

## The Report of the Audit Committee

The Audit Committee met on 30 September, 2010. Present:- County Councillor Roger Harrison-Topham (Chairman); County Councillors Karl Arthur, Bernard Bateman (as Substitute for Chris Pearson), Bill Chatt, John Clark, Mike Jordan and Patrick Mulligan.

Also in attendance Independent Members of the Committee:- Mr Henry Cronin, Mrs James Daghish and Mr David Portlock together with County Councillor Carl Les (Executive Member). Chris Powell and Alistair Lince (Deloitte LLP). Jen Duck (PricewaterhouseCoopers LLP). Veritau Ltd Officers: Helen Fowler (Audit and Information Assurance Manager) and Max Thomas (Head of Internal Audit).

**1. Annual Audit Report:** A copy of the annual report of the Audit Committee is attached at Appendix 1. Attention is drawn to the continuing effectiveness of the Audit Committee and the important role that the Committee undertakes in supporting the Council's governance arrangements, in the preparation of the Annual Governance Statement and in approving the Final Accounts. A copy of the Audit Committee's Terms of Reference is attached to the report as Appendix A, for information.

### **The Audit Committee RECOMMENDS:**

That Members note this report.

**ROGER HARRISON-TOPHAM**  
Chairman

County Hall  
NORTHALLERTON

7 December 2010

**ANNUAL REPORT OF THE AUDIT COMMITTEE****1.0 PURPOSE OF THE REPORT**

- 1.1 To provide Members of the County Council with details of the work of the Audit Committee covering the year to 30 September 2010. The report also details how the Audit Committee has fulfilled its Terms of Reference during this period.

**2.0 BACKGROUND**

- 2.1 The Audit Committee is responsible for overseeing the County Council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Final Accounts and the Annual Governance Statement of both the County Council and the North Yorkshire Pension Fund. The Committee's specific powers and duties are set out in Schedule 1 of the Constitution under the Terms of Reference of the Audit Committee. A copy of the current Terms of Reference is attached at **Appendix A** for information.
- 2.2 An Audit Committee is a key component of corporate governance and provides an important source of assurance about the arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance within an organisation.
- 2.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that Audit Committees are operating effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.

**3.0 WORK UNDERTAKEN AND OPINION**

- 3.1 The Audit Committee has met on five occasions in the year to 30 September 2010, in accordance with its Programme of Work. During this period, the Committee has assessed the adequacy and effectiveness of the County Council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, internal audit (Veritau) and the external auditors (Deloitte). The Committee has sought assurance that action has been taken, or is otherwise planned, by management to address any risk related issues that have been identified by the auditors during this period. The Committee has also sought to ensure that effective relationships continue to be maintained between the internal and external auditors, and between the auditors and management.
- 3.2 The Audit Committee is satisfied that the County Council has maintained an adequate and effective control framework through the period covered by this report.
- 3.3 The specific work undertaken by the Committee is set out below. The Committee has:
- (a) received and considered the Annual Audit Letter for 2008/09 produced by the external auditor (Deloitte) which detailed the outcome of the audit of the Final Accounts, the Value for Money conclusion and the assessment of the County Council's Use of Resources.

- (b) received and considered the external auditor's detailed report on the Use of Resources assessment for 2009. The assessment covered three themes:
- Managing finances
  - Governing the business, and
  - Managing resources

The County Council was assessed as achieving a score of 3 (exceeding minimum requirements – performs well) on all three themes. The Committee sought explanations from management regarding the areas identified which required further development or improvement.

