to improve the effectiveness and enhance the value of the IA activity, which is already highly regarded, and ensure its full conformity to the *Standards.*

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Gerry Cox CMIIA

Chief Executive – SWAP Internal Audit Services

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Date 26th November 2018

Public Sector Internal Audit Standards – external assessment action plan

Assessors Recommendation	Proposed Action	Responsibility	Action By
Guidance from the IIA recommends that the Audit Committee (Board) "Meets with the Head of Internal Audit at least once a year without the presence of management." This does not happen as a matter of course with all clients of Veritau, however, the Charter allows this to happen and all Chairs of Audit Committees feel that if they wanted such a meeting, it would happen. Some teams have taken a 'purest' approach and hold at least one meeting a year with the Audit Committee or Chair without management being present. The HoIA audit should consider if Veritau should adopt a similar approach or be satisfied that such meeting will take place should it become necessary to do so. (Attribute Standard 1111).	While IIA guidance recommends this approach, there is no explicit requirement for annual meetings in the standards. And existing audit charters for each client already recognise that the Head of Internal Audit will meet with members of the relevant committee in private, as required. No formal changes to current arrangements are proposed. Although formal annual meetings will be arranged if individual committees express a preference for this arrangement.	NA	NA
The self-assessment identified that Council CEO's or Audit Committee Chairmen do not contribute to the performance appraisal of the HoIA. The responsibility for this rests with the Board of Directors, many of whom are Section 151 Officers for the representative Councils. In addition, reliance is placed on Customer Satisfaction results. To ensure that this	The chairman of the Veritau board will be asked to consider whether further input from client Chief Executives and Chairs of Audit Committees (or equivalent) is needed to meet the requirements of the standards.	Veritau Chair	May 2019

Assessors Recommendation	Proposed Action	Responsibility	Action By
is reflective of the key clients, the Chairman of the Board may want to consider the introduction of a 360-degree feedback process when assessing the HoIA's performance. (Attribute Standard 1100).			
While the annual planning process is well documented, the self-assessment acknowledged that each piece of audit work is not prioritised. Doing so assists when decisions need to be taken on bringing in new pieces of work due to new and emerging risks. Consideration should be given to priority ranking audit work. (LGAN requirement).	All work included in annual audit plans is considered a priority for audit in the coming year. However, it is recognised that further prioritisation may support decision making, for example where changes to audit plans are required. As part of the development of audit plans for 2019/20, we will explore how audits included in each plan are given a priority rating.	Deputy Head of Internal Audit and Audit Managers	April 2019
Whilst reliance may be placed on other sources of assurance, the self-assessment brought attention to the fact that there has not been an assurance mapping exercise to determine the approach to using other sources of assurance. Completion of such an exercise would ensure that work is coordinated with other assurance bodies and limited resources are not duplicating effort. (Attribute Standard 2050).	A review of potential sources of assurance for each client will be undertaken during the course of 2019/20. This will be used to assess the scope for more detailed assurance mapping at each client; and to help develop a standard approach if appropriate.	Deputy Head of Internal Audit and Audit Managers	April 2020

Assessors Recommendation	Proposed Action	Responsibility	Action By
It is clear that the actions from the last review have been completed, however, the resulting Quality Assessment Improvement Programme (QAIP) should remain a live document to demonstrate continuous improvement. While the process of the QAIP is reported to the Audit Committee annually, the report does not outline the detailed actions with SMART targets for completion. (Attribute Standard 1320).	Actions included in 2018/19 annual reports will be SMART. Progress against actions will be reported to the Veritau and VNY boards during the course of the year.	Head of Internal Audit	June 2019 (annual report)

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 MARCH 2019

2019/20 INTERNAL AUDIT PLAN CONSULTATION

Report of the Head of Internal Audit

1.0 PURPOSE OF THE REPORT

1.1 To seek Members' views on the priorities for internal audit in 2019/20, to inform the preparation of the annual audit plan.

2.0 BACKGROUND

2.1 In accordance with professional standards[1] and the County Council's Audit Charter, internal audit plans are prepared on the basis of a risk assessment. This is to ensure that the limited audit resources available are prioritised towards those systems and areas which are considered to be the most risky and/or which contribute the most to the achievement of the County Council's corporate priorities and objectives. Consultation with Members and senior council officers is an essential part of the risk assessment process. As in previous years, the Audit Committee is therefore being asked to identify any specific areas which should be considered a priority for audit.

3.0 AUDIT PLAN 2019/20

3.1 The risk assessment process takes account of the County Council's corporate and directorate risk registers, known risk areas (for example areas of concern highlighted by management), the results of recent audit work and other changes in County Council services and systems. The Committee will be asked to approve the final plan at the next meeting in June.

3.2 The Plan is intended to reflect the County Council's priorities for the coming year together with the financial and other pressures it faces. The Plan will include:

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[1] As set out in the Public Sector Internal Audit Standards and specific guidance on the application of those standards for local government, issued by CIPFA.

- systems where the volume and value of transactions processed are significant, or where the possible impact of any system failure is high, making the continued operation of regular controls essential;

- areas of known concern, where a review of risks and controls will add value to operations;

- areas of significant change. This may include providing direct support / challenge to projects, reviewing project management arrangements, or consideration of the impact of those changes on the control environment for example where the reduction in resources may result in fewer controls.

In particular, continued support will be given to individual transformation projects, ongoing data security compliance, health and social care integration, and increased commercial activities.

3.3 It is important that audit resources are used effectively and continue to focus on those areas which will add the most value. Continued dialogue and collaboration with management will therefore take place through the year to ensure that any new risks or changed priorities are identified and reflected in planned work. In addition, the audit approach will be forward looking, providing assurance to management in areas of change rather than concentrating on past events.

3.4 The views of senior management across the County Council are being canvassed in preparing the Plan. This consultation process is still ongoing and, where appropriate, the Plan will be amended to take their views into consideration. Indeed, the Plan will continue to evolve throughout the year to take account of changes in the Council's priorities and risk profile. The Plan should therefore be viewed as a relatively flexible document.

3.5 A Fraud and Loss Risk Assessment (included in a separate report on this agenda) has been prepared. Based on this Assessment, specific audits will also be included in the Plan to address areas where there is considered to be a greater risk of fraud and corruption.

3.6 The draft Plan will also be discussed with the County Council's external auditor, Deloitte so as to reduce the risk of overlap and to maximise the benefit of audit provision.

3.7 The outline Internal Audit Plan for 2019/20 is attached at **Appendix 1.** As consultation meetings are still ongoing this should not be regarded as the complete list of audits.

4.0 RECOMMENDATION

4.1 Members are requested to consider and comment on the outline Internal Audit Plan for 2019/20 and to identify any specific areas which should be considered a priority for audit.

MAX THOMAS
Head of Internal Audit
Veritau Limited
County Hall
Northallerton

6 February 2019

Background Documents: None

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

Appendix 1

NORTH YORKSHIRE COUNTY COUNCIL
DRAFT INTERNAL AUDIT PLAN 2019/20

CORPORATE / CROSS CUTTING **Days**

Savings Delivery

An audit of the effectiveness of savings plans, monitoring, reporting arrangements and achievement of targets. The audit will focus on budget savings identified within CYPS and HAS.

Information governance (data breaches)

An allocation of time to investigate significant data security incidents and/or provide support to other internal investigations.

Information governance (data security compliance)

A programme of unannounced information security compliance audits. The audits will cover a variety of council premises with a focus on those considered to be high risk.

Payroll / HR

An audit of payroll / HR controls and processing. The review will include the payment of annual increments, the changes to the grading system, and the processing of leavers.

Customer Complaints and Compliments

A review of the Council's processes and management of risks in respect of complaints and compliments, with a particular emphasis on HAS (supporting ongoing efficiency and other work by management in the directorate).

Commercial Investments

A review of the Council's arrangements for undertaking due diligence prior to the approval of commercial investments. The audit will also consider whether the arrangements are in line with relevant best practice guidance and the Code of Practice on Treasury Management in the Public Services.

Assurance Mapping

A review of other sources of assurance to ensure that duplication of work is minimised and audit resources are used effectively. This was a specific recommendation from Veritau's external PSIAS assessment in 2018.

IDEA data analytics and data matching

CORPORATE / CROSS CUTTING **Days**

Time to undertake data matching and analytics to review large scale data sets to improve data quality and to identify possible data inconsistencies.

HEALTH AND ADULT SERVICES <u>Days</u>

Harrogate Adult Community Services Health and Social Care Integration

A review of the effectiveness of the management of key risk areas and systems in respect of the integrated health and social care service model for adults in the Harrogate and Rural locality for 2019 and beyond.

Transferring of Care Programme

To review the management of risks, processes and controls in respect of the Council's responsibilities towards the Transferring of Care Programme.

Safeguarding

A review of controls and governance arrangements in place to manage the key risks relating to adult safeguarding.

Deprivation of Liberty Safeguards (DoLS)

To review management of the key risks, systems and procedures that ensure deprivation of liberty cases are effectively managed. Work will cover current performance, including assessment activity, as well as consider the emerging risks of new DoLS related legislation which is expected in 2020.

Continuing Healthcare

To review the management of risks, processes and controls in respect of the Council's responsibilities towards the Continuing Healthcare Programme. We will build on our knowledge from the detailed work we completed in 2017.

Financial Assessments

A review of risks and controls in respect of financial assessments including those that ensure financial assessments are promptly completed.

Baseline Assessment of Care Providers

The baseline assessment process reviews the contractual risks in respect of care providers. We will consider how information obtained from these reviews is used elsewhere in HAS to help reduce risk and increase awareness and knowledge. We will also review the spreadsheet system used to manage the process.

Visits to Care Providers

To provide support and ad-hoc guidance to officers on specific cases involving financial matters. The allocation of time will help provide assurance that appropriate financial controls are in place and operating effectively.

Suspension Process

To review the policies and processes in place for the suspension of care providers.

Hardship process

To review the policies and processes in place for when a care provider submits a request to the Council for hardship.

Public Health

To provide assurance on the management of key risks arising from the provision of Public Health services.

BUSINESS AND ENVIRONMENTAL SERVICES **Days**

Highways new arrangements

A review of the governance arrangements and management of risk in respect of the forthcoming new professional engineering and highways maintenance services contracts (the current arrangements end in 2020 and 2021).

Highways demobilisation

A review of the de-mobilisation arrangements managing the final year/two years of the professional engineering and highways maintenance services contracts.

Fleet Management

A review of the management of risk and effective use of management information in respect on the newly introduced systems and processes for the management of Council vehicles.

Concessionary Fares

A review of the systems and procedures for reimbursing providers for the provision of concessionary bus fares.

Allerton Waste Recycling Park

To provide assurance on the management of key risks in respect of the long term waste contract.

Countryside Services

A review of the policies, systems and prioritisation in respect of countryside services.

CENTRAL SERVICES **Days**

Creditors & Purchase to Pay

To support and provide challenge to the introduction of the new P2P processes via membership of the P2P Project Board. This will also include an audit review of the operational P2P process to ensure it is operating effectively.

Budgetary preparation and management

A review of the budget management process, building upon work in previous years, to ensure effective budget management is taking place and savings plans achieved

Debtors and Debt Management Project

A review of the debtors system, including the processes in place to ensure debtors accounts are raised promptly and accurately. This will also include time to provide support and challenge to the Debt Management Project

Purchasing cards and VAT

A review of the use of purchasing cards to ensure the issue of cards is monitored and that card payments are reviewed and reconciled. The audit will also review the recording of VAT on card purchases

Financial Processes

To review the adequacy of controls within automated financial processes including the BACs Bureau and Direct Debits.

Asset Management

To review the extent to which the Council's arrangements reflect best practice in the management of the assets they own.

CHILDREN AND YOUNG PEOPLE'S SERVICES **Days**

Home to school transport

Home to school transport continues to be a high risk area, with a number of projects taking place to try and manage costs whilst maintaining service standards. Previous audits have identified a number of weaknesses in this area, and this audit will therefore review the progress made in addressing these issues. The audit will also review the implementation of new processes to manage the commissioning of home to school transport.

Safeguarding

A review of controls and governance arrangements in place to manage the key risks relating to safeguarding.

Music Service

A review of the processes and controls for paying employees, collecting income and making other payments for the service

High Needs

The audit will review the evidence and challenge in place to support decision making processes, and how the service responds to information requests from relevant parties

Disabled Children's Service

A review of management and monitoring procedures in relation to direct payments and local commissioning budgets

Developing Stronger Families

The Council receives funding from MHCLG as part of the Troubled Families Programme. MHCLG guidance expects internal audit to carry out a 10% check of each funding claim submitted.

Schools Financial Value Standard (SFVS)

Provision to review the returns made by schools and to undertake any necessary follow up.

CHILDREN AND YOUNG PEOPLE'S SERVICES **Days**

Schools themed audits

Provision for 3 themed audits. Visits will be made to a number of schools to review their practices in each of the chosen areas with the aim of producing good practice guidance. Themed audits will cover procurement, cyber security and business continuity, and governance procedures. There will also be a small additional allowance for visits to individual schools with known issues.

Audit support and advice to schools

An allocation of time to respond to requests for advice and support from schools.

COMPUTER AUDIT **Days**

Technology and Change is accredited with ISO 27001. We have a developed an audit programme that will examine compliance in each area of ISO 27001 over a five year period. The audit(s) would also include testing to ensure compliance with the IT elements of the General Data Protection Regulation (GDPR) such as data retention schedules and privacy and protection of personally identifiable information.

Provision to provide support and advice on IT audit matters.

PROCUREMENT AND CONTRACT AUDIT **<u>Days</u>**

Support to the development of the Procurement Strategic Action Plan

To provide advice, guidance and challenge to the development and implementation of the procurement strategic action plan.

Specific procurement and contract management based reviews

An allocation of time to undertake individual procurement and contract management reviews.

NORTH YORKSHIRE PENSION FUND	**<u>Days</u>**
A programme of audits designed to review the management of Pension Fund risks, to be agreed with the Pensions Board.	
Provision to provide support and advice on Pension Fund related audit matters.	

COUNTER FRAUD AND CORRUPTION **Days**

An allocation of time to support the provision of counter fraud services, including:

Data Matching

Provision to coordinate data submission, check data validity, assess referrals, and investigate potential frauds in relation to the National Fraud Initiative (NFI) and other local data matching exercises.

Fraud Awareness

Provision to deliver an overall programme of work to raise awareness of fraud issues. Activities include targeted fraud awareness training and organising counter fraud publicity (both internal and external).

Fraud Detection and Investigation

Provision to undertake investigations into suspected fraud, corruption or other wrongdoing. Examples of the types of investigation work that may be undertaken include internal, procurement and social care related fraud.

Other Counter Fraud Related Work

Provision to provide other counter fraud and corruption work including:

- review of council counter fraud arrangements and policies
- the provision of support and advice to directorates in relation to fraud issues
- reporting on outcomes from counter fraud work.

INFORMATION GOVERNANCE **Days**

An allocation of time to support the provision of Information Governance services, including:

- the co-ordination of responses to Data Protection and Freedom of Information requests
- monitoring compliance with the Council's policy framework and data protection legislation (including undertaking a programme of audits) as Data Protection Officer
- the investigation of serious data security incidents, the coordination of remedial activity and liaison with the Information Commissioner's Office
- the provision of advice and guidance on all related matters (including privacy notices, data protection impact assessments, data sharing agreements and information asset registers).

OTHER CHARGEABLE AUDIT WORK	**Days**

Follow up

Provision to follow up previously agreed audit recommendations.

Corporate governance strategy

An allocation of time to support the development of the Council's corporate governance arrangements and the preparation of the Annual Governance Statement. The time allocation includes attendance at meetings of the Corporate Governance Officer Group.

Audit planning

A provision of time for the preparation of the Annual Audit Plan. Corporate Directors and service managers will be consulted as part of the planning process.

Audit support, advice and liaison

Provision to provide ongoing advice and support on the design, implementation and operation of appropriate controls and for the overall management of audit work in each directorate.

External audit liaison

Ongoing liaison with the external auditors to avoid duplication of effort and to maximise the overall benefit of the audit services provided to the County Council.

Audit Committee

A provision of time to prepare and present reports on internal audit and governance related work undertaken during the financial year. The reports will be presented in accordance with the agreed timetable of the Audit Committee. Time is also included to provide training to Members of the Audit Committee as and when required.

SUMMARY OF AUDIT DAYS 2016 TO 2020

Audit Area	2019/20	2018/19	2017/18	2016/17
Corporate / Cross cutting	160	200	250	240
Health and Adult Services	220	180	180	215
Business & Environmental Services	100	80	90	85
Central Services	110	130	110	165
Children & Young People's Services	212	212	212	214
Computer Audit	70	70	70	100
Procurement and Contract Audit	60	60	60	85
Pension Fund	50	50	50	50
Counter Fraud & Corruption	350	350	350	300
Information Governance	606	606	606	612
Other Chargeable Audit Work	108	118	112	136
TOTAL DAYS	**2046**	**2056**	**2090**	**2202**

Note – the 2019/20 allocation of days is indicative at this stage.

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 MARCH 2019

COUNTER FRAUD AND ASSOCIATED MATTERS

Report of the Head of Internal Audit

Discussion of Appendices 2 and 3 to this report are likely to include exempt information of the description in paragraph 7 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government [Access to Information] [variation] Order 2006

1.0 PURPOSE OF THE REPORT

1.1 To report on the number and type of investigations undertaken by Veritau Limited during 2018/19 to date.

1.2 To consider the outcome of the Annual Fraud Risk Assessment and the adequacy of the counter fraud policy framework.

2.0 BACKGROUND

2.1 Fraud is a serious risk to the public sector in the UK. When fraud is committed against the public sector, money is diverted from vital public services into the hands of criminals. Fraudsters are constantly refining their tactics and techniques in order to circumvent the checks and controls put in place to prevent fraud from occurring. In order to protect income and assets public sector bodies must continuously review and update develop their counter fraud arrangements.

3.0 NATIONAL PICTURE

3.1 CIPFA's annual Fraud and Corruption Tracker report was recently published (see Appendix 1). The report details levels of fraud detected by local authorities across the United Kingdom in 2017/18. Key findings include:

- Procurement fraud remains the highest perceived area of threat to local authorities. While only 142 cases were reported nationally, the average loss per case exceeded £36k. Of these cases, 25% related to insider fraud and a further 20% to serious and organised crime.

- The fastest area of growth in fraud detected was in business rates with a 142% increase nationally (£4.3m in 2016/17 increasing to £10.4m in 2017/18). The rise in the value of fraud detected could be as a result of more authorities participating in business rates data matching activities, uncovering more cases of fraud that had previously gone undetected.

- The number of Adult Social Care (ASC) fraud cases detected nationally increased by 65% between 2016/17 and 2017/18. The average loss to councils nationally in this area was £9k per successful investigation in 2017/18.

3.2 Procurement fraud and adult social care fraud will be areas of focus for the counter fraud team in 2019/20. Veritau has participated in a Cabinet Office Business Rates pilot with district councils in North Yorkshire as well as other regional partners in South and West Yorkshire. The benefits to the County Council from this work are also likely to increase as a result of proposed changes to Business Rates retention.

3.3 Central government is increasingly concerned about levels of fraud within the public sector. In October 2018, the Government Counter Fraud Profession (GCFP) was launched. This is a framework for counter fraud activity across government departments and related agencies. The government is also investing in over 10,000 counter fraud specialists to tackle fraud within central government. The GCFP does not currently involve local authorities, but it may be expanded in the future.

4.0 LOCAL TRENDS

4.1 Adult Social Care fraud is the largest area of fraud documented at the County Council in the last few years. In 2017/18, losses of £132k due to fraud were recorded and this upward trend continued in 2018/19 with £118k of losses identified in the first 10 months of the year.

4.2 Investigations into Adult Social Care fraud represent the highest proportion of active cases, with 42% of ongoing investigations as of 31 January 2019. The next two largest areas of investigation presently are internal fraud (27%) and false applications for school places (17%)[1].

4.3 Veritau has met its actual savings target in 2018/19 by producing £72k of savings to date versus an annual target of £50k. Actual savings represent money repaid to the council as well as losses prevented during the current financial year.

5.0 THE COUNTER FRAUD POLICY FRAMEWORK

5.1 The counter fraud policy framework includes the Counter Fraud Strategy, the Whistleblowing Policy, Fraud Prosecution and Loss Recovery (FPLR) Policy and the Anti Money Laundering (AML) Policy. The policy framework is reviewed annually in this report and updated to reflect best practice as required.

5.2 The Counter Fraud Strategy was updated in 2015 to reflect national guidance for local authorities. The strategy is expected to be updated in 2020/21 once a new national strategy for local government is published by the Ministry of Housing, Communities & Local Government.

5.3 The other policies that form part of the counter fraud policy framework have been updated in recent years (FPLR in 2015, Whistleblowing in 2016 and AML in 2017). Further changes to the AML policy may be considered once the money laundering, terrorist financing and tax evasion risk assessment has been completed.

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[1] The Counter Fraud Team commonly receives an influx of reports of potentially false school applications in January which does skew these figures.

6.0 INVESTIGATIONS UNDERTAKEN IN 2018/19

6.1 Concerns and allegations of possible fraud against the County Council are raised with Veritau through whistleblowing arrangements or directly by management, staff and the public. All credible allegations of fraud against the Council are investigated by Veritau's counter fraud team or are passed to relevant external organisations, e.g. the police, National Crime Agency, for them to investigate.

6.2 Not all investigations result in sufficient evidence being obtained to support the allegations whilst other concerns prove to be unfounded. However, where evidence is found of fraud or wrongdoing, the following factors are often relevant:

- the need for managers and staff to remain vigilant and to question unusual transactions or patterns of behaviour;
- the need for staff to protect physical and information assets;
- the importance of sharing information about possible fraud risks with other councils and/or with other agencies;
- the importance of pro-active counter fraud measures to help prevent and detect fraud;
- the need for managers and staff to report concerns to Veritau at the earliest opportunity.

6.3 Appendix 2 provides a summary of the number and type of investigations undertaken by Veritau during 2018/19 to date. The numbers of investigations completed in the previous four years are provided for comparison purposes.

7.0 FRAUD RISK ASSESSMENT

7.1 Veritau completes an annual Fraud Risk Assessment, designed to identify the areas of fraud that present the greatest risk to the County Council. The risk assessment is informed by national and regional reports of fraud affecting local authorities as well as the fraud reported to and investigated by the counter fraud team. The results of the assessment are used by:

- management to develop or strengthen existing fraud prevention and detection measures;
- Veritau to further revise the Counter Fraud Policy Framework;
- Veritau to focus future audit and counter fraud work.

7.2 Appendix 3 provides the outcomes of the 2018/19 Annual Fraud Risk Assessment exercise.

8.0 **RECOMMENDATIONS**

Members are asked to:

8.1 note the investigations carried out by Veritau in 2018/19 to date, and the outcome of the annual Fraud Risk Assessment.

M A THOMAS
Head of Internal Audit

BACKGROUND DOCUMENTS

Relevant audit and fraud reports kept by Veritau Ltd at 50, South Parade

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

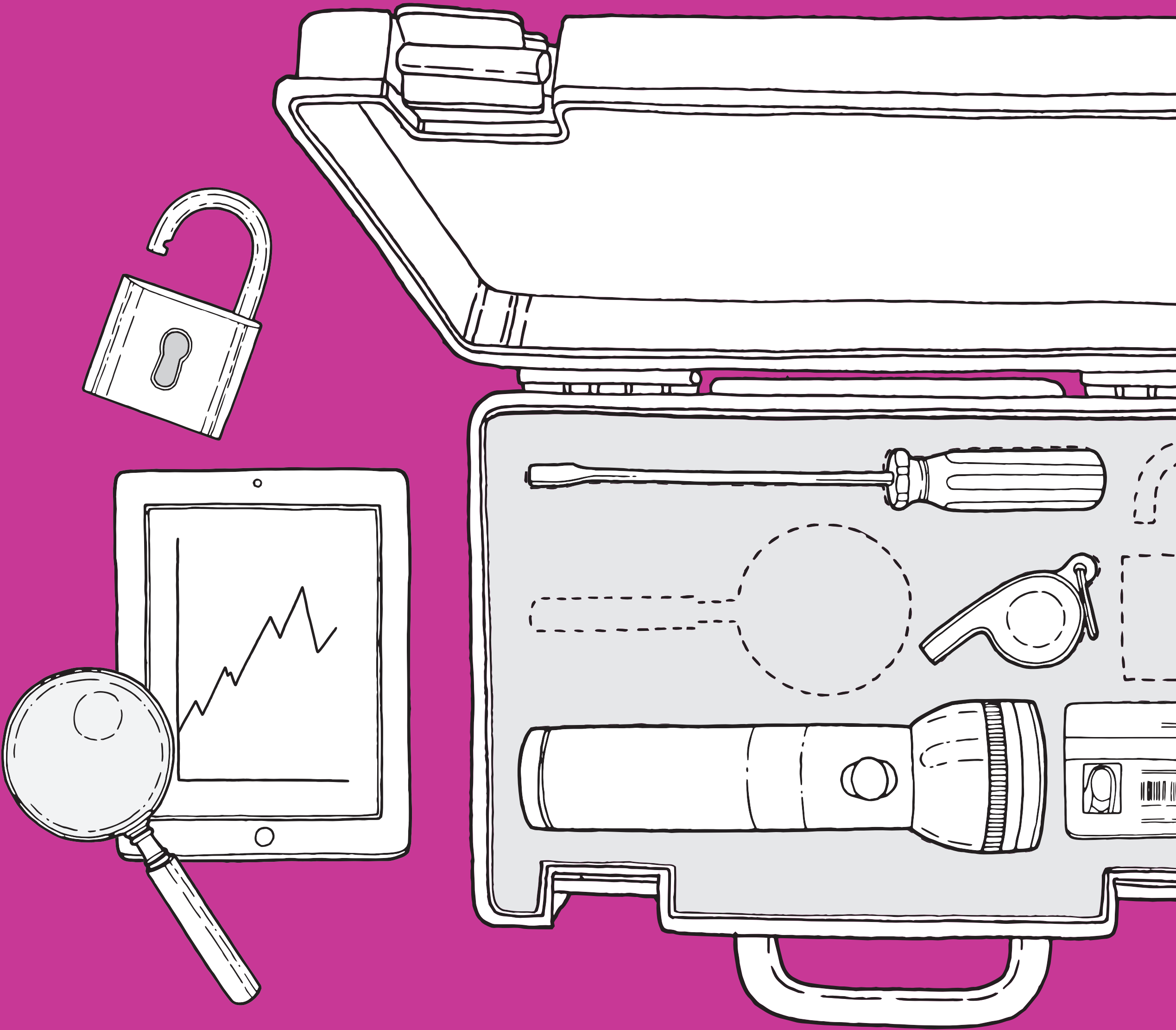
County Hall
Northallerton

7 March 2019

CIPFA The Chartered Institute of Public Finance & Accountancy

fraud and corruption tracker

Summary Report 2018



CIPFA COUNTER FRAUD CENTRE

Contents

Foreword

As guardians of public resources, it is the obligation of every public sector organisation in the UK to fight fraud and corruption. Taking effective measures in counter fraud amounts to much more than simply saving money, as illegitimate activities can undermine the public trust, the very social licence, which is essential to the ability of organisations to operate effectively.

The CIPFA Fraud and Corruption Tracker (CFaCT) survey aims to help organisations, and the public at large, better understand the volume and type of fraudulent activity in the UK and the actions which are being taken to combat it.

With support from the National Audit Office (NAO), the National Crime Agency (NCA) and the Local Government Association (LGA), these insights reflect the current concerns of fraud practitioners from local authorities in a bid to create a focus on trends and emerging risks.

Key findings this year, such as the continued perception of procurement as the area at most susceptible to fraud, and the growing cost of business rates fraud, should help councils allocate resources appropriately to counter such activity.

For this reason, the 2018 CFaCT survey should be essential reading for all local authorities as part of their ongoing risk management activity. It provides a clear picture of the fraud landscape today for elected members, the executive and the professionals responsible for countering fraud, helping their organisations benchmark their activities against counterparts in the wider public sector.

When councils take effective counter fraud measures they are rebuilding public trust, and ensuring our increasingly scarce funds are being used effectively to deliver services.

Rob Whiteman
Chief Executive, CIPFA

The survey was supported by:

NAO National Audit Office

NCA National Crime Agency

Local Government Association

The CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre (CCFC), launched in July 2014, was created to fill the gap in the UK counter fraud arena following the closure of the National Fraud Authority (NFA) and the Audit Commission. Building on CIPFA's 130-year history of championing excellence in public finance management, we offer training and a range of products and services to help organisations detect, prevent and recover fraud losses.

We lead on the national counter fraud and anti-corruption strategy for local government, Fighting Fraud and Corruption Locally, and were named in the government's Anti-Corruption Plan (2014) as having a key role to play in combatting corruption, both within the UK and abroad.

CIPFA COUNTER FRAUD CENTRE

Acknowledgements

CIPFA would like to thank all the organisations that completed the survey along with those that helped by distributing the survey or contributing case studies/best practices, including:

- Local Government Association
- Solace
- Home Office
- The Fighting Fraud and Corruption Locally board
- Salford City Council
- Sandwell Council

Introduction

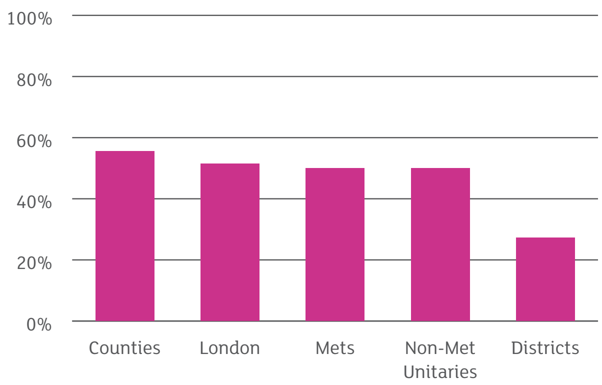
CIPFA recognises that each pound lost to fraud represents a loss to the public purse and reduces the ability of the public sector to provide services to people who need them. According to the Annual Fraud Indicator 2013, which provides the last set of government sanctioned estimates, fraud costs the public sector at least £20.6bn annually and of this total, £2.1bn is specifically in local government.

Fraud continues to pose a major financial threat to local authorities and working with partners such as the LGA and Home Office, we are seeing an emerging picture of resilience and innovation within a sector that is aware of the difficulties it faces and is finding solutions to the challenges.

In May 2018, CIPFA conducted its fourth annual CFaCT survey, drawing on the experiences of practitioners and the support and expertise of key stakeholders to show the changing shape of the fraud landscape. This survey aims to create a national picture of the amount, and types of fraud carried out against local authorities.