- (c) considered the outcome of Deloitte's review of the Council's grant claim arrangements for the 2008/09 financial year. The Committee noted that no significant issues had been identified with the Council's arrangements for preparing and submitting claims.
- (d) received and considered Deloitte's proposed fee for the audit of the 2010/11 financial statements, Value for Money conclusion and Use of Resources assessment.
- (e) received and considered Deloitte's planning reports for the audit of the County Council and the North Yorkshire Pension Fund's financial statements for 2009/10.
- (f) received and considered the results of internal audit work performed in respect of each Directorate and across specific themed areas. Monitored the progress made by management to address identified control weaknesses, particularly those in respect of Adult & Community Services and Computer Audit where additional follow up reports were requested.
- (g) received and approved the Internal Audit Plan for 2010/11.
- (h) monitored the delivery of the 2009/10 and 2010/11 Internal Audit Plans through regular update reports presented by the Head of Internal Audit. Reviewed variations to the Audit Plan which were considered necessary to reflect new or changed Council priorities.
- (i) received and considered the outcome of the annual 2009/10 Fraud and Loss Risk Assessment. Reviewed the work of Internal Audit in respect of possible fraud and corruption including the results of investigations into matters reported via the County Council's whistleblowing facilities or directly by management. The Committee also reviewed the results of the recent fraud awareness survey and the resulting action plan. It was agreed that officers should target those services considered to be at higher risk of fraud and corruption, with the intention that overall awareness of fraud risks within the County Council should be improved within two years.
- (j) received and considered the Annual Report of the Head of Internal Audit which provided an overall opinion on the County Council's control environment. The Committee considered breaches of the Council's Contract, Finance and Property Procedure Rules identified during audit work.

The Head of Internal Audit confirmed that the Council's internal controls provided substantial assurance although the Committee's attention was drawn to a number of significant control weaknesses.

- (k) assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2009/10, and considered the performance targets for 2010/11. The Committee also considered the outcome of the review of the effectiveness of the County Council's system of internal audit which had been undertaken jointly with the City of York Council through the Shared Service Contract Board. The Committee was pleased to note that continued reliance could be placed on the internal audit arrangements operating within the County Council.
- (l) assessed the adequacy and effectiveness of the each Directorate's risk management arrangements through consideration of the progress made to address issues identified in the annual Statements of Assurance prepared by the Chief Executive and each Corporate Director, together with the latest Directorate Risk Registers.
- (m) reviewed the progress made by the County Council to identify and address corporate risks and considered the results of the update of the Corporate Risk Register. The Committee also considered the updated Risk Management Action Plan. The Committee recognised the good risk management work which was being undertaken and the fact that a revised Corporate Risk Management Policy and Strategy had been formally adopted by the County Council on 16 December 2009.
- (n) monitored the progress made by management to address the control issues identified in the 2008/09 and 2009/10 Annual Governance Statements, in particular the development of effective service continuity plans and the introduction of a 'gateway' process to enhance the quality of project management for schemes in the capital programme.
- (o) considered and approved the Statement of Final Accounts for 2009/10 of the County Council and the North Yorkshire Pension Fund.
- (p) considered and approved the Annual Governance Statement for 2009/10 of the County Council.
- (q) considered the effectiveness of the governance arrangements for the North Yorkshire Pension Fund for 2009/10. The Committee noted that an independent review of the Fund's governance arrangements had been undertaken by the Independent Professional Observer appointed by the Pension Fund in 2008. The Independent Observer's report indicated that the arrangements in place provided a robust basis for the Pension Fund Committee to maintain its governance standards.
- (r) monitored the effectiveness of partnership governance through regular update reports. Particular attention was given to those partnerships which had been assessed as representing a high degree of risk or which received a significant financial contribution from the County Council. The Committee sought assurances that officers were prioritising the higher risk partnerships and/or those partnerships where the County Council was the accountable body. The Committee recognised that the current arrangements do not

necessarily provide sufficient information to Members on the specific achievements or challenges to the Council of partnership working. It was therefore agreed that officers would, in future, prepare an annual report for the Executive and Audit Committee highlighting changes to the list of partnerships and any key issues.