The results were received from local authorities in all regions in the UK, allowing CIPFA to estimate the total figures for fraud across England, Scotland, Wales and Northern Ireland.

Response rate



This report highlights the following:

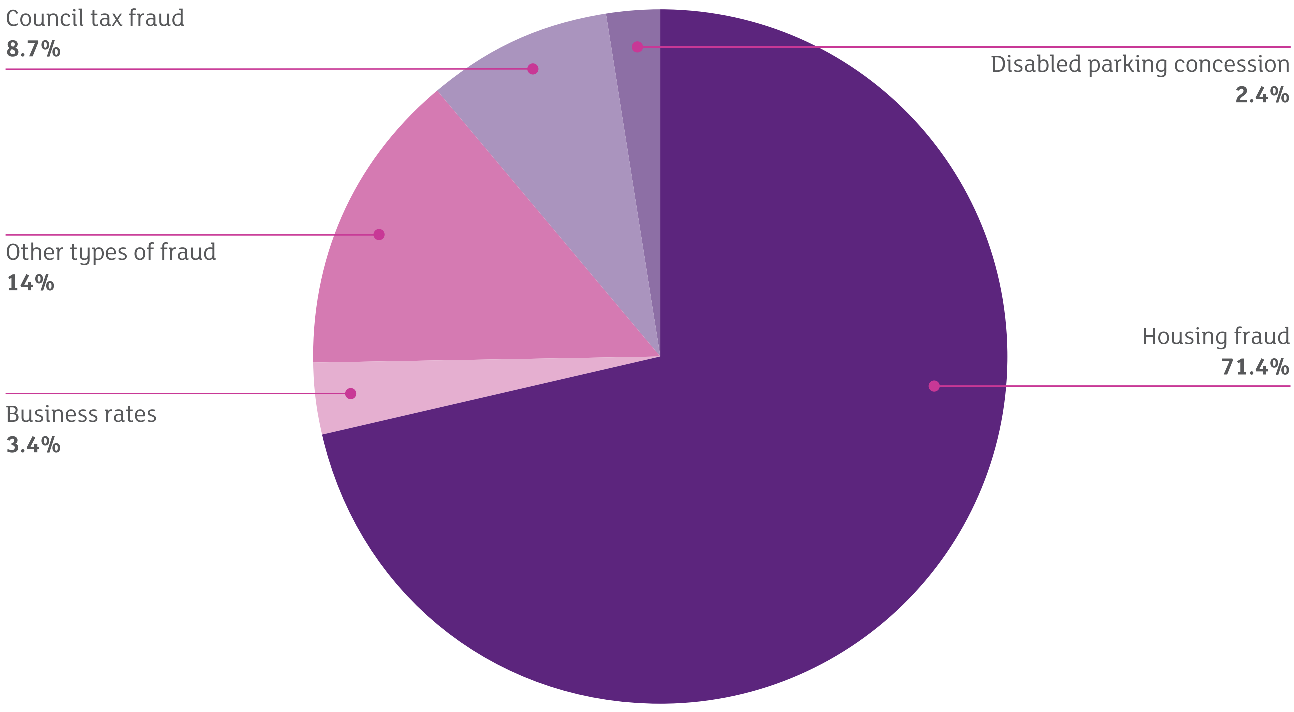
- the types of fraud identified in the 2017/18 CFaCT survey
- the value of fraud prevented and detected in 2017/18
- how to improve the public sector budget through counter fraud and prevention activities
- how the fraud and corruption landscape is changing including emerging risks and threats.

Executive summary

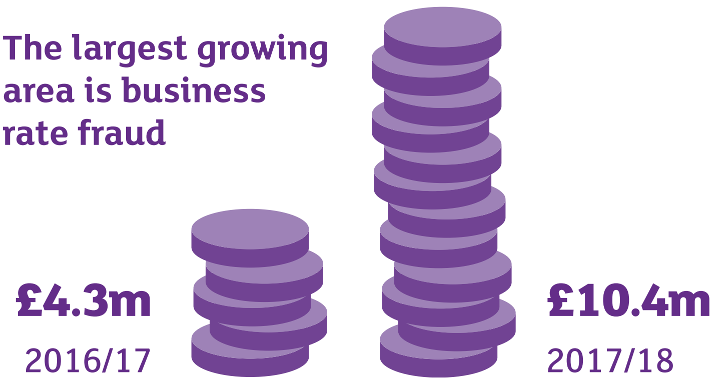
CIPFA has estimated that for local authorities in the UK, the total value of fraud detected or prevented in 2017/18 is £302m, which is less than the £336m estimated in 2016/17. The average value per fraud has also reduced from £4,500 in 2016/17 to £3,600 in 2017/18.

Respondents report that approximately 80,000 frauds had been detected or prevented in 2017/18, which is a slight increase from just over 75,000 frauds in 2016/17. The number of serious and organised crime cases, however, has doubled since 2016/17. This increase may suggest that fraud attacks are becoming more complex and sophisticated due to fraud teams becoming more effective at prevention. Alternatively, fraud teams may have developed a more effective approach for detecting or preventing such frauds.

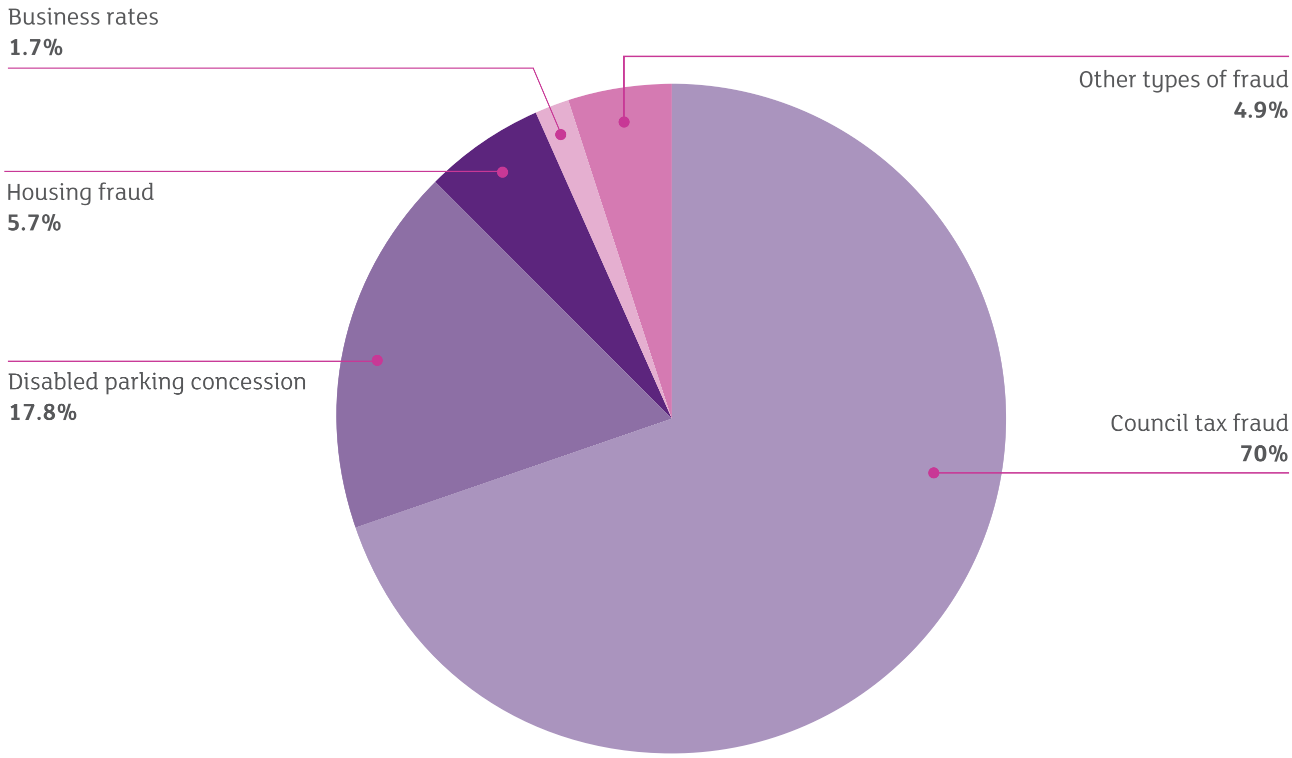
Estimated value of fraud detected/prevented



The largest growing area is business rate fraud



Detected fraud by estimated volume



For 2017/18, it has been highlighted that the three greatest areas of perceived fraud risk are procurement, council tax single person discount (SPD) and adult social care.

The largest growing area is business rates fraud, with an estimated £10.4m lost in 2017/18 compared to £4.3m in 2016/17. This is followed by disabled parking concession (Blue Badge) which has increased by £3m to an estimated value of £7.3m for cases prevented/detected in 2017/18.

Two thirds of identified frauds related to council tax fraud (66%), with a value of £9.8m, while the highest value detected/prevented from investigations was housing fraud, totalling £97.4m.

None of the respondents reported any issues with needing greater public support for tackling fraud, but some agreed that there needs to be an increased priority given within councils to tackling fraud.

Historically, it is shown that the more effective and efficient authorities are at detecting and preventing fraud, the more they will discover. This means that even if the levels of detection and prevention have increased, this is more likely due to a greater emphasis towards battling fraud rather than weak controls.

Main types of fraud

The 2017/18 CFaCT survey indicates that there are four main types of fraud (by volume) that affect local authorities:

1. council tax
2. housing
3 disabled parking (Blue Badge)
4. business rates.

Council tax

Council tax fraud has consistently been the largest reported issue over the last four years. As the revenue forms part of the income for local authorities, there is a clear correlation between council tax fraud and a reduction in the available budget.

It has traditionally been an area of high volume/low unit value, and this year's results reflect that trend. Council tax fraud represents the highest number of fraud cases reported by local authorities (66%), however, the total value of the fraud, estimated at £26.3m in 2017/18, accounts for only 8.7% of the value of all detected fraud.

The number of detected/prevented cases in the area of council tax SPD has reduced from 2016/17 levels, but we see a rise in the number of incidents and value in council tax reduction (CTR) and other forms of council tax fraud.

Estimated council tax fraud

	2016/17		2017/18	
	Volume	Value	Volume	Value
SPD	50,136	£19.5m	46,278	£15.8m
CTR	6,326	£4.8m	8,759	£6.1m
Other	674	£1.1m	2,857	£4.5m
Total	**57,136**	**£25.5m**	**57,894**	**£26.3m**

> Council tax fraud represents the highest number of fraud cases reported, but only 8.7% of the detected value.

Housing and tenancy fraud

Housing is expensive in many parts of the country, particularly in the South East of England, and therefore a low number of cases produces a high value in terms of fraud. However, councils record the income lost to housing fraud using different valuations, ranging from a notional cost of replacing a property set by the National Fraud Initiative (NFI) to the average cost for keeping a family in bed and breakfast accommodation for a year.

The difference in approach can lead to substantial differences. For example, two years ago, the NFI increased its standard notional figure to include other elements, and this increased the figure to £93,000, which is substantially larger than the previous figure of £18,000. This means that authorities may be using differing notional figures to calculate their average valuation of loss, which in turn leads to variations.

As housing has become increasingly expensive, the value of right to buy fraud is evidently higher than the other types of housing fraud. The value of this type of fraud is higher in London than in other parts of the country, with an estimated average of £72,000 per case compared to the rest of the UK combined, which has an estimated total of £50,000 per case.

However, the overall value and value of right to buy fraud has continued to decline – see table below.

Estimated housing fraud

Type of fraud	2016/17		2017/18	
	Volume	Value	Volume	Value
Right to buy	1,284	£111.6m	1,518	£92.0m
Illegal sublet	1,829	£78.5m	1,051	£55.8m
Other*	2,825	£73.3m	2,164	£68.3m
Total	**5,938**	**£263.4m**	**4,733**	**£216.1m**

*Other includes tenancy fraud that are neither right to buy nor illegal sublet, and may include succession and false applications.

Disability Faculty Grant and housing fraud

Ms C used her disabled child as a means of requesting money from the local authority to fit a downstairs bathroom in their home. This request was rejected but Ms C appealed and the matter was taken to court where it was revealed that she owned multiple properties and was actually living in a different county, where she was also claiming disability benefits. The appeal was denied and Ms C was instructed to pay over £16,000 in court costs within half a year.

Since 2016/2017, right to buy value has decreased by

18%

£216m

the estimated total value loss from housing fraud investigated during 2017/18

Disabled parking (Blue Badge)

Fraud from the misuse of the Blue Badge scheme has increased for the first time since CIPFA began running the survey, with the number of cases rising by over 1,000 between 2016/17 and 2017/18. The survey also indicates that 49% of Blue Badge fraud cases in 2017/18 were reported by counties.

There is no standard way to calculate the value of this type of fraud and some authorities, for example in London, place a higher value on the loss than others and invest more in counter fraud resource.

The cost of parking in London results in a higher value to case ratio, which is shown in the average value per case reported – £2,150 in comparison to counties who had an average of £449 per case.

In the event that a Blue Badge misuse is identified, the offender is often prosecuted and fined (which is paid to the court). Costs are awarded to the prosecuting authority but these may not meet the full cost of the investigation and prosecution, resulting in a loss of funds. This potential loss could explain why authorities do not focus as much attention on this type of fraud.

Blue Badge fraud is often an indicator of other benefit-related frauds, such as concessionary travel or claims against deceased individuals by care homes for adult social care.

49%

of Blue Badge fraud cases in 2017/18 were reported by counties

The average value per case reported is:

£2,150

in London

£449

in counties

Business rates

Business rates are a key cost for those who have to pay the tax and is the largest growing risk area in 2017/18; district councils have identified this as their fourth biggest fraud risk area for 2017/18 after housing fraud, council tax and procurement.

Business rates fraud represented 0.9% of the total number of frauds reported in 2016/17, with an estimated value of £7m. In 2017/18, this increased to 1.7%, with an estimated value of £10.4m.

The rise in the number and value of fraud detected/prevented since 2016/17 could be as a result of more authorities participating in business rates data matching activities, uncovering more cases of fraud that had previously gone unnoticed.

Data matching uncovers business rates fraud

The fraud team at Salford City Council undertook a business rates data matching exercise with GeoPlace. They used geographical mapping and other datasets to identify businesses that were not on the ratings list and were hard to find. The results identified seven potential business and the cases were sent to the Valuation Office Agency. Of the three returned to date, one attracted small business rate relief and rates on the other two were backdated to 2015, generating a bill of £90,000.

Other types of fraud

Fraud covers a substantial number of areas and within organisations these can vary in importance. This part of the report looks at specific areas of fraud that did not appear as major types of fraud within the national picture but are important to individual organisations. These include the following fraud types:

- adult social care
- insurance
- procurement
- no recourse to public funds/welfare assistance
- payroll, recruitment, expenses and pension
- economic and voluntary sector support and debt
- mandate fraud and manipulation of data.

Adult social care

The estimated value of adult social care fraud cases has increased by 21%, despite a fall in the average value per case – £9,000 in 2017/18 compared to £12,500 in 2016/17. This is a product of the significant rise in the number of frauds within adult social care which are not related to personal budgets. In recent years, many local authorities have funded training and introduced robust controls to mitigate the risk of fraud within personal budgets, which has resulted in a reduction of the estimated value per case to under £9,800 in 2017/18 compared to over £10,000 in 2016/17.

This year's survey also highlights a decline in the number of adult social care insider fraud cases, with 2% of cases involving an authority employee, compared to 5% last year.

Estimated adult social care fraud

Type of fraud	2016/17		2017/18	
	Volume	Value	Volume	Value
Personal budget	264	£2.7m	334	£3.2m
Other	182	£2.8m	403	£3.5m
Total	**446**	**£5.5m**	**737**	**£6.7m**
Average value per fraud		**£12,462**		**£9,123**

Insurance fraud

The number of insurance frauds investigated has decreased to 117 with an average value of over £12,000, which explains the significant decline also in the total value of fraud detected/prevented. The total estimated value of loss in 2017/18 is £3.5m compared to £5.1m in 2016/17.

Respondents who identified insurance fraud also reported two confirmed serious and organised crime cases and two insider fraud cases.

Considerable work has been done in the area of insurance fraud, and insurance companies are working with organisations to develop new ways to identify fraud and abuse within the system, which seems to be effective given the steady decline in volume and value of cases reported.

The Insurance Fraud Bureau was one of the first to use a data analytical tool to identify fraud loss through multiple data sources in the insurance sector. This best practice is now being applied to local government, for example by the London Counter Fraud Hub, which is being delivered by CIPFA.

Procurement fraud

In last year's survey procurement was seen as one of the greatest areas of fraud risk and this remains the same for 2017/18.

Procurement fraud takes place in a constantly changing environment and can occur anywhere throughout the procurement cycle. There can be significant difficulties in measuring the value of procurement fraud since it is seldom the total value of the contract but an element of the contract involved. The value of the loss, especially post award, can be as hard to measure but equally significant.

In 2016/17, there was an estimated 197 prevented or detected procurement frauds with an estimated value of £6.2m, which has now decreased to 142 estimated fraudulent cases with an estimated value of £5.2m. Twenty-five percent of reported cases were insider fraud and a further 20% were serious and organised crime.

Estimated procurement fraud

2016/17		2017/18	
Volume	Value	Volume	Value
197	£6.2m	142	£5.2m

CIPFA is working with the Ministry of Housing, Communities and Local Government (MHCLG) in an effort to understand more about procurement fraud and how we can develop more solutions in this area.

The Fighting Fraud and Corruption Locally Strategy 2016 to 2019 (FFCL) recommends that local authorities have a procurement fraud map and use it to define the stages at which procurement fraud can happen. This enables authorities to highlight low, medium and high potential risks and inform risk awareness training for the future.

The Competition and Markets Authority has produced a free online tool that studies the data fed in against bidder behaviour and price patterns, allowing the public sector to identify areas of higher risk within procurement. It then flags areas where there could be potential fraud and which should be investigated.

Welfare assistance and no recourse to public funds

In 2016/17 the estimated number of fraud cases related to welfare assistance was 74, increasing to an estimated 109 in 2017/18.

The number of cases in no recourse to public funding cases has reduced to an estimated 334 in 2017/18. The value of the average fraud has more than halved, falling to an estimated £11,500 in 2017/18 from £28,100 in 2016/17. This is reflected by the overall decrease in total value of the fraud to an estimated £4.3m.

Economic and voluntary sector (grant fraud) and debt

As funds become more limited for this type of support, it is even more important for fraud teams to be aware of the risks within this area.

In the 2016/17 survey, there were 17 actual cases of grant fraud reported, which increased to 24 cases with an average estimated loss of £14,000 per case for 2017/18.

Debt had 38 reported cases in 2017/18 valued at over £150,000, with one case of insider fraud.

Payroll, expenses, recruitment and pension

If we combine all the estimated results for these four areas, the total value of the fraud loss is an estimated £2.1m.

Measuring the cost of these frauds can be quite difficult as they carry implications that include reputational damage, the costs of further recruitment and investigations into the motives behind the fraud. As a result, some organisations could be less likely to investigate or report investigations in these areas.

Payroll has the highest volume and value of fraud out of these four areas for 2017/18, and 51% of the cases investigated or prevented were reported as insider fraud.

Recruitment fraud has the second highest estimated average per case of £9,400. This is quite an interesting area for fraud practitioners given their work is often not recorded as a monetary value as the application is refused or withdrawn. So, it is more likely the figure represents the estimated cases of fraud that were prevented in 2017/18.

Estimated fraud

	2016/17		2017/18	
Type	**Volume**	**Value**	**Volume**	**Value**
Payroll	248	£1.0m	167	£1.01m
Expenses	75	£0.1m	34	£0.03m
Recruitment	46	£0.2m	52	£0.49m
Pension	228	£0.8m	164	£0.57m
Total	**597**	**£2.1m**	**417**	**£2.10m**

Manipulation of data (financial or non-financial) and mandate fraud

CIPFA estimates that across the UK there have been 23 cases of manipulation of data fraud, which is less than half of the estimated cases in 2016/17.

There were 257 estimated cases of mandate fraud in 2017/18 compared to 325 estimated cases detected or prevented in 2016/17.

These areas of fraudulent activity are on the decline and advice from organisations such as Action Fraud is useful.

Serious and organised crime

The survey question on serious and organised crime was requested by the Home Office and was included in the 2017/18 survey in order to help establish how it is being tackled by local authorities.

Organised crime often involves complicated and large-scale fraudulent activities which cross more than one boundary, such as payroll, mandate fraud, insurance claims, business rates and procurement. These activities demand considerable resources to investigate and require organisations to co-operate in order to successfully bring criminals to justice.

The 2017/18 survey identified 56 cases of serious and organised crime which was over double the figures reported in 2016/17 – 93% of these cases were reported by respondents from metropolitan unitaries. This shows that in the bigger conurbations, there is higher serious and organised crime activity (as one would expect) which is why some of the emerging counter fraud hubs are using predictive analytics to detect organised crime.

The responses indicate that organisations share a great deal of data both internally and externally – 34% share with the police and 16% share with similar organisations (peers). In addition, of the organisations that responded, 47% identified serious and organised crime risks within their organisation's risk register.

93%

the percentage of respondents who share data externally

"Key data sharing partners are the police and other similar organisations."

Whistleblowing

This year, 74% of respondents said that they annually reviewed their whistleblowing arrangements in line with PAS 1998:2008 Whistleblowing Arrangements Code of Practice.

Of those questioned, 87% confirmed that staff and the public had access to a helpdesk and 71% said that the helpline conformed to the BS PAS 1998:2008. Respondents reported a total of 560 whistleblowing cases, made in line with BS PAS 1998:2008; representing disclosures in all areas, not just with regard to suspected fraudulent behaviour.

Resources and structure

Fraud teams are detecting and preventing more frauds despite reductions in their resources. It is therefore unsurprising to see 14% of respondents have a shared services structure; this approach has gained popularity in some areas as a method of allowing smaller organisations to provide a service that is both resilient and cost effective.

We have also seen a rise in authorities who have a dedicated counter fraud team – from 35% in 2016/17 to 51% in 2017/18. It is worth noting that there may be a potential bias in this figure as those who have a dedicated counter fraud team are more likely and able to return data for the CFaCT survey.

For organisations that do not go down the shared service route, the 2017/18 survey showed no growth in staff resources until 2020. This position would appear to be a change from 2016 when some respondents had hoped to increase their staff numbers.

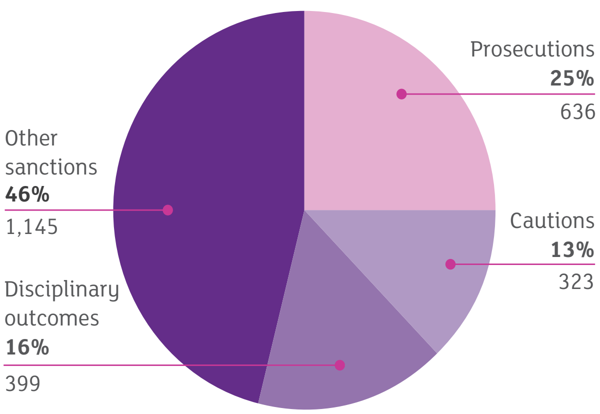
The number of available in-house qualified financial investigators has dipped slightly from 34% in 2016/17 to 31% in 2017/18. In addition, the percentage of authorities that do not have a qualified financial investigator increased from 35% in 2016/17 to 41% in 2017/18, which continues to show that resources for fraud are stretched.

Sanctions

Below are some of the key findings regarding sanctions:

- 636 prosecutions were completed in 2017/18 and of these, 15 were involved in insider fraud and 14 of those were found guilty
- the number of cautions increased from 9% in 2016/17 to 13% in 2017/18
- the percentage of other sanctions dropped from 53% in 2016/17 to 46% in 2017/18.

Outcome of sanctions



Fighting Fraud and Corruption Locally

The Fighting Fraud and Corruption Locally Strategy 2016–2019 (FFCL Strategy) was developed by local authorities and counter fraud experts and is the definitive guide for local authority leaders, chief executives, finance directors and all those with governance responsibilities.

The FFCL Strategy is available for councils to use freely so that everyone can benefit from shared good practice and is aimed at local authority leaders. It provides advice on how to lead and communicate counter fraud and corruption activity for the greatest impact, as well as covering resource management and investment in counter fraud operations.

The FFCL Board put forward specific questions to be included in the CFaCT survey to help measure the effectiveness of the initiatives in the FFCL Strategy and the responses are reflected in the diagrams below. The more confident respondents are about how fraud is dealt with in their organisation, the higher they marked the statement; the lower scores are towards the centre of the diagram.

Counter fraud controls by country

Over the past four years the same three issues have arisen when we have asked the question: *what are the three most significant issues that need to be addressed to effectively tackle the risk of fraud and corruption at your organisation?* These are:

- capacity
- effective fraud risk management
- better data sharing.

The FFCL's 34 point checklist covers each one of these areas and provides a comprehensive framework that can be used to address them. It can be downloaded from the CIPFA website.

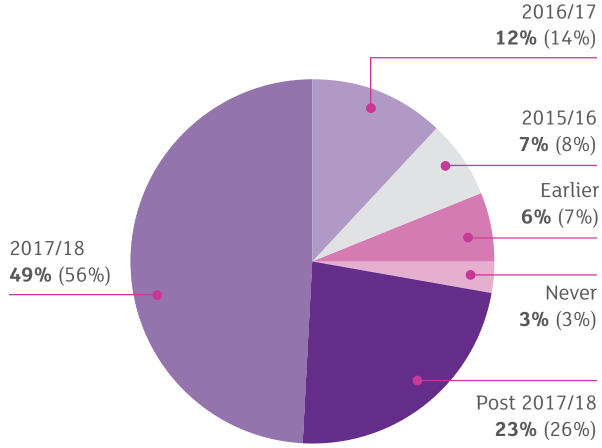
The FFCL Strategy recommends that:

There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.

By producing a plan and resources that is agreed by the leadership team, management are able to see gaps in capacity and identify areas of risk which enables them to make effective strategic decisions.

Last year, 10% of respondents did not know when their counter fraud and corruption plan was last approved, and this year this has dropped slightly to 9%. Of those who responded to the survey, 56% agreed their counter fraud and corruption plan was approved within the last 12 months, and 21% stated that their plan would be approved post 2017/18.

When did you last have your counter fraud and corruption plan approved?



CIPFA Recommends

- Public sector organisations need to remain vigilant and determined in identifying and preventing fraud in their procurement processes. Our survey showed this to be one of the prime risk areas and practitioners believe this fraud to be widely underreported.
- Effective practices on detecting and preventing adult social care fraud should be shared and adopted across the sector. Data matching is being used by some authorities with positive results.
- All organisations should ensure that they have a strong counter-fraud leadership at the heart of the senior decision-making teams. Fraud teams and practitioners should be supported in presenting business cases to resource their work effectively.
- Public sector organisations should continue to maximise opportunities to share data and to explore innovative use of data, including sharing with law enforcement.
- The importance of the work of the fraud team should be built into both internal and external communication plans. Councils can improve their budget position and reputations by having a zero-tolerance approach.

Appendix 1: Fraud types and estimated value/volume

The table below shows the types of frauds reported in the survey and the estimated volume and value during 2017/18.

Types of fraud	Fraud cases	% of the total	Value	% of the total value	Average
Council tax	57,894	70.0%	£26.3m	8.72%	£455
Disabled parking concession	14,714	17.8%	£7.3m	2.43%	£499
Housing	4,722	5.7%	£215.7m	71.43%	£45,677
Business rates	1,373	1.7%	£10.4m	3.45%	£7,580
Other fraud	1,165	1.4%	£10.9m	3.61%	£9,355
Adult social care	737	0.9%	£6.7m	2.23%	£9,124
No recourse to public funds	378	0.5%	£4.3m	1.43%	£11,445
Schools frauds (excl. transport)	285	0.3%	£0.7m	0.24%	£2,537
Insurance claims	281	0.3%	£3.5m	1.15%	£12,317
Mandate fraud	257	0.3%	£6.6m	2.18%	£25,618
Payroll	167	0.2%	£1.0m	0.33%	£6,030
Pensions	164	0.2%	£0.6m	0.19%	£3,492
Procurement	142	0.2%	£5.2m	1.71%	£36,422
Welfare assistance	109	0.1%	£0.0m	0.01%	£337
Debt	91	0.1%	£0.4m	0.12%	£3,948
Children social care	59	0.1%	£0.9m	0.31%	£15,800
Economic and voluntary sector support	57	0.1%	£0.8m	0.26%	£13,467
Recruitment	52	0.1%	£0.5m	0.16%	£9,510
Expenses	34	0.0%	£0.2m	0.01%	£867
School transport	30	0.0%	£0.1m	0.04%	£3,857
Manipulation of data	23	0.0%	N/A	N/A	N/A
Investments	2	0.0%	£0.0m	–	–

Appendix 2: Methodology

This year's results are based on responses from 144 local authorities. An estimated total volume and value of fraud has been calculated for all local authorities in England, Wales, Scotland and Northern Ireland. Missing values are calculated according to the size of the authority. For each type of fraud, an appropriate universal measure of size has been selected such as local authority housing stock for housing frauds.

From the responses, the number of cases per each unit of the measure is calculated and used to estimate the missing values. Then, for each missing authority, the estimated number of cases is multiplied by the average value per case provided by respondents to give an estimated total value. As an illustration, if the number of housing frauds per house is 0.01 and a missing authority has 1,000 houses in its housing stock, we estimate the number of frauds as 10. If the average value per case is £100,000 then the total estimated value of fraud for that authority is £1m.

Appendix 3: Glossary

Adult social care fraud

Adult social care fraud can happen in a number of ways but the increase in personal budgets gives a greater opportunity for misuse.

Investigations cover cases where:

- direct payments were not being used to pay for the care of the vulnerable adult
- care workers were claiming money for time they had not worked or were spending the allocated budget inappropriately.

Blue Badge fraud

The Blue Badge is a Europe-wide scheme allowing holders of the permit to parking concessions which are locally administered and are issued to those with disabilities in order that they can park nearer to their destination.

Blue Badge fraud covers abuse of the scheme, including the use of someone else's Blue Badge, or continuing to use or apply for a Blue Badge after a person's death.

Business rates fraud

Business rates fraud is not a transparent landscape for the fraud investigator, with legislation making it difficult to separate between evasion and avoidance. Business rates fraud covers any fraud associated with the evasion of paying business rates including, but not limited to, falsely claiming relief and exemptions where not entitled.

Cautions

Cautions relate to a verbal warning given in circumstances where there is enough evidence to prosecute, but it is felt that it is not in the public interest to do so in that instance.