- (s) received and considered reports presented by the Corporate Director – Finance and Central Services on the effectiveness of the County Council’s governance arrangements and the work being undertaken, where necessary, to develop policies and procedures, particularly in respect of information governance to reflect latest guidance and best practice. The Committee noted the significant progress which had been made during the year but recognised that there was still further work to do in order to establish a comprehensive and effective Information Governance Framework. The Committee also noted the ongoing growth in the number of Freedom of Information (FOI) Act requests received.
- (t) undertaken scrutiny of the County Council’s treasury management strategy and policies. The Committee also received and considered regular reports on treasury management performance and updates on national and economic developments. The main changes made by the County Council during the year have been the introduction of more sophisticated criteria for determining which organisations can be included on the approved lending list and more enhanced scrutiny of treasury management activities by this Committee. The Committee has also monitored investment and borrowing activities against the County Council’s approved Prudential Indicators, together with in year revisions to the list of Indicators. During the year, the Committee expressed concern about the County Council’s increasing amounts of long term debt.
- (u) received and considered proposed changes to the Contract, Finance and Property Procedure Rules prior to referral to the Executive and approval by the County Council. The changes to the Contract Procedure Rules included updating financial limits, enforcing the use of the e-tendering system, introducing the risk based ‘gateway’ process for project management, enforcing the use of standard documents and emphasising the need to prepare evaluation models in advance of tenders. A number of changes were also required to the Finance Procedure Rules. These included additional provisions in respect of partnership governance, grants and external funding, as well as changes to reflect CIPFA’s *Treasury Management in the Public Services Code of Practice 2009*. The changes to the Contract and Finance Procedure Rules were approved subject to some further clarification on terminology used. The Committee also expressed concerns about some of the proposed changes to the Property Procedure Rules, particularly those in respect of property disposals. Officers made further amendments to reflect the views of the Committee, which were subsequently approved by the Executive.
- (v) approved changes to the Internal Audit Terms of Reference following the transfer of audit services to Veritau Limited.
- (w) received and considered proposed changes to the County Council’s accounting policies. The two main changes were as a result of the Local Government Statement of Recommended Practice (SORP) 2009 which

required different accounting treatment for Private Finance Initiative (PFI) Schemes and Council Tax Accruals. The changes were approved.

- (x) considered and agreed changes to the Local Code of Corporate Governance with a recommendation to the Executive that the revised Code be submitted to the County Council for approval.
- (y) considered the possible impact on the Local Code of Corporate Governance and the Annual Governance Statement resulting from the publication by CIPFA of the *Statement on the Role of the Chief Financial Officer in Local Government* and the subsequent review of the current arrangements by the Member Working Group. Following this review, the Committee recommended that the Executive should consider whether the role of the Management Board needed to be recognised formally in the Constitution.
- (z) received regular updates on the progress being made to prepare for the change in financial reporting requirements from UK Generally Accepted Accounting Practice (UK GAAP) to International Financial Reporting Standards (IFRS).
- (aa) received updates on the developments in service delivery resulting from the creation of the shared service with the City of York Council and the subsequent transfer of internal audit and information governance services to Veritau Limited. The Committee noted that the County Council, together with the City of York Council and Veritau, had been awarded the Cliff Nicholson prize for Innovation and Excellence in Public Service Audit by CIPFA.
- (bb) considered the outcome of the review of the Audit Committee's effectiveness by the Audit Committee Working Party. The Committee was pleased to note the Working Party's conclusion that the Audit Committee continued to fulfil the majority of best practice requirements, as set out in the CIPFA *Toolkit for Local Authority Audit Committees*. It was agreed that the Corporate Director – Finance and Central Services would produce an Action Plan covering those areas where improvements had been recommended. The Audit Committee also recommended a change to the Committee's Terms of Reference to reflect the specific role of the Committee in relation to treasury management as well as a number of other minor formatting changes.
- (cc) reviewed the progress which had been made by officers to address issues raised at meetings of the Committee.
- (dd) met with both the External Auditor and the Head of Internal Audit on a one to one basis.

#### 4.0 **EXTERNAL MEMBERS**

- 4.1 I am pleased to report that following a recommendation to the County Council, Henry Cronin was appointed to the Audit Committee as the external Member representing the Standards Committee. Interviews were held for the two other vacancies for external Members and I am again pleased to report the appointment

of James Daghish and David Portlock. The three appointments bring a wealth of relevant experience and knowledge to the Committee

ROGER HARRISON-TOPHAM  
Chairman of the Audit Committee

## AUDIT COMMITTEE TERMS OF REFERENCE

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

For both the County Council and the North Yorkshire Pension Fund.

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



8. To meet not less than four times a year on normal business and review its Terms of Reference on an annual basis.
9. To consider any other relevant matter referred to it by the County Council, Executive or any other Committee. In addition any matter of concern can be raised by this Committee to the full County Council, Executive or any other Member body.

NOTE:

The Terms of Reference above do not reflect the proposed changes which were agreed by the Audit Committee at its meeting on 29 June 2010 but which still need to be considered by the Executive and County Council.