Council tax fraud

Council tax is the tax levied on domestic properties and collected by district and unitary authorities in England and Wales and levying authorities in Scotland.

Council tax fraud is split into three sections.

- **council tax single person discount (SPD)** – where a person claims to live in a single-person household when more than one person lives there
- **council tax reduction (CTR) support** – where the council tax payer claims incorrectly against household income
- **other types of council tax fraud** – eg claims for exemptions or discounts to which the council tax payer has no entitlement.

Debt fraud

Debt fraud includes fraudulently avoiding a payment of debt to an organisation, excluding council tax discount.

Disciplinary outcomes

Disciplinary outcomes relate to the number of instances where as a result of an investigation by a fraud team, disciplinary action is undertaken, or where a subject resigns during the disciplinary process.

Economic and voluntary sector (grant fraud)

This type of fraud relates to the false application or payment of grants or financial support to any person and any type of agency or organisation.

Housing fraud

Fraud within housing takes a number of forms, including sub-letting for profit, providing false information to gain a tenancy, wrongful tenancy assignment and succession, failing to use the property as the principle home, abandonment, or right to buy.

Insurance fraud

This fraud includes any insurance claim that is proved to be false, made against the organisation or the organisation's insurers.

Mandate fraud

Action Fraud states that: "mandate fraud is when someone gets you to change a direct debit, standing order or bank transfer mandate, by purporting to be an organisation you make regular payments to, for example a subscription or membership organisation or your business supplier".

Manipulation of data fraud

The most common frauds within the manipulation of data relate to employees changing data in order to indicate better performance than actually occurred and staff removing data from the organisation. It also includes individuals using their position to change and manipulate data fraudulently or in assisting or providing access to a family member or friend.

No recourse to public funds fraud

No recourse to public funds prevents any person with that restriction from accessing certain public funds. A person who claims public funds despite such a condition is committing a criminal offence.

Organised crime

The Home Office defines organised crime as "including drug trafficking, human trafficking and organised illegal immigration, high value fraud and other financial crimes, counterfeiting, organised acquisitive crime and cyber crime".

Procurement fraud

This includes any fraud associated with the false procurement of goods and services for an organisation by an internal or external person(s) or organisations in the 'purchase to pay' or post contract procedure, including contract monitoring.

Right to buy

Right to buy is the scheme that allows tenants that have lived in their properties for a qualifying period the right to purchase the property at a discount.

Welfare assistance

Organisations have a limited amount of money available for welfare assistance claims so the criteria for applications are becoming increasingly stringent. Awards are discretionary and may come as either a crisis payment or some form of support payment.

Whistleblowing

Effective whistleblowing allows staff or the public to raise concerns about a crime, criminal offence, miscarriage of justice or dangers to health and safety in a structured and defined way. It can enable teams to uncover significant frauds that may otherwise have gone undiscovered. Organisations should therefore ensure that whistleblowing processes are reviewed regularly.

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INVESTORS IN PEOPLE

2018/09

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 MARCH 2019

INTERNAL AUDIT WORK FOR THE CENTRAL 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 January 2019 for the Central Services 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 the Central Services Directorate, 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.

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 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 JANUARY 2019

3.1 Details of the 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 other assignments for the directorate. This work has included;

- Providing advice on various control issues (including a review of fraud risks associated with Blue Badges);
- Providing advice and comments as part of the review of Financial Procedure Rules;
- Attendance at various project groups and providing advice and support to a variety of specific project leads;
- Meeting regularly with Central Services management and maintaining ongoing awareness and understanding of key risk areas.

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**. Where the audits undertaken focused on value for money or the review of specific risks as requested by management then no audit opinion will be given.

3.4 It is important that 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 The programme of audit work is risk based. 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 RECOMMENDATION

4.1 That Members consider the information provided in this report and determine whether they are satisfied that the internal control environment operating in the Central Services Directorate is both adequate and effective.

MAX THOMAS
Head of Internal Audit

Veritau Ltd
County Hall
Northallerton

13 February 2019

BACKGROUND DOCUMENTS

Relevant audit reports kept by Veritau Ltd at 50 South Parade, Northallerton.

Report prepared by Ian Morton, Internal Audit Manager, Veritau and presented by Max Thomas, Head of Internal Audit.

Appendix 1

FINAL AUDIT REPORTS ISSUED IN THE YEAR ENDED 31 JANUARY 2018

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Capital Programme Management	Substantial Assurance	The purpose of this audit was to provide assurance to management that the capital programme is monitored consistently and appropriately across directorates, that variations are made correctly and remedial action is taken where necessary. The audit focussed predominantly on capital projects within BES and CYPS.	March 2018	There was consistent approval of the capital programmes for BES and CYPS. The monitoring of the CYPS capital programme was effective although it was less intensive than the BES programme. Forms are required to be completed for 'Significant Scheme Variations'. However, a number were not submitted to the Capital Programme Coordinator 28 days prior to work commencing on site as required. Some forms also had insufficient details recorded to explain the variation in scheme spend.	**One P2 action was agreed** **Responsible Officer** Network Strategy Manager Any continued individual instances of failure to comply will be followed up with the relevant officers.
B	Business Continuity and Disaster Recovery	Reasonable Assurance	The purpose of this audit was to review the completeness of Business Continuity Plans across all service areas and to review the debrief exercises after each Business Continuity incident, to ensure that any lessons learnt are acted upon.	December 2018	The audit found that progress has been made to put into place, and embed, a more robust Business Continuity framework. This is evident by the recently introduced service level debrief process. Business Continuity is also now a standing item on the agenda of the Corporate Risk Management Group (CRMG).	**Three P2 and one P3 action was agreed** **Responsible Officer** Head of Resilience and Emergencies Senior Emergency Planning Officer Business Continuity Champions will actively monitor services to ensure that

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					Recent Business Continuity plans have not been uploaded onto the SharePoint site, as per guidance, with a significant number over three years old. The Corporate Business Continuity Plan included a small number of out of date references. The Business Continuity Policy and Strategy Guidance had also not been refreshed since September 2015. There was a lack of detail on the actual processes in place relating to recently introduced processes such as the debrief report process after an incident, or the training exercises form completion report. A template and relevant guidance has been provided to each directorate on the requirements for recording training undertaken. However, completed templates were not available for a number of service areas.	Business Impact Assessments (BIA's) and Incident Management Plans (IMP's) are kept up to date and are fit for purpose. The North Yorkshire County Council Corporate Business Continuity Strategy, Policy and Guidance documentation is being reviewed. The Senior Resilience and Emergencies Officer will conduct quarterly reviews on the frequency and level of BC training conducted and recorded.
C	Members' Allowances	No Opinion Given	The audit reviewed a sample of travel and subsistence expense claims and Basic and Special Responsibility Allowances	March 2018	We found instances where there was a lack of detail disclosed in mileage and subsistence claims. Overall no issues were found with Basic or Special Responsibility Allowances (SRA).	Information was provided to the s151 Officer for further follow up.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
D	Revenue Budget Management	Substantial Assurance	The audit examined whether budgets were set in an organised and consistent manner and at the correct level. The audit also reviewed whether budget managers had the necessary tools to forecast and manage their budgets effectively and whether budget monitoring was delivering the required objectives. The audit focused on high risk budgets within HAS and CYPS.	May 2018	At the time of the audit, some budget managers were not finding the new system easy to use and so were reverting to less effective methods e.g. using spreadsheets for budgeting purposes. Some managers also felt they still needed additional training and support to use the system properly.	**Two P3 actions were agreed** **Responsible Officer** Head of Strategic Finance Head of Internal Clients The issue log was reviewed and proposed actions reported to Finance Leadership Team Visits were arranged to other organisations where there is evidence that the system is being used more effectively. Budget managers were encouraged to undertake online courses. 'Classroom' training resource now developed with positive feedback and rolled out to teams.
E	Creditors	Reasonable Assurance	The audit reviewed the process for making changes to bank accounts. The new P2P process was reviewed and documented.	May 2018	The verification process for changes to bank account details was not being followed consistently, and on occasion there was insufficient documentation to verify what checks had taken place. Potential issues with the authorisation levels within P2P were also highlighted, although at the time of audit, there was insufficient data to identify the	**One P3 action was agreed** **Responsible Officer** Business support team leader To improve evidence of checks, the team will stamp changes with verified in red – date and initial. Guidance notes also to be reviewed.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					impact of the current authorisation levels. This will be reviewed in a later audit.	
F	Pension Fund Income	Reasonable Assurance	The audit reviewed the processes for receiving payments, and reconciling the payments received to Oracle and the bank account. A detailed review of payments relating to strain payments and member transfers was carried out.	June 2018	The audit found that generally correct and timely payments are received from employers, although some issues were identified for some of the smaller employers particularly academy schools. Processes are in place for monitoring and recovering strain on the fund payments from employers and for the monitoring and recording of income from member transfers in from previous employment. The main issues identified relate to the efficiency of processes in place, and processes used to share information and to request work from other service areas.	**Three P2 and six P3 actions were agreed** **Responsible Officer** Head of Pensions Administration Senior Accountant A new Employer Contributions spreadsheet has been produced for 2018/19. A shared data transfer area has been created. Issues related to the production of debtors invoices will be addressed as part of the Income and Debt Management project.
G	Pension Fund Expenditure	Reasonable Assurance	The audit reviewed the processes in place for setting up new pension payments, ending pension payments when entitlement ceases and adjusting payments when there are changes in circumstances.	June 2018	There is no service level agreement between the NYPF and Employee Support Services (ESS) that identifies the responsibilities and expectations of each party. No checks are carried out to ensure people in receipt of dependant pensions over the age of 18 are still	**Three P2 and six P3 actions were agreed** **Responsible Officer** Head of Pensions Administration Senior Accountant A service level agreement with

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					attending courses once the initial confirmation has been received. There is no periodic reconciliation between the NYPF Altair system and the NYCC ResourceLink system. The process and procedures currently in place are not sufficiently robust to provide assurance that the annual pensions increase has been applied correctly and fully.	ESS will be agreed with a schedule of reviews. The process has been amended to ensure the annual review is undertaken each November. Confirmation of continuation of education is requested annually. A planning meeting was held this year and will be part of the standard process in future for annual pension increases. An electronic checklist will be created to evidence review and sign off by all parties. A reconciliation project has commence in 2018/2019 and 6 monthly reconciliations will be scheduled
H	Main Accounting	High Assurance	The audit reviewed the processes in place for managing and authorising journals, and the control of suspense and control accounts and reconciliations. The audit also reviewed the processes for providing and reviewing access to the Oracle system.	July 2018	Controls and processes were found to be effective. One application for access was authorised by a person who could not be located on the NYCC email list, and the authoriser had only provided a hotmail email account.	**One P3 action was agreed** **Responsible Officers** Head of Technical Finance Individual access requests to be reviewed and procedures amended as required.
I	Debtors and Income	Substantial	The audit reviewed the process	July 2018	Controls and processes were found	**One P2 and two P3 actions**

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
	Management System	Assurance	for the creation of invoices, how outstanding debt is recovered, and the processes in place for making adjustments and write offs.		to be effective. Budget managers do not receive reports on the outstanding debt on their codes and may therefore be unaware of potential bad debts. Also service managers have contacts with debtors but may not be aware of debt levels to assist the recovery process. The officer authorisation list has not been update for a number of years	**were agreed** **Responsible Officer** Head of Technical Finance A debt management dash board is currently being developed by the Data Intelligence Team (T&C) as part of the Income and Debt Management Project. The dashboard will identify the level of debt owed for each budget code. The Officer Authorisation List to be updated and reviewed annually.
J	Pension Fund Governance Arrangements	Substantial Assurance	The audit reviewed the procedures and controls in place surrounding the governance arrangements for the NYPF. This included reviewing compliance with part 3 of The Local Government Pension Scheme Regulations 2013 (including subsequent amendments), CIPFA guidance on the Annual Report, and ensuring all statutory documents are in place.	July 2018	The governance arrangements for the NYPF were found to be good. NYPF is in general complying with the regulatory and best practice guidance. A number of employers did not provide prompt accurate data and as a result benefit statements were issued late to some scheme members. The fund is allowed to impose financial penalties on those employers but to date has not done so and has not reported the details of the employers involved to the Pension Board or Committee.	**One P2 and three P3 actions were agreed** **Responsible Officer** Head of Pensions Administration Senior Accountant Assistant Chief Executive (Legal and Democratic Services) Analysis of the 2018 year end was undertaken and reported to the Pension Board and Pension Fund Committee in October 2018.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					It is a requirement for the NYPF Pension Board to maintain a written register of dual interests and responsibilities which have the potential to become conflicts of interest. However, no register of interests could be provided. Some other minor areas of non-compliance with regulations and report requirements were identified.	Charging will be reintroduced for the 2019 year end. Support and training will be offered to help employers improve data quality for the 2019 year end to avoid the fines. A conflicts of interest register has been produced and will be updated on an annual basis.
K	Closedown of Statement of Accounts	High Assurance	The audit reviewed the processes in place for the closure of accounts to ensure earlier closedown. The audit compared processes in place to best practice guidelines issued by CIPFA and Grant Thornton, and also how lessons are learnt to improve processes for future years.	December 2018	No significant control issues were identified.	**No actions were reported that require further action.**

Appendix 2

Audit Opinions and Priorities for Actions

Audit Opinions	
Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit. Our overall audit opinion is based on 5 grades of opinion, as set out below.	
Opinion	**Assessment of internal control**
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
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

7 March 2019

Internal Control Matters for the Central Services Directorate

Report of the Corporate Director – Strategic Resources

1.0 Purpose of the report

1.1 To provide an update to Members of progress against the areas for improvement identified for Central Services (CS) Directorate in the Annual Governance Statement.

1.2 To provide details of the latest Risk Register for the CS 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 CS Directorate, the Committee receives assurance through the work of internal audit (detailed in a separate report to the Committee), details of the areas of improvement in the Annual Governance Statement (AGS), together with the Directorate Risk Register.

3.0 Directorate update

Alternative 'Commercial' Investments

3.1 In August 2017 the Executive approved an alternative investment framework with £50m earmarked for longer term, commercial investment. This was in response to the financial environment and low Bank Base Rate (BRR) which meant that the Council was (and still is) getting incredibly low returns on traditional investment of the Council's cash balances. Some 17 months on from the initial approval, the Executive have received a report reviewing the work done to date, the lessons learned and proposals going forward.

3.1.1 The approach seeks to identify, assess and implement longer term (5 years plus) investment decisions including an element that targets commercial returns whilst ensuring the Council has access to sufficient cash to manage its day to day operations. Based on the work done to date, the following lessons have been learned:

- Whilst improved returns are expected from these investments the resource input required from within and external to the Council is also significant. Each proposition requires careful assessment of the market, the legal issues, and the risks and the returns expected in order to inform a robust business case.

- The competitive nature of the market for these investments means that a degree of failure to secure investments is to be expected and indeed some business case work will be abortive as some investments will not be considered appropriate for investment. Where possible early sifting of proposals aims to focus efforts on opportunities worth pursuing but inevitably not all business cases will result in a successful acquisition.
- Appropriate due diligence is crucial in order to take decisions for investment and it is important that timely expert advice is sought when necessary, in order to adequately assess the potential risks and rewards from such opportunities.

3.1.2 To date good progress has been made on alternative investments and together this new approach has secured estimated annual revenue savings/income of £1,842k a margin of £1,510k over traditional treasury management returns.

3.1.3 Experience has shown that the commercial investment market is highly competitive and accordingly our guideline returns have been scaled back to 5%.

3.1.4 Of the initial £50m earmarked for investment, £31m remains available but some changes to the approved thresholds and delegations were agreed by the Executive at their meeting in January:

- The total amount for alternative investment has been increased to £60m;
- The local growth and commercial investment limits has been combined into a single limit of £20m;
- The limit for loans to NYCC companies has been increased to a total of £25m;
- The delegations to the Commercial Investment Board (formally through the Corporate Director Strategic Resources) has been extended to a limit of £2.5m (from £1m) per investment and up to a total of £10m (from £5m) in any one financial year.

3.1.5 Further work to pursue the options within the approved framework will be undertaken over the next 12 months with a focus on: commercial property acquisition, affordable housing loans, and exploration of investment in solar energy.

Property Update

3.2.1 Savings to date total £594k through activity in a combination of areas:

- Completion of Scarborough rationalisation delivering c£150k of saving to date.
- Work around the Harrogate area, including vacating Highfield House, saving c£200k.
- The remaining c£250k being delivered across Skipton, Selby, Whitby and a high street site in Northallerton.

3.2.2 Approval for and commencement of Northallerton rationalisation programme including essential works to Brierley campus where preparation is currently underway for decant arrangements in spring/summer 2019.

3.2.3 Review of likely achievement of savings; now expect to deliver savings target over a longer period of time taking opportunities to terminate some leases on office buildings and with some assumptions around some service delivery. The MTFS has been updated to account for the re-profiled savings moving the remaining £856k target out to 2021/22.

3.2.4 It is important the property strategy remains flexible to accommodate changing service needs, examples include working with Harrogate Alliance which may present opportunities to co-locate, One Public Estate and work with other partners and increased use of technology to reduce requirement for office space.

Information Security

3.3 Information Governance is one of the key risks in the Directorate Risk Register, as such a number of actions have taken place with the following progress:

- All relevant staff have completed mandatory online training for Data Protection, encompassing GDPR awareness.
- An Information Governance Group has been established within Central Services and meets on a routine basis to discuss issues and raise awareness.
- Information Asset Owners have been identified for high risk information assets and have undertaken the necessary training.
- Data Protection Impact Assessments are now mandatory for all new projects or activities involving the processing of personal information.
- All Information Sharing Agreements are now being stored within the Information Sharing Gateway – a central information sharing repository developed by IG Specialists within NHS Trust.
- A GDPR intranet micro-site has been developed to provide staff with guidance and support in relation to data protection and information governance best practice.
- There is a continuing process to raise awareness of information risks and communicate with staff to ensure good Information Governance practices are followed. This includes key messages and blogs on information security and governance.
- There has been a demonstrable improvement in information security compliance based on security sweeps conducted by Veritau over the last 12 months.
- A GDPR Compliance and Security Statement has been published on the NYCC website, alongside GDPR compliant privacy notices.
- Central Services are in the process of varying supplier contracts to ensure they are compliant with GDPR.
- Reported breaches continue to be investigated and mitigations implemented to endeavour to prevent any further occurrence

Further detail can be found in Information Governance Annual Report.

IT Security

3.4.1 In November 2018 T&C with the help of NYCC Resilience Team and The Ministry of Housing, Communities and Local Government's (MHCLG) Red Team carried out a Cyber Response Workshop. The aim of Exercise "Incident Roving-Storm" was to explore the individual and multi-agency impacts of a significant cyber incident in the local area. It also looked at the role that both individual agencies and the Local Resilience Forum collectively, can play to co-ordinate and manage the consequences of such an incident.

The feedback following the exercise was excellent and T&C intend to carry out further exercises with Council Directorates to assess cyber incidents response within business continuity and disaster recovery plans.

3.4.2 The recent ISO 27001:2013 audit demonstrated that Technology and Change (T&C) continue to provide reliable documentation of how the Information Security Management System (ISMS) is achieving the intended outcomes, and how T&C is now focusing its efforts on maturing and improving the ISMS in order to further optimise the business benefits.

3.4.3 With the GCSx secure email system scheduled to cease from 1st April 2019, T&C have been working on a nationally recognised alternative for passing secure emails to other public sector bodies. To this end we have implemented the National Cyber Security Centre (NCSC) guidance to secure our gov.uk email.

4.0 Directorate Risk Register

4.1 The **Directorate Risk Register** (DRR) is produced initially from a review of risks at Service Unit level, which are then aggregated via a sieving process to Directorate level. This end product similarly aggregates these Directorate level risks into the Corporate Risk Register.

4.2 The Risk Prioritisation System adopted to derive risk registers 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)

The DRR represents the principal risks that may materially impact on the performance and financial outcomes of the Directorate.

4.3 The latest detailed DRR is shown at **Appendix A** showing a range of key risks with existing controls and additional actions to minimise them. The detail also shows a ranking of the risks both at the present time and after mitigating action.

4.4 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.

4.5 An annual and six month review of the Risk Register has taken place since the last report to this Committee. The Risk Register reflects the range of Services but also includes many corporate initiatives given the leadership role of Central Services on such issues as the 2020 North Yorkshire Programme and beyond, and Performance Management.

4.6 Some examples of changes and actions that have been completed relating to particular risks since the last report to the Committee include:

- Savings and Transformation Programme – this risk is the refreshed and updated 2020 Change Programme risk and takes into account ‘Beyond 2020’.
- Information Governance – a dedicated risk register has been developed and includes any outstanding actions relating to GDPR.
- Stronger Communities - Management Board have approved the progress of exploring certain projects including the potential to establish community managed Children and Family Services and for trained volunteers to work in schools to support children with additional needs.
- Organisational Performance Management – the ranking on this risk has been reduced from 2/3 to 3/3 as a result of good progress with new the Strategic Performance Framework.
- Commercial Strategy – the production and presentation of Brierley Group Performance reports takes place on a regular basis, and the selection criteria to win bids for commercial opportunities to optimise rewards has been embedded.
- Major Emergencies in the Community – the “Ready for Anything” initiative was launched in December 2018 and contribution continues to the multi-agency collaborative approach to maximise the support spontaneous and established volunteer groups provide in emergencies. There has also been input to and engagement with the national learning and development of best practice following Grenfell, attacks in London and Manchester and lessons from Northamptonshire and other authorities under pressure. The Gold Symposium was held in November 2018 to embed lessons from these incidents.

5.0 Recommendation

5.1 That the Committee:

i) Note the position on the Central Services Directorate key governance issues;

ii) Note the Directorate Risk Register for the Central Services Directorate; and

iii) Provide feedback and comments on the Directorate Risk Register and any other related internal control issues.

GARY FIELDING
Corporate Director, Strategic Resources
March 2018

Risk Register: **month 6 (Jan 2019) – detailed**
Next review due**: July 2019**
Report Date: **24th January 2019 (pw)**

Phase 1 - Identification							
Risk Number	15/161	**Risk Title**	15/161 - Information Governance	**Risk Owner**	Chief Exec	**Manager**	CD SR
Description	Ineffective information governance arrangements lead to unacceptable levels of unauthorised disclosure of personal and sensitive data, poor quality or delayed responses to FoI requests, and inability to locate key data upon which the Council relies resulting in loss of reputation, poor decision making, fine, etc			**Risk Group**	Legislative	**Risk Type**	Corp 20/187

Phase 2 - Current Assessment										
Current Control Measures	Additional data governance support; Information Governance Strategy including the associated Policy and Procedure Framework; CIGG Action Plan; data breach process; messages from senior management; on-line training; staff induction; Information Asset Owners identified; information asset registers; Internal Data Governance team with an identified representative for each Directorate (replacing DIGCs); Veritau appointed as DPO; posters; intranet information; regular monitoring of electronic communication by T&C; series of unannounced security compliance visits by internal audit; application of all the features of the Information Security Management System (ISMS); FoI – controls include central monitoring of receipt and progress, regular review by Veritau and review of outstanding cases by the Chief Exec on a monthly basis; proactive monitoring of all data; terms of reference reviewed; virtual Directorate Group; Veritau investigate significant data breaches; CIGG consider reasons for data breaches and cascade lessons learned; secure physical storage and internal info transfer issues resolved; Non NYCC Network Access Policy produced; e learning training packages refreshed; targeted phishing campaign; Information Sharing Protocol in place; SAR - controls include central monitoring of receipt and progress; Service IARs updated; refreshed Information Governance page on intranet									
Probability	H	**Objectives**	L	**Financial**	M	**Services**	L	**Reputation**	H	**Category** 1

Phase 3 - Risk Reduction Actions		Action Manager	Action by	Completed
Reduction	15/423 - Continue to emphasise personal responsibility of staff for all information in this area and consider disciplinary action in cases of data breaches	CD SR CSD ACE BS	Sat-31-Aug-19	
Reduction	15/424 - Continue to review information asset registers and target training where appropriate (ongoing)	CSD SR AD T&C Ho Int Audit	Sat-31-Aug-19	
Reduction	15/426 - Ensure individual information sharing agreements completed for each data sharing activity (some agreements are already in place) - (ongoing)	Ho Int Audit	Sat-31-Aug-19	
Reduction	15/431 - Continue to work within services in a prioritised order to ensure information is secure and transferred securely (ongoing)	CSD SR AD T&C	Sat-31-Aug-19	
Reduction	15/433 - Continue communications to staff to ensure good Information Governance including messages from Management Board and associated campaigns (ongoing)	CSD SR AD T&C Ho Int Audit	Sat-31-Aug-19	
Reduction	15/611 - Ensure Data Protection risks are managed to comply with GDPR (ongoing)	CSD SR AD T&C	Sat-31-Aug-19	
Reduction	20/450 - Complete Information Governance risk register	CSD SR AD T&C Ho Int Audit	Mon-31-Dec-18	Mon-31-Dec-18

Phase 4 - Post Risk Reduction Assessment										
Probability	M	**Objectives**	L	**Financial**	M	**Services**	L	**Reputation**	H	**Category** 2

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Risk Register: **month 6 (Jan 2019) – detailed**
Next review due**: July 2019**
Report Date: **24th January 2019 (pw)**

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	15/514 - Review Action Plan and new technology and continue to raise awareness. Invite ICO to carry out an audit of NYCC IG systems	CD SR

Risk Register: **month 6 (Jan 2019) – detailed**
Next review due**: July 2019**
Report Date: **24th January 2019 (pw)**

Phase 1 - Identification							
Risk Number	15/11	**Risk Title**	15/11 - Savings and Transformation Programme	**Risk Owner**	Chief Exec	**Manager**	CD SR
Description	Failure to design and implement a coherent savings and transformation programme "Beyond 2020" which delivers the forecast funding shortfall resulting in short term and sub optimal savings decisions ie service cuts			**Risk Group**	Strategic	**Risk Type**	Corp 20/207

Phase 2 - Current Assessment										
Current Control Measures	Transformation programme; alignment with Council Plan and corporate priorities; Members workshops & political group sessions completed; briefings of Cabinet; regular Mgt Board/Programme Board meetings; staff communication constantly reviewed and cross cutting themes programme board continue to meet and follow the governance structure; quarterly meetings with finance ADs and programme managers to align savings against programme budgets; review carried out of governance and areas of future focus for Programme Board; all major change programmes are captured within this Programme to better manage dependencies and resources; Enhanced Strategic Support service to ensure high quality and robust service and team planning; action plan following peer review monitored;									
Probability	H	**Objectives**	H	**Financial**	H	**Services**	H	**Reputation**	H	**Category** 1

Phase 3 - Risk Reduction Actions		**Action Manager**	**Action by**	**Completed**
Reduction	15/634 - Carry out further transformational conversations with Management Board to potentially lead to identifying new areas of cross cutting programmes (current timeframe to fall in line with Mar 2019 budget savings)	CSD SR AD T&C	Sun-31-Mar-19	
Reduction	15/635 - Fundamental review of projects, reassessment of priority and agree outcomes	CD SR CSD SR AD T&C	Sun-31-Mar-19	
Reduction	15/636 - Continue to deliver existing Programme including Directorate and cross cutting programmes	CD SR CSD SR AD T&C	Wed-31-Jul-19	
Reduction	15/637 - Embed the BEST approach into service planning to identify yearly efficiency savings	CD SR CSD Mgt Team CSD PPC HoS&P	Tue-31-Dec-19	
Reduction	15/638 - Deliver against areas identified as housekeeping (negative RSG, fairer funding review, fees and charges, business rates)	CSD SR AD T&C	Sun-31-Mar-19	
Reduction	15/639 - Focus reviews on areas of overspend	CSD Mgt Team	Wed-31-Jul-19	
Reduction	15/831 - Continue to monitor delay of Programmes and the effect on benefits (ongoing)	CSD SR AD T&C	Sat-31-Aug-19	
Reduction	20/42 - Review (deep dives) specific high-risk base budgets such as HAS Care and Support, SEN Transport and School Improvement in 2018/19	CD SR	Sun-31-Mar-19	
Reduction	20/52 - Refresh and carry out a revised plan for reviewing base budgets in 2018/19 on a risk based assessment	CD SR	Sun-31-Mar-19	
Reduction	20/386 - Approve detailed business plans for each of the associated businesses: NY Education Services, Yorwaste, Property Services etc. by Shareholder Committee and Brierley Board and put in place a monitoring regime (Forward Plan) for progress	CD SR	Sun-31-Mar-19	
Reduction	20/403 - Carry out monthly monitoring of communications and engagement plan including key messages and themes (ongoing)	CSD HoC	Sat-31-Aug-19	
Reduction	20/491 - Identify and target additional savings through corporate Procurement Strategy (ongoing)	CD SR	Mon-30-Sep-19	

North Yorkshire County Council

Reduction	20/505 - Carry out a fundamental review of the organisation's design and development programme	All Mgt Board CSD ACE BS	Sun-31-Mar-19	
Reduction	20/526 - Continue to develop effective Commercial operations (ongoing)	All Mgt Board Chief Exec	Mon-30-Sep-19	

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	15/561 - Carry out service cuts	All Mgt Board

Risk Register: **month 6 (Jan 2019) – detailed**
Next review due**: July 2019**
Report Date: **24th January 2019 (pw)**

Phase 1 - Identification											
Risk Number	15/184	**Risk Title**	15/184 - Central Services Savings Plan				**Risk Owner**	Chief Exec		**Manager**	CSD Mgt Team
Description	Failure to deliver the Central Services savings plan for the duration of the programme (up to 2020) resulting in inability to meet the budget, rationalise support services and enable the programme						**Risk Group**	Financial		**Risk Type**	
Phase 2 - Current Assessment											
Current Control Measures			CS Management Team meetings; CS 2020 Programme Manager; CS Programme updates to CSMT and Programme Board; individual project monitoring regimes with RAG status; nominated lead officers and associated governance structure; CS programme plan; business mandates; briefs and business cases as appropriate; savings re-profiled and included in budget/MTFS report (Feb 2018)								
Probability	M	**Objectives**	M	**Financial**	H	**Services**	M	**Reputation**	M	**Category**	2
Phase 3 - Risk Reduction Actions											
							Action Manager		**Action by**	**Completed**	
Reduction	15/182 - Ongoing review of impact at Management Teams and overall consideration at CSMT						CD SR		Mon-30-Sep-19		
Reduction	15/183 - Periodic reviews at 2020NY Programme Board						CD SR		Mon-30-Sep-19		
Reduction	15/184 - Implementation of plans of individual projects						CSD Mgt Team		Mon-30-Sep-19		
Reduction	15/185 - Pursuit of additional income as part of commercialisation agenda						CSD Mgt Team		Mon-30-Sep-19		
Reduction	15/721 - Formulation of Beyond 2020 which may develop further ideas for savings in Central Services						CSD Mgt Team		Thu-28-Feb-19		
Phase 4 - Post Risk Reduction Assessment											
Probability	L	**Objectives**	M	**Financial**	H	**Services**	M	**Reputation**	M	**Category**	3
Phase 5 - Fallback Plan											
										Action Manager	
Fallback Plan	15/540 - Review savings plan and implement alternative savings									Chief Exec	

North Yorkshire County Council

Central Services Directorate **Appendix A**

Risk Register: **month 6 (Jan 2019) – detailed**
Next review due**: July 2019**
Report Date: **24th January 2019 (pw)**

Phase 1 - Identification							
Risk Number	15/186	**Risk Title**	15/186 - Stronger Communities	**Risk Owner**	Chief Exec	**Manager**	CSD AD PPC
Description	Failure to develop and implement greater community capacity to provide sustainable local support and services, within the context of reduced government funding, including the need for services to resource the transformation resulting in further reduced services in the community, missed opportunities relating to community libraries, universal and early intervention provision for children, young people and families, school readiness, community transport and care and prevention services for older and vulnerable adults			**Risk Group**	Community	**Risk Type**	PPC 343/232

Phase 2 - Current Assessment											
Current Control Measures	Stronger Communities team; governance structure and controls; engagement with relevant services; implementation plans; budget; key stakeholders including voluntary sector, district, parish and town council sector; health partners; grants scheme; community project development; NY Connect; reviewed community project toolkit; engagement events with communities; working with other relevant council services e.g. Targeted Prevention shared outcome framework; project plans in place for 21 priority strategic projects (Achieve Programme); volunteers policy, guidance & toolkit; preferred supplier list for external support in place; on-line grants system; SLA agreed and signed with Public Health; Connected Communities project (Sleights); independent evaluation of the programme procured;										
Probability	M	**Objectives**	L	**Financial**	H	**Services**	M	**Reputation**	M	**Category**	2

Phase 3 - Risk Reduction Actions				
		Action Manager	**Action by**	**Completed**
Reduction	15/361 - Engagement with services to plan with Stronger Communities interventions (ongoing)	CSD PPC HoStrC	Fri-31-May-19	
Reduction	15/372 - Further engagement with external partners (ongoing)	CSD PPC HoStrC	Fri-31-May-19	
Reduction	15/373 - Engagement with elected Members in all areas (ongoing)	CSD PPC HoStrC	Fri-31-May-19	
Reduction	15/435 - Continue to develop volunteer strategy and produce products to support and encourage volunteering (ongoing)	CSD PPC HoStrC	Fri-31-May-19	
Reduction	15/654 - Undertake a five year longitudinal, formative, and summative evaluation of the whole Programme impact	CSD PPC HoStrC	Sun-30-Jun-19	
Reduction	15/655 - Children's Centres and School Readiness - Explore the potential to establish community managed Children and Family Services Centres through the asset transfer of Children's Centres or by utilising existing community assets; Learn from libraries - 3 initial pilots in Tadcaster, Sherburn and Ripon	CSD PPC HoStrC	Fri-31-May-19	
Reduction	15/656 - Domiciliary Care Explore local social and micro enterprise models for Social Care looking at the role of the VCSE sector and volunteers in the provision of non-regulated care;	CSD PPC HoStrC	Fri-31-May-19	
Reduction	15/657 - SEND Schools: Explore the potential for trained volunteers working in schools to support children with additional needs.	CSD PPC HoStrC	Fri-31-May-19	

Phase 4 - Post Risk Reduction Assessment											
Probability	L	**Objectives**	L	**Financial**	H	**Services**	M	**Reputation**	M	**Category**	3

Phase 5 - Fallback Plan

North Yorkshire County Council

		Action Manager
Fallback Plan	15/519 - Review implementation plans and engage further with services, external partners and elected Members	CSD PPC HoStrC

Central Services Directorate

Appendix A

Risk Register: **month 6 (Jan 2019) – detailed**
Next review due**: July 2019**
Report Date: **24th January 2019 (pw)**

Phase 1 - Identification

Risk Number	15/162	**Risk Title**	15/162 - Capacity and Skills	**Risk Owner**	Chief Exec	**Manager**	CSD Mgt Team
Description	A lack of capacity and skills within Central Services leads to a significant decline in service quality &/or insufficient progress in carrying out required developments (although this risk is ranked in phase 4 as a 4, it feels more like 3 high amber, but it is not a low probability with a high impact)			**Risk Group**	Capacity	**Risk Type**	SR 32/27

Phase 2 - Current Assessment

Current Control Measures	Various restructures across Central Services in order to improve resilience; mapping for required 2020NY resource in place; periodic consideration of resource gaps and one off money to fill; regular review by CSMT; regular resource papers submitted to CSMT for consideration; regular conversations around hotspots at CSMT; 2020 resources review led by PMO; savings re-profiled and included in budget/MTFS report (Feb 2018)

Probability	H	**Objectives**	M	**Financial**	L	**Services**	M	**Reputation**	M	**Category**	2

Phase 3 - Risk Reduction Actions

		Action Manager	Action by	Completed
Reduction	15/111 - Regularly perform skills gap analysis and review succession planning based on current and future requirements and use to inform CS workforce training plan and monitor effectiveness	CSD Mgt Team	Sat-31-Aug-19	
Reduction	15/181 - Ongoing review of service structures to ensure fit for purpose going forward including post implementation reviews	CSD Mgt Team	Sat-31-Aug-19	
Reduction	15/448 - Ensure staff and managers are aware of opportunities to invest in initiatives to improve productivity	CSD Mgt Team	Sat-31-Aug-19	
Reduction	15/475 - Continue to prioritise and manage pressures on services on an ongoing basis	CSD Mgt Team	Sat-31-Aug-19	
Reduction	15/520 - Identify means of securing capacity for professional areas where there is a shortfall for example ICT technical and Legal	CSD SR AD T&C	Sun-31-Mar-19	
Reduction	15/590 - Collate / Review and revise approach on customer feedback on quality of services	CSD Mgt Team	Sat-31-Aug-19	

Phase 4 - Post Risk Reduction Assessment

Probability	M	**Objectives**	M	**Financial**	L	**Services**	M	**Reputation**	L	**Category**	4

Phase 5 - Fallback Plan

		Action Manager
Fallback Plan	15/515 - Review and revise resource allocation where possible and consider additional funding and capacity where required	CSD Mgt Team

North Yorkshire County Council

Risk Register: **month 6 (Jan 2019) – detailed**
Next review due: **July 2019**
Report Date: **24th January 2019 (pw)**

Phase 1 - Identification

Risk Number	15/201	**Risk Title**	15/201 - Commercial Strategy	**Risk Owner**	Chief Exec	**Manager**	CSD Mgt Team
Description	Failure to successfully secure commercial opportunities within the Council resulting in lost net income to support budget savings, unresilient service, unskilled and insecure workforce.			**Risk Group**		**Risk Type**	

Phase 2 - Current Assessment

Current Control Measures	NYES with strategy (to be updated); Commercial Board; existing Commercial strategy (to be updated); action plan in place; initial commercial challenge sessions have taken place; website with ability of customers to buy on line; relationship managers liaise between the Heads of Traded Services and customers; Exec subcommittee and Brierley Board established as part of governance arrangements; Brierley Group Performance report; selection criteria to win bids for commercial opportunities to optimise rewards determined; cash invested in commercial opportunities where appropriate;

Probability	**Objectives**	**Financial**	**Services**	**Reputation**	**Category**
H	M	M	M	L	2

Phase 3 - Risk Reduction Actions

		Action Manager	**Action by**	**Completed**
Reduction	15/246 - Review and refresh the Commercial Strategy and communicate to stakeholders including staff (review by end March 2019, refresh by end of Sept 2019)	CSD AD SR (ML)	Mon-30-Sep-19	
Reduction	15/247 - Production and presentation of Brierley Group Performance reports	CSD AD SR (ML)	Mon-30-Apr-18	Mon-30-Apr-18
Reduction	15/521 - Invest cash in commercial opportunities where appropriate (ongoing)	CSD AD SR (KI)	Sun-31-Mar-19	
Reduction	15/522 - Determine selection criteria to win bids for commercial opportunities to optimise rewards	CSD AD SR (ML)	Sat-31-Mar-18	Sat-31-Mar-18
Reduction	15/609 - Review and refresh training mondules on commercial and take appropriate actions	CD SR	Tue-31-Mar-20	
Reduction	15/610 - Refresh of NYES strategy, business plan and approach	CSD SR NYES Com Dir	Sun-30-Jun-19	
Reduction	15/652 - Explore other potential commercial enterprises for example HAS and CYPS commercial opportunities; decide and prioritise which propositions should go ahead; build the proposition and go to market (ongoing)	CSD AD SR (ML)	Sat-31-Aug-19	
Reduction	20/375 - Embed selection criteria to win bids for commercial opportunities to optimise rewards (roll-out plan to be confirmed; method of embedding the selection criteria to be discussed and agreed with Leadership teams)	CSD AD SR (ML)	Mon-31-Dec-18	Mon-31-Dec-18
Reduction	20/381 - Develop and implement an internal communications plan to publicise the Commercial Strategy	CSD AD SR (ML) CSD HoC	Tue-31-Mar-20	

Phase 4 - Post Risk Reduction Assessment

Probability	**Objectives**	**Financial**	**Services**	**Reputation**	**Category**
M	M	M	M	L	4

Phase 5 - Fallback Plan

	Action Manager

North Yorkshire County Council

Fallback Plan	15/550 - Review financial position and invoke budget cuts as necessary	CSD Mgt Team

Risk Register: **month 6 (Jan 2019) – detailed**
Next review due**: July 2019**
Report Date: **24th January 2019 (pw)**

Phase 1 - Identification										
Risk Number	15/180	**Risk Title**	15/180 - Customer Programme			**Risk Owner**	Chief Exec		**Manager**	CSD SR AD T&C
Description	Failure to implement a Customer Programme that meets the needs and demands of our customers and supports the necessary service redesigns, achieves savings and improves performance and customer satisfaction					**Risk Group**	Change Mgt		**Risk Type**	
Phase 2 - Current Assessment										
Current Control Measures			Customer board with reps from each NYCC directorate and appropriate cross cutting themes; Customer working group; 2020 Customer Theme; regular updates to Programme Board; regular slots at directorate leadership team meetings; regular meetings with the directorate 2020 programme leads; Directorate project briefs relating to 2020 Customer Theme reviewed and developed within the Customer pipeline; risk log; communications plan; governance structure and arrangements in place; mechanism for resources in place; training package in place and training completed with customer facing teams;							
Probability	M	**Objectives**	M	**Financial**	M	**Services**	H	**Reputation**	M	**Category** 2

Phase 3 - Risk Reduction Actions				
		Action Manager	**Action by**	**Completed**
Reduction	15/253 - Continue to embed Customer principle into NYCC redesign of services and ensure the necessary culture change in the organisation (e.g. by attending Leadership teams, challenging Directorates and being involved in business case design stage) such that it becomes the new 'business as usual'	CSD SR AD T&C	Tue-30-Apr-19	
Reduction	15/259 - Develop and implement Corporate KPIs for Customer Programme; KPIs developed (by Mar 2019) and will be rolled out over the coming months	CSD SR AD T&C	Sun-31-Mar-19	
Reduction	15/515 - Continue to work through the pipeline of customer journey mapping and LEAN reviews for Service projects (approx. 20 projects per year) (ongoing)	CSD SR AD T&C	Wed-31-Jul-19	
Reduction	15/614 - Regular review of Service performance in line with Customer Principles for those within the Customer Programme (ongoing)	CSD SR AD T&C	Wed-31-Jul-19	
Reduction	333/567 - Ensure delivery of channel shift (from face to face, to telephone, to on line) (ongoing)	CSD SR AD T&C	Wed-31-Jul-19	

Phase 4 - Post Risk Reduction Assessment											
Probability	M	**Objectives**	M	**Financial**	M	**Services**	M	**Reputation**	M	**Category**	4

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	15/543 - Reprofile the plan to stage service redesign	CSD SR AD T&C

North Yorkshire County Council

Risk Register: **month 6 (Jan 2019) – detailed**
Next review due**: July 2019**
Report Date: **24th January 2019 (pw)**

Phase 1 - Identification									
Risk Number	15/183	**Risk Title**	15/183 - Health & Safety			**Risk Owner**	Chief Exec	**Manager**	CD SR
Description	Major Corporate Health and Safety failure resulting in injuries, claims, reputational and service delivery impact and possible prosecution					**Risk Group**	Legislative	**Risk Type**	Corp 20/389
Phase 2 - Current Assessment									
Current Control Measures			HSRM Service Plan feeding into Directorate Action Plans; H&S team; Corporate H&S Policy; Corporate and Directorate H&S procedures; intranet and NYES sites; Directorate RM groups; H&S Champions and lead officers; reporting on a regular basis; on-going H&S risk assessment, training, monitoring and audit; managers' and employees' online H&S training and other modules; health and safety function within NYCC (3rd stage) reviewed; shared service with City of York Council						
Probability	L	**Objectives**	M	**Financial**	M	**Services**	M	**Reputation**	H
Category	3								
Phase 3 - Risk Reduction Actions									
						Action Manager	**Action by**	**Completed**	
Reduction	15/248 - Continue delivery of the programme of H&S monitoring of audits and inspections (ongoing)					CSD SR HoHSRM	Sat-31-Aug-19		
Reduction	15/255 - Ensure appropriate operating standards of H&S risk assessments exist and are being implemented locally					CSD SR HoHSRM	Sat-31-Aug-19		
Reduction	15/257 - Review and revise the corporate H&S procedures alongside alignment with the safety management system (ongoing)					CSD SR HoHSRM	Sat-31-Aug-19		
Reduction	15/417 - Consider H&S implications of significant changes for delivery of services within the Council and factor into Directorate H&S action plans (ongoing)					CSD SR HoHSRM	Sat-31-Aug-19		
Reduction	15/651 - Ensure understanding of H&S operating environment of NYCC through regular attendance at Corporate and Directorate Risk Management Groups, and develop H&S Improvement Plans which are agreed by the relevant Groups. (ongoing)					CSD SR HoHSRM	Sat-31-Aug-19		
Phase 4 - Post Risk Reduction Assessment									
Probability	L	**Objectives**	M	**Financial**	M	**Services**	M	**Reputation**	H
Category	3								
Phase 5 - Fallback Plan									
								Action Manager	
Fallback Plan	15/538 - Liaise with HSE, media management, implement fatal/serious injury response guide							CSD SR HoHSRM	

North Yorkshire County Council

Risk Register: **month 6 (Jan 2019) – detailed**
Next review due**: July 2019**
Report Date: **24th January 2019 (pw)**

Phase 1 - Identification										
Risk Number	15/166	**Risk Title**	15/166 - Organisational Performance Management			**Risk Owner**	Chief Exec		**Manager**	CD SR
Description	Failure to align the performance management framework with budget planning and financial performance results in inefficiencies, reduction in value for money; loss of reputation and suboptimal financial savings					**Risk Group**	Performance		**Risk Type**	PPC 343/233
Phase 2 - Current Assessment										
Current Control Measures			Corporate Performance Management Framework including a corporate performance indicator suite; quarterly reports to Exec; Management Board, Policy, Strategy and Consultation Group; review of Q performance reports including deep dive reports in challenging areas; guidance for service plans in place; service plans in place; approval for prioritisation of BI dashboard production alongside agreed design principles; regular performance meetings across the organisation; IPM system in place Jan2018; enhanced Strategic Support service; corporate KPIs developed; relationship built with lead business partners (SRMT);							
Probability	L	**Objectives**	H	**Financial**	M	**Services**	H	**Reputation**	M	**Category** 3
Phase 3 - Risk Reduction Actions										
						Action Manager		**Action by**	**Completed**	
Reduction	15/425 - Further develop a closer alignment of Council planning and MTFS, for example BEST reviews (ongoing)					CSD PPC HoS&P		Tue-30-Apr-19		
Reduction	15/447 - Ensure robust support from corporate Management Board for regular performance meetings within services/teams (ongoing)					CSD PPC HoS&P		Fri-31-May-19		
Reduction	15/509 - Continue to work with Organisational Development on integrating performance management with the overall performance management framework					CSD PPC HoS&P		Fri-31-May-19		
Reduction	15/511 - Develop and implement a programme for performance dashboards built on risk based prioritisation and the Performance Management Framework					CSD PPC HoS&P		Fri-31-May-19		
Reduction	15/653 - Take a performance data led approach to identify opportunities for improving VFM and efficiency					CSD PPC HoS&P		Thu-28-Feb-19		
Reduction	343/731 - Complete the post implementation review and develop a plan for implementation of required improvements					CSD PPC HoS&P		Tue-30-Apr-19		
Phase 4 - Post Risk Reduction Assessment										
Probability	L	**Objectives**	H	**Financial**	M	**Services**	M	**Reputation**	M	**Category** 3
Phase 5 - Fallback Plan										
									Action Manager	
Fallback Plan	15/518 - Fundamental review of approach								CD SR	

North Yorkshire County Council

Risk Register: **month 6 (Jan 2019) – detailed**
Next review due**: July 2019**
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Phase 1 - Identification										
Risk Number	15/200	**Risk Title**	15/200 - Major Emergencies in the Community			**Risk Owner**	Chief Exec		**Manager**	Chief Exec
Description	Failure to plan, respond and recover effectively to major emergencies in the community resulting in risk to life and limb, impact on statutory responsibilities, impact on financial stability and reputation					**Risk Group**	Performance		**Risk Type**	PPC 343/234
Phase 2 - Current Assessment										
Current Control Measures			NYLRF and RMCI; experience and resources of partners; existing plans incl public health (training and exercises); RET; partnership working with District Councils; community resilience; silver response in the County Council major incident plan tested; approach to BCP refreshed to strengthen service resilience; Resilience Direct portal; regional multi agency pandemic exercise held; effectiveness and robustness of resilience plans relating to the public health and social care of the NY population tested; NYCC action plan developed and implemented based on the debrief report recommendations and all multi agency learning (including the flood reporting tool and simplification of information flow); members of national steering group on volunteers; BCP post audit action plan;							
Probability	L	**Objectives**	L	**Financial**	H	**Services**	L	**Reputation**	H	**Category** 3
Phase 3 - Risk Reduction Actions										
						Action Manager		**Action by**	**Completed**	
Reduction	15/593 - Contribute to multi agency collaborative approach to maximising the support spontaneous and established volunteer groups provide in emergencies (ongoing); "Ready for Anything" launched Dec '18					CSD PPC HoR&E		Sat-31-Aug-19	Mon-31-Dec-18	
Reduction	15/594 - Input to and engagement with national learning and development of best practice following Grenfell, attacks in London and Manchester and lessons from Northamptonshire and other authorities under pressure; Gold Symposium held in Nov '18 to embed lessons from these incidents					CSD PPC HoR&E		Sat-31-Aug-19	Fri-30-Nov-18	
Reduction	20/463 - Develop and implement an action plan following the outcome of an internal audit into BCP					CSD PPC HoR&E		Mon-31-Dec-18	Fri-30-Nov-18	
Reduction	20/464 - Through NYLRF, consider, understand and prepare for any threats that Brexit may bring to the Authority					CSD AD PPC		Sun-31-Mar-19		
Reduction	20/970 - Continue to ensure effective co-ordination and communication with County and District/Borough Council services & NYLRF in light of reduction in resources (ongoing)					CSD AD PPC		Sat-31-Aug-19		
Reduction	20/971 - Continue to ensure effective and efficient processes are embedded amongst all partners to prioritise workstreams (incl. plans, training and exercises) (ongoing)					CSD AD PPC		Sat-31-Aug-19		
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	20/207 - Review and prioritise resources dependent on nature and impact of event (inc effective media management)								Chief Exec	

Risk Register: **month 6 (Jan 2019) – detailed**
Next review due**: July 2019**
Report Date: **24th January 2019 (pw)**

Phase 1 - Identification							
Risk Number	15/29	**Risk Title**	15/29 - Corporate Governance and Ensuring Legality	**Risk Owner**	Chief Exec	**Manager**	CSD ACE LDS
Description	Failure to ensure adequate Corporate Governance arrangements across the County Council to ensure that the Council acts lawfully in its operations and decision making resulting in inadequate control and stewardship; given the environment of greater risk taking and expansion of the types of activities the Council is now involved in resulting in challenge and non delivery of decisions, financial implications and loss of reputation particularly given service and statutory obligations			**Risk Group**	Legislative	**Risk Type**	LDS 17/6

Phase 2 - Current Assessment										
Current Control Measures			Lawyers and DSO's engage with 2020 Programme and services; delegation scheme; constitution; training; legislation monitoring and advice notes/briefings; increased monitoring of committee reports; ACE LDS on MB; Proforma for Executive Reports covering major issues; Monitoring complaints and commendation policy and system; monitoring of the Forward Plan; Democratic Services IT system; compliance with rules on access to information; Corporate Governance Officers Group; Local Code of CG; Corporate Governance Checklist; Annual Governance Statement; Statements of Assurance across the Council; Controls in Risk management, Business Continuity and Information Governance; views of external Auditors; Audit Committee in-depth consideration; LGA corporate peer review; GDPR impacts understood							
Probability	M	**Objectives**	L	**Financial**	M	**Services**	M	**Reputation**	M	**Category** 4

Phase 3 - Risk Reduction Actions		**Action Manager**	**Action by**	**Completed**
Reduction	15/57 - Continue to ensure effective monitoring of governance and operational requirements of new legislation (eg. Health Integration, Combined Authorities) and make sure services and teams are aware impact on their areas	CD SR CSD ACE LDS	Wed-31-Jul-19	
Reduction	15/251 - Continue to ensure compliance with rules on access to information	CSD ACE LDS	Wed-31-Jul-19	
Reduction	15/369 - Review decision and procedures after a successful challenge	CSD ACE LDS	Wed-31-Jul-19	
Reduction	15/370 - Ensure early legal advice is provided within the 2020 Programme which is particularly important due to diminishing resources (ongoing until 2020)	CSD ACE LDS	Tue-31-Mar-20	
Reduction	15/449 - Continue to provide governance and legal advice on key issues (eg. impact of devolution or brexit)	CD SR CSD ACE LDS	Wed-31-Jul-19	
Reduction	15/512 - Carry out review of Governance Framework in line with latest guidance	CD SR	Wed-31-Jul-19	
Reduction	15/513 - Annual Review of Corporate Governance Arrangements by Audit Committee	CD SR	Wed-31-Jul-19	
Reduction	15/824 - Continue to strengthen links with Directorates including liaison by Monitoring Officer and team with Directorates and ensure consultation on legality of major initiatives	CSD ACE LDS	Wed-31-Jul-19	
Reduction	15/825 - Ongoing monitoring of committee reports and decision making to ensure Council decision making takes account of relevant considerations including EIAs and consultation requirements	CSD ACE LDS	Wed-31-Jul-19	
Reduction	17/502 - Ensure we continue to provide adequate support to the newer councillors to enable them to make appropriate decisions within the legislative framework	CSD ACE LDS	Wed-31-Jul-19	

Phase 4 - Post Risk Reduction Assessment

Risk Register: **month 6 (Jan 2019) – detailed**
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Report Date: **24th January 2019 (pw)**

Probability	M	Objectives	L	Financial	M	Services	M	Reputation	M	Category	4

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	15/169 - Review failing areas in existing arrangements and plan for improvement	CSD ACE LDS

Central Services Directorate **Appendix B**

Risk Register: **month 6 (Jan 2019) – summary**
Next review due: **July 2019**
Report Date: **24th January 2019 (pw)**

Identity			Person		Classification														Fallback Plan	
					Pre						RR		Post							
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat	FBPlan	Action Manager
◀▶	**15/161 - Information Governance**	Ineffective information governance arrangements lead to unacceptable levels of unauthorised disclosure of personal and sensitive data, poor quality or delayed responses to FoI requests, and inability to locate key data upon which the Council relies resulting in loss of reputation, poor decision making, fine, etc	Chief Exec	CD SR	H	L	M	L	H	**1**	7	31/08/2019	M	L	M	L	H	**2**	Y	CD SR
◀▶	**15/11 - Savings and Transformation Programme**	Failure to design and implement a coherent savings and transformation programme "Beyond 2020" which delivers the forecast funding shortfall resulting in short term and sub optimal savings decisions ie service cuts	Chief Exec	CD SR	H	H	H	H	H	**1**	14	31/03/2019	M	H	H	H	H	**2**	Y	All Mgt Board
◀▶	**15/184 - Central Services Savings Plan**	Failure to deliver the Central Services savings plan for the duration of the programme (up to 2020) resulting in inability to meet the budget, rationalise support services and enable the programme	Chief Exec	CSD Mgt Team	M	M	H	M	M	**2**	5	28/02/2019	L	M	H	M	M	**3**	Y	Chief Exec
◀▶	**15/186 - Stronger Communities**	Failure to develop and implement greater community capacity to provide sustainable local support and services, within the context of reduced government funding, including the need for services to resource the transformation resulting in further reduced services in the community, missed opportunities relating to community libraries, universal and early intervention provision for children, young people and families, school readiness, community transport and care and prevention services for older and vulnerable adults	Chief Exec	CSD AD PPC	M	L	H	M	M	**2**	8	31/05/2019	L	L	H	M	M	**3**	Y	CSD PPC HoStrC
◀▶	**15/162 - Capacity and Skills**	A lack of capacity and skills within Central Services leads to a significant decline in service quality &/or insufficient progress in carrying out required developments (although this risk is ranked in phase 4 as a 4, it feels more like 3 high amber, but it is not a low probability with a high impact)	Chief Exec	CSD Mgt Team	H	M	L	M	M	**2**	6	31/03/2019	M	M	L	M	L	**4**	Y	CSD Mgt Team
◀▶	**15/201 - Commercial Strategy**	Failure to successfully secure commercial opportunities within the Council resulting in lost net income to support budget savings, unresilient service, unskilled and insecure workforce.	Chief Exec	CSD Mgt Team	H	M	M	M	L	**2**	9	31/03/2019	M	M	M	M	L	**4**	Y	CSD Mgt Team

North Yorkshire County Council

Central Services Directorate

Appendix B

Risk Register: **month 6 (Jan 2019) – summary**
Next review due: **July 2019**
Report Date: **24th January 2019 (pw)**

Identity			Person		Classification														Fallback Plan	
					Pre						RR		Post							
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat	FBPlan	Action Manager
◀▶	**15/180 - Customer Programme**	Failure to implement a Customer Programme that meets the needs and demands of our customers and supports the necessary service redesigns, achieves savings and improves performance and customer satisfaction	Chief Exec	CSD SR AD T&C	M	M	M	H	M	**2**	5	31/03/2019	M	M	M	M	M	**4**	Y	CSD SR AD T&C
◀▶	**15/183 - Health & Safety**	Major Corporate Health and Safety failure resulting in injuries, claims, reputational and service delivery impact and possible prosecution	Chief Exec	CD SR	L	M	M	M	H	**3**	5	31/07/2019	L	M	M	M	H	**3**	Y	CSD SR HoHSRM
▼	**15/166 - Organisational Performance Management**	Failure to align the performance management framework with budget planning and financial performance results in inefficiencies, reduction in value for money; loss of reputation and suboptimal financial savings	Chief Exec	CD SR	L	H	M	H	M	**3**	6	28/02/2019	L	H	M	M	M	**3**	Y	CD SR
◀▶	**15/200 - Major Emergencies in the Community**	Failure to plan, respond and recover effectively to major emergencies in the community resulting in risk to life and limb, impact on statutory responsibilities, impact on financial stability and reputation	Chief Exec	Chief Exec	L	L	H	L	H	**3**	6	31/03/2019	L	L	H	L	M	**3**	Y	Chief Exec
◀▶	**15/29 - Corporate Governance and Ensuring Legality**	Failure to ensure adequate Corporate Governance arrangements across the County Council to ensure that the Council acts lawfully in its operations and decision making resulting in inadequate control and stewardship; given the environment of greater risk taking and expansion of the types of activities the Council is now involved in resulting in challenge and non delivery of decisions, financial implications and loss of reputation particularly given service and statutory obligations	Chief Exec	CSD ACE LDS	M	L	M	M	M	**4**	10	31/07/2019	M	L	M	M	M	**4**	Y	CSD ACE LDS

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

North Yorkshire County Council

AUDIT COMMITTEE - PROGRAMME OF WORK 2018 / 19

	ANNUAL WORKPLAN **Audit Committee Agenda Items**	**DEC 18**	**MAR 19**	**JUNE 19**	**JULY 19**	**OCT 19**	**DEC 19**
A	Training for Members (as necessary)		1			3	
	Annual Internal Audit Plan		x	x			
	Annual report of Head of Internal Audit			x			
	Progress Report on Annual Internal Audit Plan		x			x	x
	Internal Audit report on Children and YP's Service			x			
	Internal Audit report on Computer Audit/Corporate Themes/Contracts					x	
	Internal Audit report on Health and Adult Services					x	
	Internal Audit report on BES	x					x
	Internal Audit report on Central Services		x				
B	*Annual Audit Letter*					x	
	Annual Audit Plan (NYCC & NYPF)		x				
	Annual Report / Letter of the External Auditor (ISA 260)				x		
	Interim Audit Report			x			
C	Statement of Final Accounts including AGS (NYCC + NYPF)			x	x		
	Letter of Representation				x		
	Chairman's Annual Report					x	
	Audit Committee - terms of reference / effectiveness				x	x	
	Changes in Accounting Policies		x				
	Corporate Governance – review of Local Code + AGS		x	x			
	– annual report inc re AGS			x			
	Risk Management (inc Corporate R/R) – annual report	x	x				x
	Partnership Governance – annual report			x			
	Information Governance – annual report		x				
	Review of Finance,/Contract/Property Procedure Rules	**TBA**	**TBA**	**TBA**	**TBA**	**TBA**	**TBA**
	Business Continuity – annual report	x				x	
	Counter Fraud (inc risk assessment) – annual report		x				
	Procurement and Contract Management – annual report			x			
	Treasury Management – Executive February		x				
	VFM – annual assurance review		x				
D	*Work Programme*	x	x	x	x	x	x
	Progress on issues raised by the Committee (inc Treasury Management)	x	x	x		x	x
E	Agenda planning / briefing meeting						
	Audit Committee Agenda/Reports deadline						
	Audit Committee Meeting Dates	20/12	07/03	21/06	26/07	25/10	20/12

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

☼ **before formal meeting**
1 **Budget Meeting for Independent Members**
2
3 External and Internal Auditors
Sessions to be sorted